Bank of England

Financial Stability in Focus: The FPC's assessment of bank capital requirements

Financial Policy Committee
December 2025

Financial Stability in Focus

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The primary responsibility of the Financial Policy Committee (FPC), a committee of the Bank of England, is to contribute to the Bank of England's financial stability objective. It does this primarily by identifying, monitoring and taking action to remove or reduce systemic risks, with a view to protecting and enhancing the resilience of the UK financial system. Subject to that, it supports the economic policy of His Majesty's Government, including its objectives for growth and employment.

The Financial Stability in Focus (FSiF) sets out the FPC's view on specific topics related to financial stability. It complements the Financial Stability Report, which is published twice a year, and sets out the FPC's overall view of the outlook for UK financial stability, including its assessment of the resilience of the UK financial system and the main risks to UK financial stability, and the action it is taking to remove or reduce those risks.

The Financial Policy Committee:

Andrew Bailey, Governor
Sarah Breeden, Deputy Governor responsible for financial stability
Clare Lombardelli, Deputy Governor responsible for monetary policy
Dave Ramsden, Deputy Governor responsible for markets and banking
Sam Woods, Deputy Governor responsible for prudential regulation
Nathanaël Benjamin, Executive Director of financial stability strategy and risk
Nikhil Rathi, Chief Executive of the Financial Conduct Authority
Stephen Blyth
Jon Hall
Randall Kroszner
Liz Oakes
Carolyn Wilkins
Gwyneth Nurse attends as the Treasury member in a non-voting capacity.

This document, unless otherwise stated, uses data available as at 25 November 2025.

For the avoidance of doubt, the Financial Stability in Focus is not intended to satisfy the requirements of Section 9W of the Bank of England Act 1998.

Contents

Executive summary

The UK banking system plays a vital role in the economy by providing lending and financial services to households and businesses right across the country. It is crucial that it is resilient enough to support UK growth, in good and bad times.

Ensuring a resilient financial system – one which can absorb rather than amplify shocks – is the most important contribution the FPC can make, not only to promote financial stability, but also to support economic growth. Periods of financial instability negatively impact the provision of vital services, weighing on output growth, as observed during and after the global financial crisis (GFC). Conversely, financial stability underpins the continued provision of vital financial services and contributes to a stable and predictable economic environment. This in turn supports consumer and business confidence, facilitates investment that drives long-term productivity growth, makes the UK an attractive place to do business for international investors, and supports UK firms' ability to compete abroad.

The banking system is a critical part of the financial system. Banks' liabilities largely take the form of money deposits, which underpin vital banking and payment services. Most money in the financial system is held as commercial bank deposits. The assurance of its fixed nominal value is key to maintaining financial stability and public trust. During the GFC, it was uncertainty about the future solvency of banks that undermined this trust and thus financial stability.

Banks also account for around 85% of lending to UK households and just under half of lending to UK corporates. And they play an increasingly significant role in supporting market-based finance, including through the provision of lending and other services to various types of non-bank financial institutions (NBFIs).

Given the significance of these activities, a key objective of the FPC is to ensure that the banking system is appropriately capitalised to support sustainable growth over the long term. This will ensure that it can support households and businesses in good and bad times.

The FPC first assessed the appropriate level of capital requirements for the banking system in 2015, drawing on published analysis of the macroeconomic costs and benefits of capital by Bank staff. The FPC judged that the appropriate benchmark level for system-wide Tier 1 capital requirements was around 14% of risk-weighted assets (RWAs), once gaps and shortcomings in the measurement of RWAs and the neutral rate for the UK component of the countercyclical capital buffer (henceforth UK CCyB) were accounted for.[1] This was lower than other estimates of the optimal level of capital, and in many cases, materially so. In large part, that reflected key judgements relating to the effectiveness of post-crisis reforms,

including on the credibility and effectiveness of the bank resolution regime, effective supervision and structural reform, and the Committee's intention to use the CCyB actively, without which the FPC's assessment of the appropriate level of capital would have been materially higher. In 2019, the FPC reaffirmed its 14% benchmark.

The FPC has revisited its assessment of the appropriate capital requirements for the banking system from the perspective of the costs and benefits to growth.

This assessment weighs the macroeconomic costs of capital, which stem from the impact of higher capital pushing up on borrowing costs, against the benefits of capital, which come about because higher bank capital reduces the likelihood and costs of financial crises. The Committee has taken into account the experience of the 10 years since it first assessed the appropriate overall level of capital.

The Committee judges that the appropriate benchmark for the system-wide level of Tier 1 capital requirements is now 1 percentage point lower at around 13% of RWAs – equivalent to a Common Equity Tier 1 (CET1) ratio of around 11%.

This 13% benchmark for Tier 1 capital requirements comprises an underlying optimal level of 11%, inclusive of the neutral rate for the UK CCyB, and an additional 2 percentage points to account for outstanding gaps and shortcomings in the measurement of RWAs. Pillar 2A minimum requirements, which capture such gaps and shortcomings, mean that UK banks have capital for risks such as interest rate risk in the banking book, the importance of which was highlighted by the failure of Silicon Valley Bank in 2023 (see Box A).

Given the reduction in the FPC's benchmark, banks should have greater certainty and confidence in using their capital resources to lend to UK households and businesses.

That judgement is consistent with the evolution in the financial system since the FPC's first assessment, including a fall in banks' average risk weights, a reduction in the systemic importance of some banks, and improvements in risk measurement.

In undertaking its review, the FPC considered how capital requirements have evolved since previous assessments and feedback it has received from the industry and other stakeholders. It noted that:

- average risk weights have fallen as banks have changed the composition and riskiness of their balance sheets. The 7½ percentage point fall in banks' average risk weights (measured excluding central bank reserves) since the beginning of 2016 (Section 2.1, Chart 3) means that the FPC's previous Tier 1 benchmark is now associated with around £60 billion less nominal capital, based on the size of current balance sheets, than would have been the case absent the fall in risk weights;
- systemic buffers are lower than envisaged in 2015 as some banks have decreased in systemic importance; and

- the implementation of Basel 3.1 on 1 January 2027 will improve risk measurement, allowing the PRA to reduce Pillar 2A minimum requirements by around ½ percentage point. As a result, the level of system-wide Tier 1 capital requirements is expected to fall to around 13% of RWAs when Basel 3.1 is implemented, consistent with the FPC's updated benchmark.

> **The FPC considers that the inbuilt responsiveness of nominal capital requirements in the banking system – to falls in average risk weights, decreases in UK banks' systemic importance, and improvements in the measurement of risk weights – reflects desirable flexibility in the capital framework.**

Flexibility in the framework means that capital requirements can continue to respond to developments in underlying structural and cyclical factors in future, including if risk levels were to change.

> **UK banks have tended to have capital headroom over regulatory minimum and buffer requirements.**

Currently, banks in aggregate have CET1 capital resources of about 2% of RWAs over their requirements, although such 'capital headroom' varies considerably across banks and over time. While the PRA and FPC have no requirements – formal or informal – for capital headroom, banks maintain this additional capital for a number of reasons, including a perceived lack of buffer usability.

> **The level of risk-based capital requirements for large banks in the UK is broadly similar to that in the euro area. And analysis that attempts to adjust for some key differences in the way risks are captured between the UK and US suggests that the level in the UK is lower than that in the US. That said, UK requirements appear to be higher than in other jurisdictions for some more specific aspects and cohorts, particularly leverage ratio requirements for large domestically focused banks.**

Comparing capital requirements across jurisdictions is challenging given differences in how risks are captured in different regulatory frameworks and the FPC would welcome feedback on its approach. In particular, the US framework differs in important respects from the UK – for example, the UK and EU regulatory frameworks capture some risks through Pillar 2 capital add-ons, while the US framework under law instead tends to apply higher risk weights. There are also differences in the characteristics of individual banks, such as how systemically important they are, that help account for differences across jurisdictions.

> **The Committee considers that its updated benchmark is consistent with its view that the banking sector can support long-term growth in the real economy in both current and adverse economic environments.**

Since the FPC's previous assessments, the banking system has supported the real economy through several macroeconomic shocks, including those related to Covid and Russia's invasion of Ukraine. This stands in contrast to the behaviour observed during the GFC when bank deleveraging was a material source of amplification. During the Covid pandemic, well-capitalised banks were able to extend credit to businesses, as well as granting payment holidays to mortgagors. As the economic outlook improved following recent shocks, credit conditions for households and businesses improved commensurately and have since evolved in line with the macroeconomic outlook. Mortgage lending spreads over risk-free rates are around pre-GFC levels, and the Bank's Agents assess credit supply conditions to be normal for small businesses and looser than normal for medium and large corporates, with competition among bank and non-bank lenders to lend to creditworthy businesses.

The results of the 2025 Bank Capital Stress Test suggest that the banking system is sufficiently well capitalised to continue lending to creditworthy households and businesses in a severe but plausible macroeconomic stress, with significant headroom over hurdle rates in aggregate at the low point of the test. Most of this headroom is accounted for by the fact that banks start the test with capital in excess of regulatory requirements and buffers.

Higher returns on tangible equity (RoTE) – and investors' increasing confidence that those returns can be sustained – have supported a material increase in UK banks' equity market valuations. Major UK banks' average price to tangible book (PtTB) ratio is above 1, indicating that investors expect RoTE to be above the level needed to compensate them for the perceived riskiness of those returns (referred to as the 'cost of equity'). Relatedly, there is evidence that the premium investors demand to hold UK banks' equity relative to their debt has fallen, which reduces the cost to banks of increasing their share of equity funding relative to debt funding, all else equal. Major UK banks have also continued to return capital to shareholders through buybacks and dividends, totalling around £90 billion over the past three years.

> **The Committee's updated benchmark remains in the range of capital requirements likely to maximise macroeconomic net benefits in terms of long-run growth, albeit towards the lower end. Analysis suggests that materially lower capital requirements could lead to significant reductions in long-run expected GDP.**

The FPC has considered updated evidence related to its previous judgements on the economic costs and benefits of capital and reviewed external academic studies that provide independent estimates of optimal capital levels.

The FPC reaffirms that its previous judgements related to the positive impact of post-crisis reforms remain appropriate. Those judgements were related to credible and effective resolution arrangements, effective supervision, structural reform such as the implementation

of ring-fencing, and the Committee's active use of the time-varying CCyB. Together, these judgements materially reduced the FPC's assessment of the appropriate level of capital in 2015.

Updated analysis suggests that the macroeconomic costs of bank capital may have declined as the spread between banks' cost of equity and the cost of their debt has fallen. At the same time, various developments may have impacted the macroeconomic benefits of bank capital. Global vulnerabilities, including risks associated with sovereign indebtedness, have increased. But conversely, the indebtedness of UK households and businesses has fallen, and banks' underwriting standards have improved.

Analysis of the net macroeconomic impact of capital requirements suggests that the Committee's updated benchmark is within, albeit towards the lower end of, the range of capital requirements that are likely to maximise expected long-term growth. The FPC's updated benchmark is also at the lower end of the range of optimal capital levels estimated in the external academic literature.

Analysis also suggests that reducing system-wide capital requirements materially below the FPC's updated benchmark of 13% (unless due to further improvements in risk measurement that allow overlaps to be removed from Pillar 2A requirements) could be associated with significant reductions in long-run expected GDP through the costs of greater instability – especially if those reductions in capital were to undermine the credibility of the resolution regime as a result of lower overall loss-absorbing capacity. Materially lower capital levels could also lead to higher risk premia on bank funding costs, which would in turn feed through to higher borrowing costs and lower investment by businesses.

> **The FPC has also considered whether the capital framework might warrant adjustment to make it more effective, efficient and proportionate in the future, and to address any unintended consequences.**

The capital framework has a number of constituent parts, intended to address different risks banks face or pose. Minimum capital requirements aim to ensure banks operate with an adequate layer of capital to enable an orderly failure, maintain market confidence and protect depositors without losses to taxpayers. Buffers help ensure that even in times of stress, banks have sufficient capacity to absorb losses, and so can continue to support the real economy. Requirements apply on a risk-weighted as well as a simpler leverage basis – the leverage ratio guarding against excessive leverage and potential inaccuracy in the way banks measure risk.

Developments over the past decade, lessons on how the bank capital framework operates in stress, and feedback provided by industry and other stakeholders, suggest there are ways in which some parts of the capital framework could be adjusted to support growth while maintaining appropriate resilience.

To that end, significant steps are already being taken to address feedback and improve the efficiency and proportionality of the framework. These include: the Bank reducing the frequency of its main stress tests of capital resilience from annual to biennial; the finalisation of Basel 3.1 reforms; steps taken by the PRA to enhance the proportionality of the framework for smaller lenders, including through the recently published Strong and Simple framework; and the uprating of some regulatory thresholds.[2]

The FPC has approached the present assessment of capital requirements proactively and has identified further broad, material categories of issues in which it supports further work to assess whether changes could make the capital framework more effective, efficient and proportionate. The FPC would expect banks to use any such changes as a means to increase their support of households and businesses in the real economy.

> **With the PRA and international authorities, the FPC will work to enhance further the usability of regulatory buffers, and so reduce banks' incentives to have capital in excess of regulatory requirements and buffers.**

Regulatory capital buffers make up just under half of risk-weighted capital requirements and are explicitly intended to be usable to help banks absorb losses in stress, while maintaining the provision of services to the real economy. They do so by reducing incentives for banks to restrict credit supply abruptly and excessively.

Experience and a range of research suggests, however, that banks are reluctant to use their capital buffers in practice. For example, evidence from the Covid period suggests that while cutting the CCyB was effective in supporting lending, banks were less willing to use other non-releasable buffers. In the event of a severe macroeconomic shock, if banks were unwilling to use their buffers and so cut credit supply abruptly, businesses could be unable to meet their financing needs – which could trigger larger corporate losses for banks, deepen the economic stress and have an even greater negative effect on banks' capital ratios.

Furthermore, a desire to avoid using regulatory capital buffers contributes to banks' incentives to maintain capital headroom over regulatory requirements and buffers. There are various reasons why banks choose to have such headroom, including investor and rating agency expectations, business models and strategic plans, regulatory requirements set by overseas regulators, and the need to manage capital volatility. But to the extent that incentives to maintain excess capital can be reduced by enhancing buffer usability, this could allow banks to support a material increase in lending.

The FPC and PRA have already taken a number of steps to enhance buffer usability. The FPC has cut the CCyB to zero on a number of occasions. The FPC and PRA have also emphasised that buffers are usable in a stress and that they do not oblige banks to have

capital in excess of regulatory minima and buffer requirements. The reduction of the FPC's important Tier 1 benchmark to 13% should also provide banks with greater certainty and confidence to use their existing capital to support lending to the real economy.

Working with the PRA and international authorities, the FPC will explore further ways to facilitate the use of buffers. The aim of that work will be to meaningfully reduce incentives for banks to a) deleverage in stress, and b) maintain capital in excess of regulatory requirements and buffers in normal times. For example, further consideration could be given to the ideas introduced in Sam Woods' '**Bufferati**' speech, which sets out a vision for a simpler capital framework, including moving to a single releasable buffer, and replacing automatic distribution restrictions with a ladder of intervention tools operated with supervisory judgment.

> **The FPC will review the implementation of the leverage ratio in the UK, to ensure that it functions as intended. Within this, the Committee intends to prioritise reviewing the UK's approach to regulatory buffers in leverage ratio requirements.**

When the FPC introduced the leverage ratio as a complement to the risk-weighted framework in 2015, it was envisaged that risk-weighted requirements would form the binding constraint for a majority of UK banks most of the time. Over time, however, falls in banks' average risk weights have meant that the leverage ratio has become the binding requirement, or close to the binding requirement, for a greater number of banks. Three out of seven major UK banks' leverage-based minimum requirements and buffers are now the binding Tier 1 regulatory requirement at consolidated level.

While there are reasons for the differences in application of the leverage ratio in the UK and some other countries, including previous macroprudential decisions by the FPC to apply buffers alongside Basel minimum standards, international comparisons also point to some potentially important areas to consider for reform.

As a result, the FPC will review how the leverage ratio has been implemented in the UK, how it is operating in practice, how it is interacting with other policies such as ring-fencing, and whether this matches the original intention of the framework. For example, the FPC will explore the extent to which the leverage ratio has become more binding as a result of underlying reductions in the riskiness of banks' exposures. The Committee intends to prioritise reviewing the UK's approach to regulatory buffers in leverage ratio requirements.

> **The FPC supports initiatives by the Bank to respond to feedback on interactions, proportionality and complexity in the capital framework.**

The FPC supports further work to consider how the capital requirements that are related to domestic exposures interact. Capital requirements that are related to domestic exposures include the UK CCyB, O-SII buffers, and Pillar 2A requirements for geographic credit concentration risk, which each serve different purposes in the capital framework, but are all

calibrated based on measures of domestic lending. The FPC and the PRA intend to draw on several sources of information when conducting this work including on the impact of systemic failures and credit concentration, and banks' stress-test results.

Other initiatives include:

- Further work to develop a systematic approach for updating the regulatory thresholds that define which different parts of the regulatory framework apply to firms, to ensure they reflect economic growth – such as through automatic indexation.
- The PRA's contribution to the Government's review of ring fencing. The Government has made clear its intention to uphold the ring-fencing regime to protect financial stability and safeguard depositors, while at the same time drive meaningful reform of the regime as part of plans to focus on growth and the release of capital for productive investment in the UK. The PRA will also review the application of the Basel 3.1 output floor at the ring-fenced sub-group level, based on evidence and experience of its implementation. It will do so after Basel 3.1 is implemented but before full weighting of the output floor in 2030.
- Reviewing feedback received on the PRA's discussion paper on capital requirements for mortgages under the internal ratings-based (IRB) approach to help ensure the appropriate channelling of finance to creditworthy households.

Section 4 details action being taken by the FPC and PRA on areas where they have received feedback. It also details feedback on areas due to be covered by the implementation of Basel 3.1, as well as recording feedback on areas that the FPC and PRA do not intend to prioritise at this time based on the evidence available. A full summary of feedback received and how the Bank is responding is available in Annex 1.

> **The FPC considered industry feedback that earlier loss recognition in the Bank's stress tests under the International Financial Reporting Standard (IFRS) 9 accounting standard could result in an unwarranted increase in capital requirements. In response, the Bank made a set of changes to the stress test that have avoided such an outcome.**

This year's Bank Capital Stress Test contained a number of changes relative to previous concurrent stress tests which the Bank judged to be appropriate to make alongside the earlier provisioning that comes with the IFRS 9 accounting standard. The FPC judges that these changes have been effective in avoiding an unwarranted increase in capital arising from the interaction of IFRS 9 and the stress test, and made the test simpler and aligned with the accounting standard that would apply in an actual stress. The Bank therefore intends to maintain these changes for future tests.

> **The FPC and PRA are interested in the views of a broad range of stakeholders – including UK lenders, think-tanks, industry groups, investors, and academics – on the material covered in this paper, and welcome feedback and evidence on the issues identified for further assessment.**

In early 2026, the Bank intends to organise structured evidence gathering sessions on the topics listed. It is also open to written feedback on this FSIF, which can be submitted up until 02 April 2026 via ✉ **FPCBankCapitalReview@bankofengland.co.uk**. The FPC intends to provide a further update on this work in the next Financial Stability Report.

1: The FPC's role in ensuring the banking system can support the UK economy

The FPC seeks to ensure the UK financial system is prepared for and resilient to the wide range of risks it could face, so that it is able to absorb rather than amplify shocks and serve UK households and businesses, thus supporting stability and long-term growth in the UK economy.

Ensuring a resilient financial system – one which can absorb rather than amplify shocks – is the most important contribution the FPC can make, not only to promote financial stability, but also to support economic growth. Periods of financial instability negatively impact the provision of vital services, weighing on output and productivity growth. Conversely, financial stability underpins the continued provision of vital financial services and contributes to a stable and predictable economic environment. This in turn supports consumer and business confidence, facilitates investment that drives long-term productivity growth, makes the UK an attractive place to do business for international investors, and supports UK firms' ability to compete abroad.

In addition to the work set out in this Financial Stability in Focus (FSiF), the **December 2025 Financial Stability Report** sets out how the FPC thinks about sustainable economic growth.

The FPC seeks to maintain financial stability by identifying, monitoring, and addressing systemic risks to the financial sector so that the financial system can support the UK economy in both good times and bad. In working to advance its primary objective, the FPC continues to take steps to ensure that its resilience-building measures are implemented efficiently and in a way that supports sustainable growth as the financial system evolves. This includes those outlined in this FSiF, as well as reducing the frequency of its main Bank Capital Stress Tests to every other year, and **recommending** the PRA and the FCA amend implementation of the FPC's Loan to Income (LTI) flow limit to allow individual lenders to increase their share of lending at high LTIs while aiming to ensure the aggregate flow remains consistent with the limit of 15%.

The FPC has also undertaken work to assess and identify areas where there is potential to increase the ability of the financial system to contribute to sustainable economic growth, in response to the Chancellor's request in the **FPC's November 2024 remit letter**. These include barriers faced by pension funds and insurers in supporting long-term capital investment in the UK economy; challenges high-growth firms face in accessing domestic finance as funding rounds scale up; high cyber resilience costs for tech-reliant firms; and the need for modernised UK payment infrastructure.

The UK banking system plays a vital role in the economy by providing lending and financial services to households and businesses right across the country. It is crucial that it is resilient enough to support UK growth, in good and bad times.

The banking system is a critical part of the financial system. A distinctive feature of banks is that their liabilities are typically substantially in the form of money deposits, which in turn facilitate the provision of vital banking and payment services. Most of the stock of money in the financial system is commercial bank deposits. The critical property of money is assurance of its fixed nominal value, which is key to maintaining financial stability and public trust: during the GFC, it was uncertainty about the future solvency of banks that undermined this trust and thus financial stability. In contrast, the liabilities of many NBFIs constantly fluctuate in value, directly exposing their investors to any changes in the market value of the NBFIs' underlying assets.

Banks also account for around 85% of lending to UK households and just under half of lending to UK corporates. And they play an increasingly significant role in the provision of market-based finance, including through the provision of lending and other services to various types of NBFIs.

Capital is a part of banks' funding that can absorb losses. As such, it underpins financial stability, including by providing protection to bank deposit holders and so ensuring continued public trust in money.

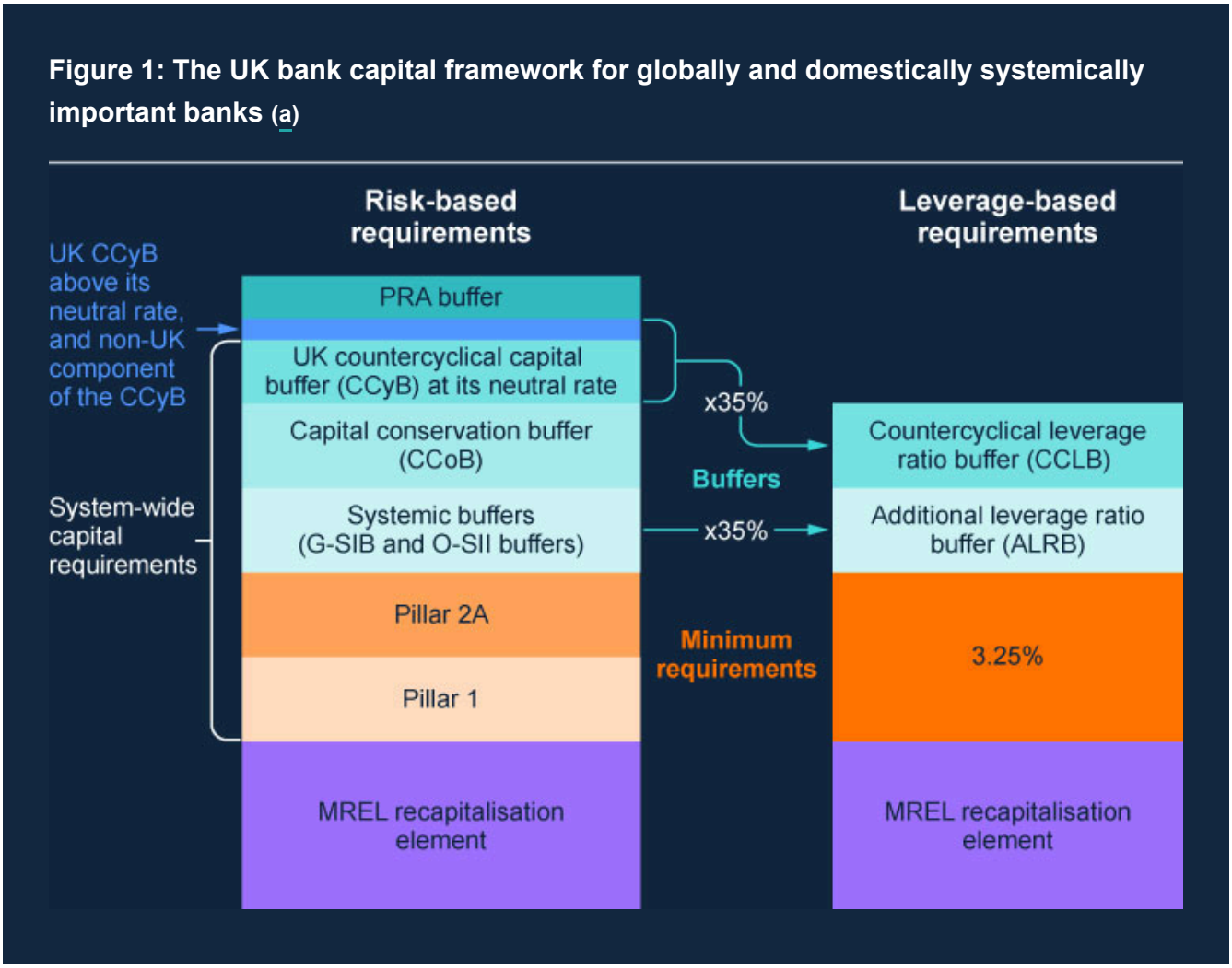
The holders of bank capital are first to bear the costs when a bank's assets decline in value. This provides protection from losses to holders of some other types of liabilities, such as deposits.

Given the significance of the vital services provided by the banking system, a key objective of the FPC is to ensure that it is appropriately capitalised. The capital framework for banks includes risk-weighted and non-risk weighted (ie leverage) measures, both of which are depicted in Figure 1 and described in more detail in Annex 2.

Throughout this document, the term 'system-wide capital requirements' is used to refer to the aggregate level of capital requirements and buffers set by the UK authorities that apply to the major UK banks in a standard risk environment, reflecting the significant role of these banks in supplying vital services to the UK economy. This comprises minimum requirements (Pillar 1 and Pillar 2A), the capital conservation buffer (CCoB), the UK component of the CCyB when set at its neutral rate, and systemic buffers for domestically and globally systemic banks. It therefore differs from total requirements, which also include the PRA buffer that captures firm-specific risks, the international component of the CCyB as set by foreign jurisdictions, and additional time-varying buffers – arising from changes in the UK CCyB rate – to reflect changes in the aggregate risks that banks face.

Similarly, unless otherwise stated, aggregate figures presented in this document refer to an aggregate for major UK banks. Within the banking system there will be a distribution of capital requirements in practice reflecting individual banks' business models, their level of systemic importance, the degree of gaps and mismeasurement in their risk weighted assets, and the PRA's view of firm-specific risks.

Figure 1: The UK bank capital framework for globally and domestically systemically important banks (a)



(a) Both risk-based and leverage ratio capital requirements comprise buffers and minimum capital requirements. Banks must also meet minimum requirements for loss-absorbing capacity, which comprise banks' minimum capital requirements, plus any recapitalisation element if applicable. The sum of minimum capital requirements and any recapitalisation element is collectively referred to as 'MREL' (minimum requirements for own funds and eligible liabilities). More detail is provided in Annex 2.

In the risk-based framework, minimum capital requirements comprise Pillar 1 requirements, which apply to all banks and are set by international standards, and Pillar 2A requirements, which vary across banks (see Box A). All banks are subject to a capital conservation buffer (CCoB) which is set at 2.5% of RWAs; systemic buffers are set for banks that are judged to be globally systemically important banks (G-SIBs) and for certain other systemically important institutions (O-SIIs); the countercyclical capital buffer (CCyB) is used to help ensure capital levels respond to the risk environment (see Box B); the PRA buffer is a microprudential buffer, its size set by the PRA based on inputs such as individual banks' stress-test results and the quality of their risk management and governance. The leverage ratio framework partly mirrors the risk-based framework. Its minimum requirement is set at 3.25% of the UK leverage exposure measure (which excludes central bank reserves), with the additional leverage ratio buffer (ALRB) and countercyclical leverage buffer (CCLB) set at 35% of corresponding buffers in the risk-based framework. This scaling factor is set to maintain consistent bindingness of buffers in the risk-based and leverage frameworks and broadly reflects the proportional relationship between the original minimum leverage ratio requirement (3%), and the sum of Tier 1 risk-weighted Pillar 1 minimum requirements (6%) and the CCoB (2.5%) of 8.5%.

The FPC has revisited its assessment of the appropriate benchmark level of capital requirements for the banking system. As part of this work, the Committee has taken into account the experience of the 10 years since it first assessed the appropriate overall level of capital.

In assessing the appropriate level of bank capital, the FPC balances the macroeconomic benefits of reducing the likelihood and costs of financial crises, which tend to have very large and long-lasting negative effects on output, against the macroeconomic costs of increasing bank capital – which raises overall funding costs for banks at the margin, and so increases the cost of credit to the real economy in normal times, reducing investment and potential economic output. The FPC's objective is not to achieve resilience at any cost: the level of bank capital requirements should ensure that the provision of services to the real economy by the banking system is resilient, but it should not damage the capacity of the banking system to support sustainable economic growth over the medium to long term.

The FPC first assessed the appropriate level of capital requirements for the banking system in 2015, drawing on published analysis of the macroeconomic costs and benefits of capital by Bank staff.[3] The FPC judged that the appropriate benchmark level for Tier 1 capital requirements was around 14% of risk-weighted assets (RWAs), once gaps and shortcomings in the measurement of RWAs and the neutral rate for the UK CCyB were accounted for (see Section 3.1 for further detail). This was lower than other estimates of the optimal level of capital, and in many cases, materially so. In large part, that reflected key judgements relating to the effectiveness of post-crisis reforms, including on the credibility and effectiveness of the bank resolution regime, effective supervision and structural reform, and the Committee's intention to use the CCyB actively, without which the FPC's assessment of the appropriate level of capital would have been materially higher. In 2019, the FPC reaffirmed its 14% benchmark.[4]

Box A: The role of Pillar 2A in the UK capital framework

This box sets out the risks covered by Pillar 2A capital and its importance in ensuring the resilience of UK banks.

The Basel capital framework was designed by the Basel Committee on Banking Supervision (BCBS) to standardise risk measurement for large banks across the globe. In doing so, the Basel committee recognised that some risks could not be capitalised for in a standardised way in Pillar 1 (see Annex 2 for more detail on the role of different aspects of the capital framework, including Pillar 1). Instead, it was agreed that these should be measured and set by supervisors as part of supervisory review, more commonly referred to as Pillar 2.

Pillar 2A is part of the UK's implementation of this standard. Pillar 2A capital requirements either capture risks not measured at all under Pillar 1 (eg interest risk in the banking book, credit concentration risk, pension obligation risk) or adjust for inadequate risk measurement under Pillar 1 (eg operational risk, credit risk, market risk). The PRA's methodologies for setting Pillar 2A are described in detail in **SoP5/15 – The PRA's methodologies for setting Pillar 2 capital**.

Pillar 2A captures risks inherent to a firm's business model which, if a stress occurred and buffers were used up, a firm would still be likely to face. It contributes to the orderly resolution of a bank by ensuring enough capital is available to absorb losses at the point of failure. These losses include haircuts to asset valuations and losses well beyond the stressed values incorporated in 'going concern' stress tests. A firm with risks captured in Pillar 2A, such as high pension or concentration risk, is more likely to consume capital in resolution than an otherwise identical firm that is not subject to those specific risks. Consistent with the majority of Pillar 1, most Pillar 2A risks are calibrated with the aim of firms having a 99.9% chance of surviving losses over one-year. Pillar 2A is a firm-specific extension of Pillar 1 and, as such, is a minimum requirement that firms should maintain at all times.

In practice, Pillar 2A has been a valuable tool. It allows the PRA to tailor the expectations around a firm's overall capital adequacy to that firm's particular risk profile. In tackling firm-specific risks not covered in Pillar 1, it also encourages firms to consider a broader range of risks to their business and improve their risk management. The primary Pillar 2A risks are:

- Interest rate risk in the banking book (IRRBB) – exposure to interest rate risk is not captured in Pillar 1. The PRA's Pillar 2A approach to IRRBB informs the setting of

capital requirements for all UK banks, based on an assessment of potential losses in the non-trading book arising from changes in interest rates. The importance of this was particularly highlighted in 2023, when, in the US, Silicon Valley Bank collapsed after rising interest rates resulted in a rapid increase in unrealised losses on its long-term securities portfolio. The PRA's approach helps ensure UK banks remain resilient to rate shocks and are incentivised to appropriately manage these risks.

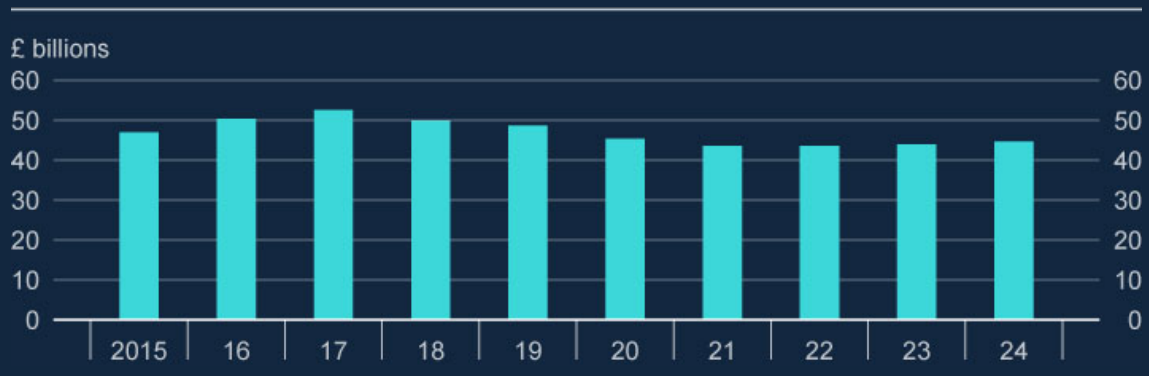
- Credit concentration risk – the Pillar 1 approach to credit risk does not consider the additional risks that firms may face from having an undiversified credit portfolio. Under Pillar 2A, the PRA considers what additional capital might be needed for firms that have single name, sectoral or geographic concentrations. The PRA designed its approach by creating a sequence of portfolios with increasing levels of concentration and modelling the additional capital required for lower diversification. This helps ensure that firms' capital requirements reflect the risks from being concentrated in certain areas.
- Pension obligation risk – under Pillar 2A, the PRA assesses the risk to firms' capital from their obligations to pension schemes. This approach considers various factors, including a scheme's vulnerability to equity, credit, interest, inflation and longevity risks. Pillar 2A add-ons for pension risk have meant that firms' capital requirements will reflect whether they have derisked their pension schemes. This helps ensure that sufficient capital would be available to support these pension schemes, including in resolution.
- Operational risk – sizing capital for operational risk is difficult, as the loss distribution is fat-tailed, with infrequent but very large losses, and a paucity of data. The Pillar 1 standardised approach to operational risk is based on simple measures of a firm's size and economic activity. To make this more risk sensitive, under Pillar 2A, the PRA assesses a firm's exposure to operational risk (eg cyber-attack, internal fraud) based on factors such as historical operational losses and scenario analysis. The Pillar 2A assessment focuses on the risk of losses arising from operational risk events that are currently unknown. Another part of the capital framework, Pillar 2B stress testing, captures operational risk events that are already known, such as on-going misconduct cases. These assessments ensure operational risk capital is tailored to the risks that a firm faces in running its business.
- Credit risk – the PRA assesses areas where the Pillar 1 standardised approach may underestimate risk, including due to the idiosyncrasies of a firm's loan book. For example, a firm that is heavily exposed to sub-prime mortgages may face significantly higher default risk than reflected under the standardised approach.
- Market risk – under Pillar 2A, the PRA assesses additional risks that are not captured by the Pillar 1 market risk approach, such as illiquid, one-way and

concentrated positions. This ensures that firms' capital requirements reflect the additional risks from positions that may be difficult to exit.

Pillar 2A requirements vary across banks based on the risks associated with their particular business models and change over time as risks evolve. Being primarily assessed in nominal terms, they also vary as a proportion of banks' RWAs as these underlying RWAs change (which can be driven by changes in banks' assets, for example due to mergers and acquisitions, and their risk weights). Aggregate nominal Tier 1 Pillar 2A requirements for major UK lenders declined between 2017 and 2021 and have been stable since (Chart A). The FPC's decision to move from a 1% to a 2% neutral rate for the UK CCyB in 2019 was followed by a reduction in Tier 1 Pillar 2A requirements, which has contributed to the lower level of overall nominal Pillar 2A requirements since then. The PRA expects average Pillar 2A requirements for major UK lenders to fall from around 2.5% to around 2% of RWAs once Basel 3.1 is fully implemented (though the precise impacts will depend on the behaviour of banks in response to these changes in risk measurement).

Chart A: Major UK banks' nominal Pillar 2A requirements declined between 2017 and 2021 and have been stable since

Major UK banks' nominal Tier 1 Pillar 2A requirements (a)



Sources: PRA regulatory returns and Bank calculations.

(a) Aggregate nominal Tier 1 Pillar 2A requirements in Barclays, HSBC, Lloyds Banking Group, Nationwide, NatWest Group, Santander UK, Standard Chartered, and Virgin Money UK (at the group consolidation level).

2: The evolution of bank capital requirements since 2015 and how the banking system has supported the economy

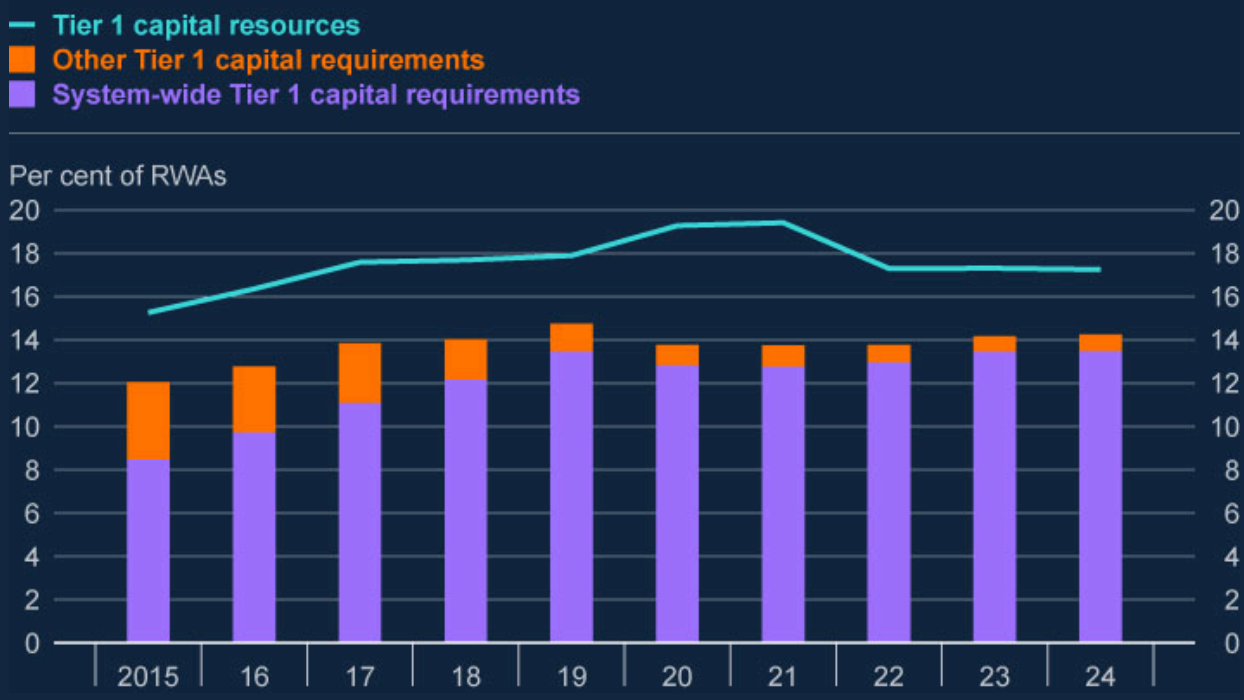
2.1: The evolution of bank capital requirements since 2015

System-wide Tier 1 capital requirements increased between 2015–19 with the implementation of internationally agreed Basel standards and have remained stable since.

Over 2015–19, system-wide risk-based Tier 1 capital requirements for major UK banks in aggregate increased from 8.5% to 13.5% of RWAs (Chart 1). Meanwhile, total Tier 1 capital requirements – which also include firm-specific risks and foreign exposures captured in the PRA buffer and international component of the CCyB – increased by less, from around 12% to around 14.7% of RWAs in 2019, subsequently falling to around 14% of RWAs. That pattern reflects, in part, the fact that as system-wide requirements were phased in, PRA buffers were adjusted downwards. Since 2019, system-wide capital requirements have been largely flat.

Chart 1: System-wide capital requirements increased between 2015 and 2019 and have remained stable since

Major UK banks' risk-based Tier 1 capital requirements and resources over time (a) (b) (c)



Sources: PRA regulatory returns and Bank calculations.

(a) Tier 1 minimum capital requirements and buffers, and Tier 1 capital resources, on a weighted average basis, at the group consolidation level in Barclays, HSBC, Lloyds Banking Group, Nationwide, NatWest Group, Santander UK, Standard Chartered, and Virgin Money UK.
(b) System-wide capital requirements comprise Pillar 1 and Pillar 2A minimum requirements, the CCoB, systemic buffers (G-SIB and O-SII) and the UK CCyB. Total requirements comprise system-wide requirements as well as the PRA buffer and international component of the CCyB. Note that the FPC's benchmark includes the neutral-rate UK CCyB, but Chart 1 depicts actual CCyB levels (including when it was released and thus below its neutral level).
(c) Tier 1 capital resources include eligible legacy instruments and other transitional adjustments applicable at each date. From 2018 until 2024, this includes IFRS 9 transitional arrangements.

It is expected that system-wide Tier 1 capital requirements will fall following the implementation of Basel 3.1.

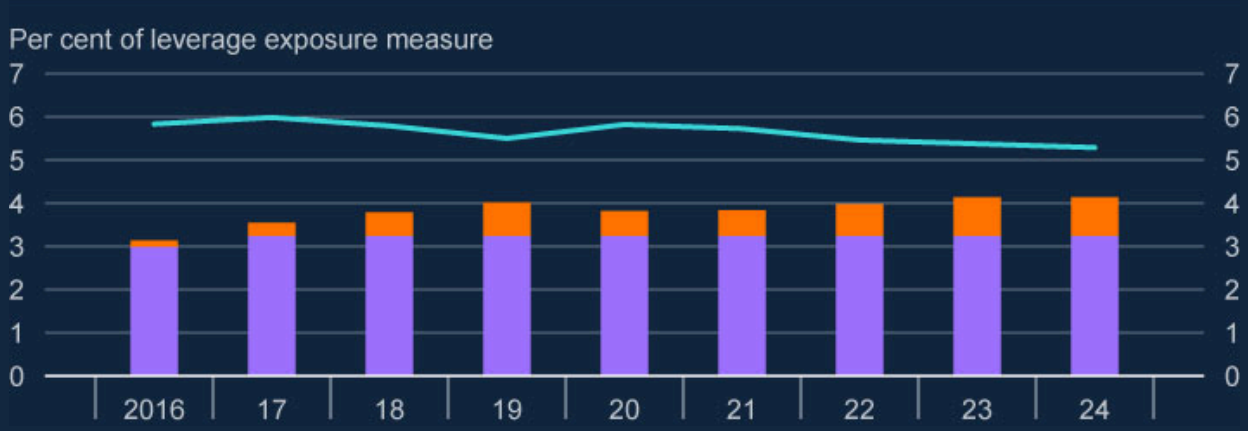
The implementation of the last leg of the post financial crisis capital reforms – Basel 3.1 – will improve risk measurement and capture in banks' risk weights, reducing the need for some shortcomings in risk measurement to be captured in Pillar 2A minimum requirements (Box A). As a result, the PRA expects average Pillar 2A requirements for major UK lenders to fall from around 2.5% to around 2% of RWAs once Basel 3.1 is fully implemented, which will bring system-wide capital requirements to around 13% – though the precise impacts will depend on the behaviour of banks in response to these changes in risk measurement.[5]

Leverage ratio requirements – which complement, and in part mirror, risk-weighted requirements – were phased in between 2016–19, and have been stable since.[6]

Tier 1 leverage ratio requirements for major UK banks in aggregate increased from 3% to around 4% of the UK leverage exposure measure between 2016–19, and have subsequently moved similarly to risk-based requirements.[7] Meanwhile, over the period since 2016, banks have become more leveraged, with major UK banks' leverage ratios falling from around 5.8% to 5.3% as a result (Chart 2).

Chart 2: Since 2016, leverage ratio requirements have been phased in

Major UK banks' Tier 1 leverage-based minimum requirements, buffers, and resources over time (a) (b) (c)



Sources: PRA regulatory returns and Bank calculations.

(a) Leverage ratio minimum requirements, buffers, and Tier 1 capital resources in major UK banks, weighted by the UK leverage exposure measure, at the group consolidation level in Barclays, HSBC, Lloyds Banking Group, Nationwide, NatWest Group, Santander UK and Standard Chartered. Nationwide does not include Virgin Money UK following the acquisition in 2024.
(b) The UK leverage exposure measure includes all on-balance sheet exposures and off-balance sheet items, excluding central bank claims where matched by liabilities in the same currency and of equal or longer maturity (see **Article 429a A1-A2 of the PRA Rulebook** for further detail).
(c) Tier 1 capital resources are year-end and include eligible legacy instruments and other transitional adjustments applicable at each date. From 2018 until 2024, this includes IFRS 9 transitional arrangements.

As major UK banks have become more leveraged, the role of leverage ratio requirements has increased.

Major UK banks' average risk weights have fallen by 7½ percentage points since the beginning of 2016 (Chart 3).[8] PRA buffers and nominal Pillar 2A requirements have also decreased over this period, and there is no equivalent for those in the leverage ratio capital stack. Both of these factors have narrowed the gap between risk-based and leverage ratio capital requirements at an aggregate level, also meaning that Tier 1 leverage ratio minimum requirements and regulatory buffers are the binding requirement for more individual lenders. Three out of seven major UK banks' leverage-based minimum requirements and buffers are now the binding Tier 1 regulatory requirement at consolidated level; the remaining four major UK banks have also moved closer to being in that position.[9]

> **A key driver of the decline in average risk weights has been banks' shift towards lower risk-weight types of exposures, including highly collateralised transactions with NBFIs. A decline in average risk weights within exposure classes has also made a significant contribution to falling average risk weights.**

Since 2016, banks have been increasing their exposures to low risk-weighted securities financing transactions (SFTs), such as repos and margin lending, as well as to sovereigns.[10] These portfolio shifts are indicative of the broader trend of banks financing less corporate and high-risk lending directly, and providing leverage to NBFIs which are now more active in direct corporate lending.

An increase in the share of lending accounted for by mortgages has made only a small contribution to the fall in average risk weights. Despite mortgage risk weights being low relative to those on some other types of lending, average mortgage risk weights have been little changed over the period since 2016 as whole. These risk weights fell between 2016 and 2022. They then increased after 2022 as a result of regulatory requirements to use hybrid mortgage risk models, which aim at balancing sensitivity to economic conditions with stability over time and therefore produce higher average risk weights in a standard risk environment than some previous models.[11]

The fall in overall average risk weights within exposure classes has also been notable, particularly given the fact that mortgage risk weights have been broadly unchanged. This trend has been most material in risk weights on securitisation exposures, NBFI exposures, equity and non-credit obligation assets, and SFTs. Changes in average risk weights within exposure classes can reflect a range of factors, including improvements in underwriting standards, macroeconomic conditions (for example, lower real economy indebtedness) or modelling approaches.

To some extent, the changes in banks' balance sheet composition described above may reflect incentives banks have to optimise across both risk-weighted and leverage ratio capital requirements, which might be expected to lead to risk weights declining closer to the point

where the leverage ratio becomes binding (see Figure A2.E, Annex 2). That said, the decline in banks' average risk weights over the past decade is part of a broader long-term trend, with risk-weights now significantly lower than they were prior to the GFC.

Chart 3: Since the beginning of 2016, major UK banks' average risk weights (excluding central bank reserves) have fallen by 7½ percentage points

Ratio of major UK banks' aggregate risk-weighted assets to UK leverage exposure measure (a) (b) (c)

Sources: PRA regulatory returns and Bank calculations.

(a) Average risks weights are calculated as the ratio of aggregate risk-weighted assets to the leverage exposure measure. Qualifying claims on central banks are excluded when calculating average risk weights without reserves.
(b) Aggregate includes Barclays, HSBC, Lloyds Banking Group, Nationwide, NatWest Group, Santander UK, and Standard Chartered at the group consolidation level. Nationwide does not include Virgin Money UK following the acquisition in 2024.
(c) For periods prior to Q3 2016, average risk weights excluding reserves have been calculated using a proxy for qualifying claims on central banks derived from regulatory data.

> **Despite increases in the size of major UK banks' balance sheets, falling risk weights have meant that nominal system-wide Tier 1 requirements have been relatively flat since 2019. The fall in average risk weights (excluding reserves) since the beginning of 2016 means that a Tier 1 capital ratio of around 14%, based on the size of current balance sheets, is now associated with around £60 billion less nominal capital than would have been the case absent the fall in risk weights.**

While major UK banks' total assets (defined as the UK leverage exposure measure including central bank reserves) have increased by around £800 billion, or around 14%, since 2019, their average risk weights have fallen – meaning that system-wide nominal Tier 1 requirements are now only £19 billion (8%) higher over that period (Chart 4). This reflects the inherent responsiveness of banks' nominal capital requirements to the riskiness of their assets in the risk-weighted capital framework.

Systemic buffers are lower than envisaged in 2015 as some banks have decreased in systemic importance.

Major UK banks' systemic buffers currently contribute around 1.6 percentage points to their aggregate Tier 1 risk-weighted requirements as a share of RWAs. This is lower than anticipated at the time of the FPC's 2015 assessment, when it was expected that these buffers would contribute around 2 percentage points, reflecting changes in the size, complexity and interconnectedness of some large banks.

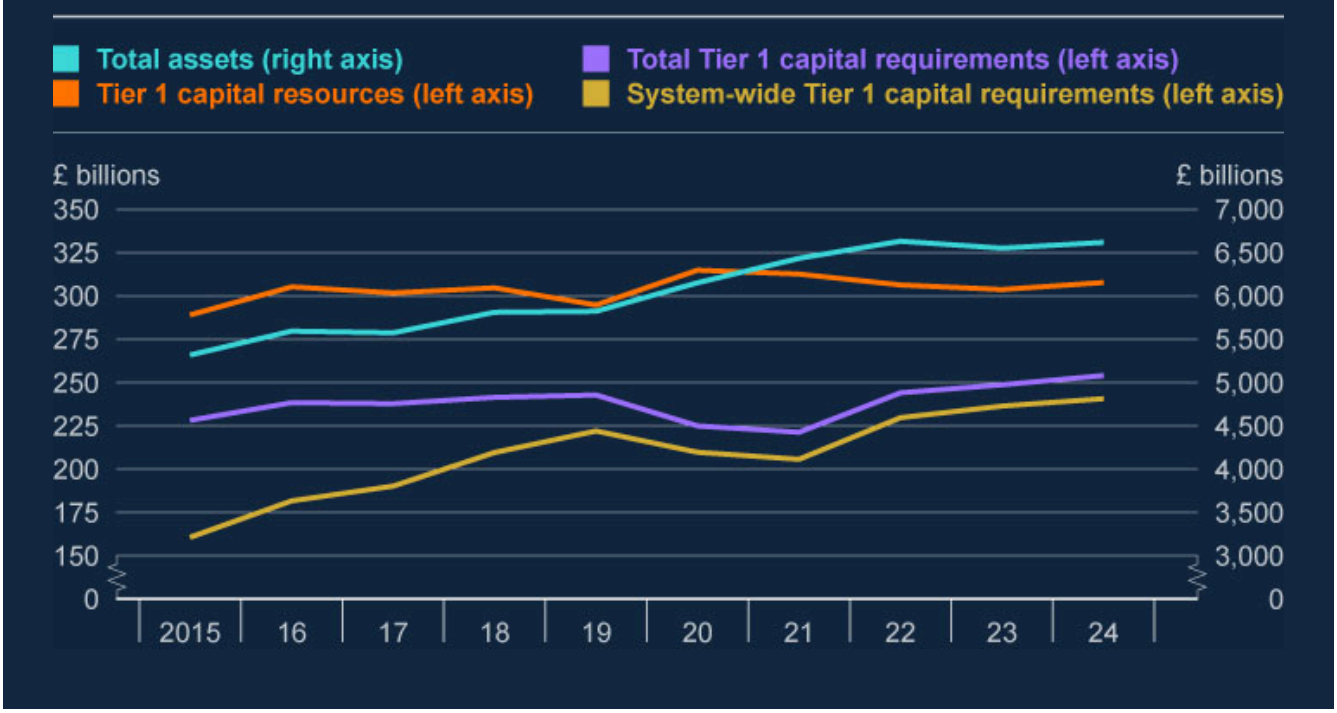
Banks' headroom over requirements has also been relatively stable over recent years.

UK banks' Tier 1 capital resources have tended to exceed risk-based requirements, although there are notable differences between the amount of headroom maintained by individual lenders. The FPC and PRA do not oblige banks to maintain capital in excess of regulatory minima and buffers, but banks maintain this capital in excess of regulatory ratios for a number of reasons including investor and rating agency expectations, to reflect their business models and strategic plans, to meet regulatory requirements set by overseas regulators and to manage capital volatility, as well as a desire to avoid using regulatory capital buffers (refer to Section 4 for a further discussion).

As of end-2024, the aggregate difference between major UK banks' Tier 1 capital resources and risk-based minimum requirements and regulatory buffers was close to 2015 levels. It has remained steady in the region of just over 3% of RWAs (at around £54 billion) except for a period during the Covid pandemic, when headroom rose temporarily. Meanwhile banks' CET1 headroom over the higher of risk-based and leverage ratio requirements was around 2.1% of RWAs (approximately £37 billion) in aggregate and has also been stable in recent years, with some variation across banks that partly can be attributed to their business models.

Chart 4: Aggregate nominal risk-based capital requirements have been relatively stable, despite increasing bank size

Major UK banks' aggregate risk-based Tier 1 capital requirements, resources, and total assets (a)



Sources: PRA regulatory returns and Bank calculations.

(a) Aggregate nominal system-wide and total risk-based Tier 1 capital requirements, Tier 1 capital resources, and total assets (defined as the UK leverage exposure measure including central bank reserves) at the group consolidation level in Barclays, HSBC, Lloyds Banking Group, Nationwide, NatWest Group, Santander UK, Standard Chartered, and Virgin Money UK.

> **The FPC considers it appropriate that capital requirements should fall as the system becomes less risky. The downward pressure on risk-weighted nominal requirements in recent years because of their inbuilt responsiveness – to falls in average risk weights, decreases in UK banks' systemic importance, and improvements in the measurement of risk weights – reflects intended and desirable flexibility in the capital framework.**

Flexibility in the framework means that capital requirements can continue to respond to developments in underlying structural and cyclical factors in the future, including if risk levels were to change.

2.2: Comparisons of UK and international capital requirements

> **International standards aid the comparability of capital frameworks across jurisdictions.**

The Basel Committee sets a common baseline level of capital standards for internationally active banks. This enhances financial stability – especially for banks whose failure could have cross-border effects – and helps maintain a level playing field for banks to be competitive internationally, as well as aiding comparability across banks in different jurisdictions. Individual jurisdictions retain flexibility to tailor their implementation.

Comparing capital requirements across jurisdictions is challenging, and differences in how risks are captured in each need to be taken into account.

Banks' risk-based capital requirements comprise two elements: RWAs, which are a measure of banks' assets that reflects their relative riskiness; and the capital ratio requirement, which expresses the capital banks are required to have as a percentage of RWAs.

Comparing capital ratios without any adjustments, UK and euro-area banks' requirements in aggregate tend to be similar, and higher than those of US banks (Chart A3.A, Annex 3). But such an unadjusted comparison is misleading, especially relative to the US.

One reason for this is that regulators use different approaches to capturing risks within firms' RWAs and their capital ratio requirements. As set out in Box A, the Basel approach to calculating RWAs does not claim to capture fully all material sources of risks, instead relying explicitly on national regulators to ensure that banks have adequate capital to support all the risks in their businesses.[12] Regulators have different ways of approaching this assessment when setting capital requirements. US regulators tend to apply higher risk weights, which generally pushes up on banks' RWAs, while UK and EU regulators instead apply capital 'add-ons' for each bank – referred to as Pillar 2A in the UK and Pillar 2R in the EU, though these themselves differ – and which show up in banks' capital ratio requirements.[13]

The US approach to calculating RWAs is fundamentally different to the UK approach and generally tends to result in higher measured RWAs than in the UK.

Under the Collins Amendment,[14] the largest US banks follow a 'dual-stack' approach, meaning banks calculate their capital requirements under two different methods – an advanced approach (AA) and a standardised approach (SA) – and must comply with the higher one. This effectively means that RWAs have a floor set by the SA. For the US banks presented in this section, SA RWAs are typically greater than AA RWAs, with the SA requirements acting as their binding capital constraint. In contrast, large UK and EU banks typically use internal ratings based models to set some of their risk weights, which tend to result in lower RWAs than the SA. Furthermore, the standardised approaches can differ between jurisdictions which can also lead to higher RWAs for US firms than in the UK or EU.[15]

Other things equal, this means that a US CET1 capital ratio of 4.5% of US RWAs will tend to mean a higher level of nominal capital than a UK or EU CET1 capital ratio of 4.5%. To generate the same amount of nominal capital in the UK or EU, given lower RWAs in those jurisdictions, the required ratio would be higher than 4.5%. But the UK and EU set Pillar 2 add-ons for banks – increasing ratio requirements. To adjust for this, and thereby aid comparability, the relevant Pillar 2A/Pillar 2R requirements can be 'added' to UK and euro-area banks' RWAs. This calculation effectively translates Pillar 2A/Pillar 2R requirements into an adjustment to RWAs to deliver the same amount of nominal capital.

The resulting adjustments for UK and euro-area banks are solely illustrative to facilitate comparisons, and the ratios shown are therefore different to the FPC's benchmark and the capital requirements and ratios reported by banks. Charts 5 and 7 show required ratios (and capital resources) after this adjustment. It is also important to note that, even post-adjustment, US banks' risk weights continue to be higher than those of UK banks. This is primarily driven by business model differences (eg US banks tend to have lower shares of mortgages on their balance sheets than UK and euro-area banks). Annex 3 sets out more information on the adjustments made in Charts 5 and 7.

There are other important differences in risk-based frameworks that mean comparisons remain approximate. As noted above, banks themselves differ in important ways (eg their systemic importance or lending profile), so that even if all jurisdictions followed the same framework, differences in capital requirements between banks would still be expected. For example, banks that pose a greater risk to the financial system and real economy will attract a larger systemic buffer (set as a percentage of RWAs).[16] In addition, there are other national features of capital frameworks that make comparing on a like-for-like basis difficult.[17]

> **Leverage ratios are simpler to compare across jurisdictions, but some adjustments must still be made.**

In relation to the leverage ratio, one difference across jurisdictions that needs to be accounted for is that, since 2016, the FPC has decided to exclude claims on central banks from the UK leverage exposure measure, which is used as the denominator of the leverage ratio calculation.[18] To compensate for that adjustment, the minimum leverage ratio requirement has been set at 3.25% in the UK, rather than 3% as in the Basel standard and in most other jurisdictions. To help compare UK leverage ratio requirements to those in the US and euro area, which do not apply such an exemption, in this analysis UK leverage requirements are expressed as a proportion of the leverage exposure measure including central bank reserves. While this puts them on an equivalent basis to those in other jurisdictions, it also results in the charts showing somewhat different numbers for leverage ratios and requirements than those reported by UK banks.

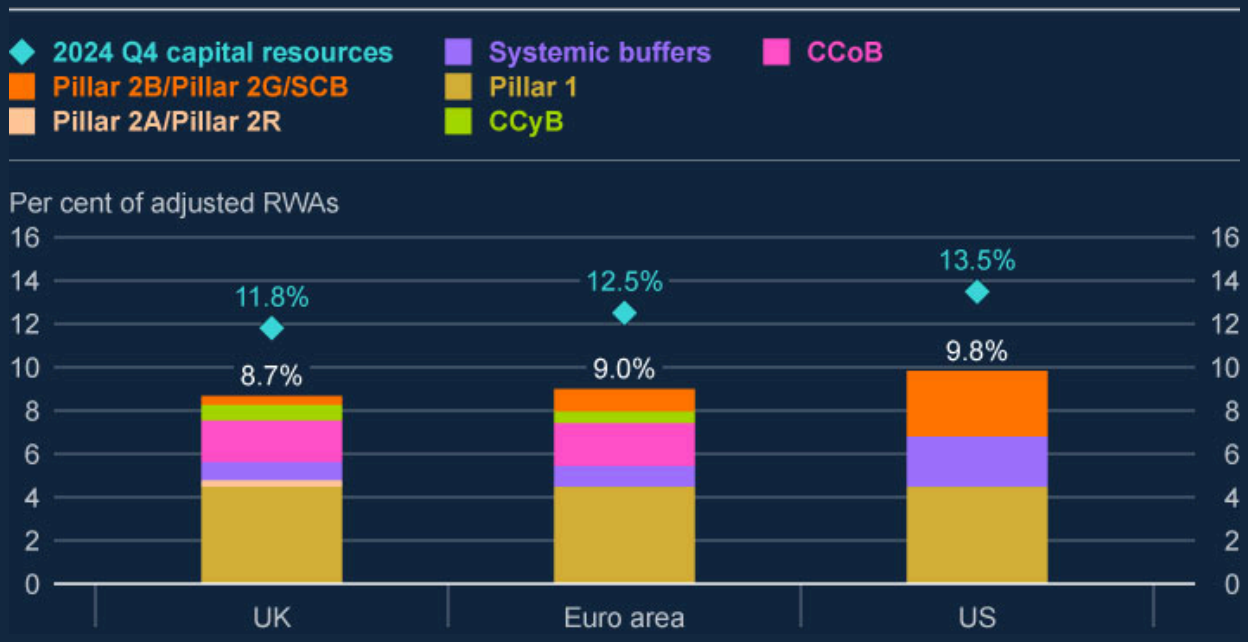
There are also other differences in the way the leverage ratio is applied across jurisdictions that are not so easily adjusted for. For example, the UK has a higher standard for the quality of capital required to meet the leverage ratio, but it does not automatically restrict distributions should firms use their leverage buffers (ie it does not apply the maximum distributable amount (MDA) framework).[19] These differences have not been reflected in the comparison.

> **Overall, analysis suggests that risk-based and leverage ratio capital requirements in the UK are broadly similar to those in the euro area and are lower than those in the US at present.**

In aggregate, risk-based requirements across the largest banks in the UK are broadly in line with those of their closest peer group in the euro area, and are estimated to be lower than those in the US (Chart 5). Similarly, UK leverage ratio requirements are comparable to those in the euro area, and lower than in the US (Chart 6). US authorities recently announced that they will reduce the leverage buffer that applies to US G-SIBs to bring it more into line with minimum international standards. This would also bring requirements more into line with those in the UK, in aggregate. The impact of this change is shown in the ‘enhanced supplementary leverage ratio (eSLR) reduction’ bar in Chart 6.

Chart 5: Risk-based capital requirements in the UK are broadly similar to those in the euro area and lower than in the US at present

Comparison of adjusted CET1 risk-weighted requirements and capital resources for large banks (a) across the UK, euro area and US (b) (c)

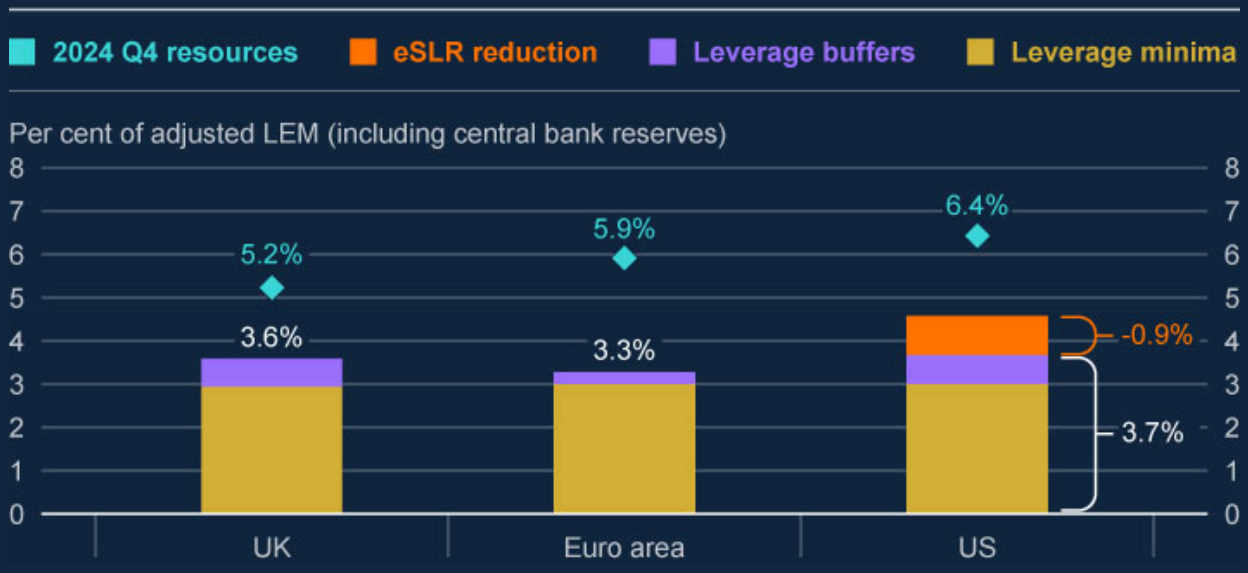


Sources: Published results, European Central Bank and Federal Reserve Board publications, PRA regulatory returns, and Bank calculations.

(a) To achieve a cohort of somewhat comparable sizes and systemic importance, this analysis uses a cohort of 14 UK G-SIBs and O-SIIs at the highest UK consolidation level (see **list of UK O-SIIs**) and compares it to the closest peer group of euro-area and US banks for which there are publicly available data. There is however some heterogeneity in firms across the sample. The euro-area cohort comprises 109 banks under the Single Supervisory Mechanism (SSM) classified as 'significant' in euro-area member states – **List of SSM supervised banks** (of which seven are G-SIBs, 20 are banks with total assets exceeding €200 billion, 20 are banks with assets between €100 billion and €200 billion, and 62 are banks with assets less than €100 billion). The US cohort consists of 19 banks – **list of US large banks** (of which eight are G-SIBs and 11 are banks with assets between $250 billion and $750 billion).
(b) Chart shows risk-based requirements and CET1 capital resources as a percentage of adjusted RWAs, on a weighted average basis, as of December 2024. Requirements are as applied at the start of 2025, while US stress capital buffer (SCB) requirements reflect those effective from October 2025.
(c) For the euro area, Pillar 2R cannot be disaggregated between risks mostly captured in Pillar 1 and those not captured at all in Pillar 1, so to facilitate comparison with the US, the entire euro-area Pillar 2R is converted into RWAs. For further details, please refer to Annex 3.

Chart 6: Leverage ratio capital requirements in the UK are broadly similar to the euro area and lower than those in the US at present

Comparison of adjusted Tier 1 leverage ratio requirements and capital resources for large banks across the UK, euro area, and US (a)



Sources: Published banks' results, European Central Bank and Federal Reserve Board publications, PRA regulatory returns, and Bank calculations.

(a) Chart shows leverage ratio requirements and Tier 1 capital resources as a percentage of the leverage exposure measure (LEM) including central bank reserves, on a weighted average basis, as of December 2024. Requirements are as applied at the start of 2025, with the US enhanced supplementary leverage ratio (eSLR) updated to reflect the approved framework following the conclusion of the recent US consultation. For the euro area, leverage buffers do not include Pillar 2 guidance, as it is not publicly available for this cohort of firms.

> **The aggregate picture masks certain differences across types of firms. For globally systemically important banks (G-SIBs) alone, the picture is consistent, with UK G-SIBs facing requirements that are comparable to euro-area G-SIBs and lower than US G-SIBs, across the risk-based and leverage frameworks. That said, UK requirements appear to be higher than in other jurisdictions for some more specific aspects and cohorts, particularly leverage ratio requirements for large domestically focused banks.**

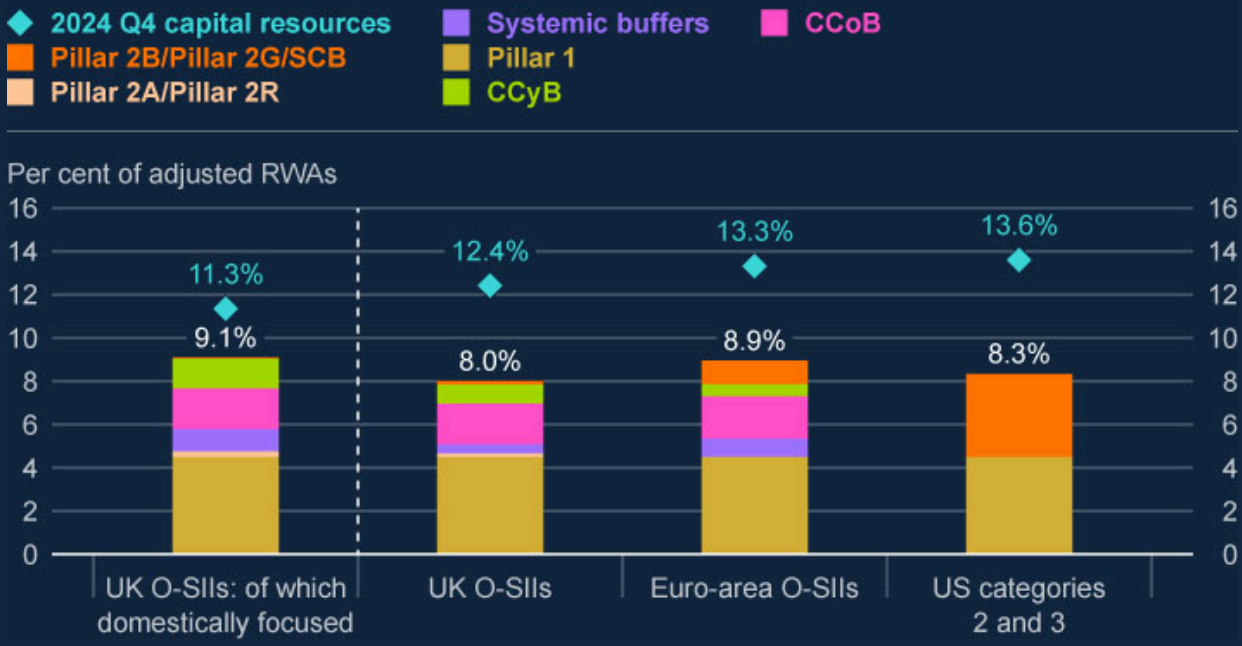
Risk-based requirements for large UK banks other than G-SIBs (UK other systemically important institutions (O-SIIs))[20] are lower than for peers in the euro area and broadly similar to peers in the US (Chart 7). Focusing on domestically focused UK O-SIIs,[21] their requirements are a little higher than the wider cohort of euro-area banks,[22] and higher again

than the US cohort. The level of requirements for US banks in this cohort reflects that these banks do not provide a large share of real economy lending, and as such they are not subject to systemic buffers.

Differences in O-SII buffers help explain why requirements for domestically focused UK-O-SIIs are higher than requirements for other UK O-SIIs. The fact that large domestically focused firms in the UK – including ring-fenced banks, large domestic banks, and large building societies – are in scope of O-SII buffers[23] reflects their particularly high domestic systemic importance in relation to lending to the UK real economy.[24] Applying O-SII buffers to these firms supports financial stability through protecting credit provision to the UK economy, especially during downturns, when there can be significant negative effects of restrictions in credit provision as experienced during the GFC. In contrast, while O-SII banks beyond domestically focused firms are responsible for some systemically important activities in the UK, they typically do not account for a material share of lending to UK households and non-financial corporates, and so are not subject to O-SII buffer requirements.

Chart 7: Risk-based requirements for large UK banks other than G-SIBs are lower than peers in the euro area, and broadly similar to peers in the US, although UK domestically focused O-SIIs have higher systemic buffers than other UK O-SIIs

Comparison of adjusted CET1 risk-weighted requirements and capital resources for large banks (excluding G-SIBs) across the UK, euro area and US (a)



Sources: Published banks' results, European Central Bank and Federal Reserve Board publications, PRA regulatory returns, and Bank calculations.

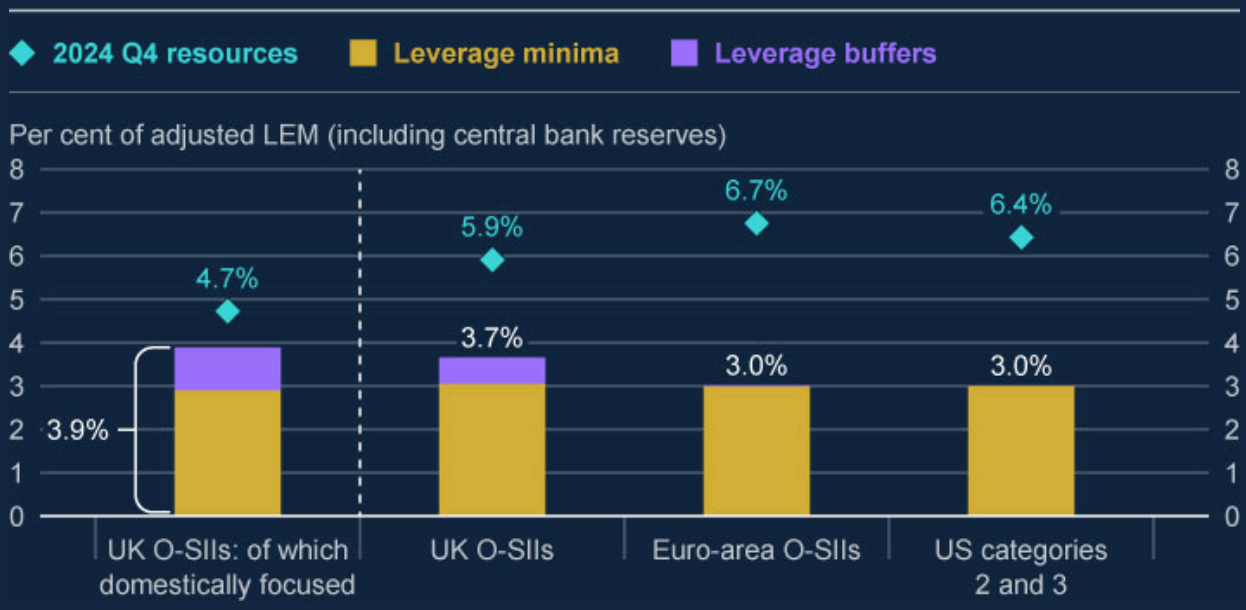
(a) Chart shows risk-based requirements and CET1 capital resources as a percentage of adjusted RWAs, on a weighted average basis, as of December 2024. Requirements are as applied at the start of 2025, while US stress capital buffer (SCB) requirements reflect those effective from October 2025.

For the leverage ratio, UK O-SIIs[25] – and particularly large domestically focused banks – have higher requirements than euro-area and US peers (Chart 8). The difference is accounted for by higher leverage ratio buffers in the UK, reflecting the FPC's decision to set leverage ratio buffers in a way that mirrors the risk-weighted framework, including setting a countercyclical leverage buffer (CCLB) that changes in proportion to the risk-weighted CCyB.[26] The existence of the CCLB means that the Committee's ability to release capital in a downturn is not impeded by the leverage ratio becoming relatively more binding when the CCyB is released during times of system-wide stress. Given the material importance of large domestically focused firms to the UK real economy – they account for over 50% of bank lending to UK households and businesses – the FPC also applies a systemic buffer to them in both the risk-weighted and leverage ratio frameworks. However, Basel standards do not

require any leverage buffers for non-G-SIBs and, in line with that, the euro area and US have significantly smaller or no additional requirements, respectively. Some other jurisdictions, not reflected in the comparisons, are more similar to the UK (such as Canada and China).

Chart 8: Large UK banks other than G-SIBs – particularly large domestically focused firms – face higher leverage ratio requirements than peers in the euro area and the US

Comparison of adjusted Tier 1 leverage requirements and capital resources for large banks (excluding G-SIBs) across the UK, euro area and US (a)



Sources: Published banks' results, European Central Bank and Federal Reserve Board publications, PRA regulatory returns, and Bank calculations.

(a) Chart shows leverage requirements and Tier 1 capital resources as a percentage of the leverage exposure measure (LEM) including central bank reserves, on a weighted average basis, as of December 2024. Requirements are as applied at the start of 2025. For the euro area, leverage buffers do not include Pillar 2 guidance, as it is not publicly available for this cohort of firms.

> **In aggregate, on an adjusted basis, large UK banks, including G-SIBs, have lower capital headroom over requirements compared to US and euro-area peers.[27]**

International comparisons show that, on average, large UK banks have a smaller gap between capital ratios and requirements – ie they tend to maintain less capital headroom – on an adjusted basis. While this may be driven by a range of business factors (for example, higher asset risk for some banks may help explain why they maintain higher leverage ratios), it may in part reflect the fact that a larger share of the UK buffer stack is accounted for by the CCyB, which is releasable. Additionally, as noted above, the FPC does not apply the MDA framework to leverage buffers, which may improve their usability.

The FPC would welcome feedback on its approach to comparing capital requirements across jurisdictions (see Section 4 for detail on how the Bank intends to gather feedback and additional evidence on the issues set out in this FSiF).

2.3: The banking system's ability to support the UK economy

The UK banking sector has supported households and businesses through recent macroeconomic shocks, helping to promote economic growth.

In the period since the FPC's previous review, the banking system has supported the UK economy through several macroeconomic shocks. Throughout several stresses in recent years – such as those related to Covid, the energy and supply shocks caused by Russia's invasion of Ukraine, and the turbulence associated with the failures of Silicon Valley Bank and Credit Suisse – the UK banking system has remained resilient, which has meant that banks have been able to absorb shocks rather than amplify them, and continue supporting the UK economy.

Consistent with its strategy, the FPC has made active use of the CCyB, cutting the UK CCyB rate to zero twice: following the Brexit referendum in 2016, and during the Covid pandemic in 2020 (see Box B for more detail). The FPC operating in this way encourages banks to continue lending to creditworthy households and businesses when significant negative shocks are perceived to impact the economy, helping to limit the drag on growth.

Evidence from the Covid period suggests, however, that banks may be unwilling to use regulatory buffers that are not releasable.

Even though the FPC and PRA have made clear that all buffers can be used to absorb losses without restricting lending, evidence from the Covid period suggests that banks are unwilling to allow their capital ratios to fall below regulatory buffers that have not been, or cannot be, released.[28] The evidence suggests that banks would be willing to take action, including deleveraging, to prevent the use of these buffers.[29]

While cutting the CCyB is helpful, it may be desirable for banks to use their buffers to a greater extent than the evidence suggests they are currently willing to do in the event of macroeconomic shocks, in order to support credit supply. Analysis in the **May 2020 Interim Financial Stability Report** suggested that if banks had cut back lending to viable businesses during Covid to protect their own financial positions, the direct gains to banks' capital ratios from less expansion of their RWAs and lower impairment charges on new lending would have been small relative to the costs to the wider economy and the banking system itself. This is because such a cut would have reduced economic activity, leading to a materially negative impact on banks' capital positions overall.

More recently, credit conditions have been consistent with the macroeconomic outlook, with no evidence that banks are constraining credit supply to defend capital positions.

In its assessment of what has driven changes in credit conditions, the FPC considers a range of factors. These include the quantity, quality and price of credit available; indicators of the macroeconomic environment; and indicators of credit demand including from the credit conditions survey. Analysis of these factors together suggests that as the economic outlook has improved following recent macroeconomic shocks, credit conditions have evolved in line with that outlook. The FPC has not found evidence of a restriction in lending by banks to defend their capital headroom over regulatory requirements and buffers.

Aggregate UK real economy lending by banks has continued to increase year-on-year, with gross household and corporate lending flows above or around pre-Covid levels, as set out in the **December 2025 Financial Stability Report**. The mortgage market remains competitive: lending spreads over risk-free rates are around pre-GFC levels and the range of products at higher loan to value and loan to income ratios continues to exceed pre-Covid levels. There have been improvements in the availability of credit for corporates, with lenders reporting increased availability in the **2025 Q3 Credit Conditions Survey** and the Bank's Agents corroborating this. Agents assess credit supply conditions to be normal for small businesses and looser than normal for medium and large corporates, with competition among bank and non-bank lenders to lend to creditworthy businesses.

At the same time, UK bank profitability, and increased investor confidence in its sustainability, has supported increased bank equity valuations.

Major UK banks' earnings have been strong over the past three years, with pre-provision profits totalling around £180 billion, as compared to around £140 billion in the three years preceding the Covid pandemic. UK banks' average PtTB ratio is above 1 and is around post-GFC peaks. This is materially up from Covid-era lows of around 0.5. In general, a PtTB ratio above 1 indicates that investors expect RoTE to be above the level needed to compensate them for the perceived riskiness of those returns (referred to as the 'cost of equity'). Major UK banks have also continued to return capital to shareholders through buybacks and dividends, totalling around £90 billion over the past three years.

Chart 9: Major UK banks' aggregate PtTB ratio has continued to rise, and is at a similar level to that of euro-area banks but lower than US banks

PtTB ratios for UK, euro area, and US bank indices (a) (b) (c)

Sources: Bloomberg Finance L.P. and Bank calculations.

(a) The UK series is a weighted average (by tangible book value) for Barclays, HSBC, Lloyds Banking Group, NatWest Group and Standard Chartered.
(b) The euro-area series is a weighted average (by tangible book value) for the Eurostoxx Banks (SX7E).
(c) The US series is a weighted average (by tangible book value) for constituents of the S&P 500 banks index plus Goldman Sachs and Morgan Stanley.

While UK bank valuations remain below those of US banks (Chart 9), the difference between the one-year forward price-to-earnings ratios of major UK banks and US banks is broadly in line with that for other sectors: the one-year forward price to earnings discount of UK banks relative to US banks is 30%, while the discount for other sectors is 36%.[30] This suggests that market-wide factors continue to be a significant driver of UK banks' valuations relative to those of US banks, as set out in the **June 2024 Financial Stability Report**.

> **Major UK banks' overall cost of equity appears broadly in line with 2015 and 2019 levels, but the risk premium investors demand for holding that equity may have fallen in recent years.**

Cost of equity cannot be observed directly, and model estimates are subject to a wide range of uncertainty. That said, Bank staff estimates, based on a range of modelling approaches, suggest that UK banks' cost of equity is broadly in line with 2015 and 2019 levels, when the FPC previously assessed the appropriate level of bank capital.[31] Given increases in risk-free rates and banks' debt funding costs over recent years, this suggests that there has been

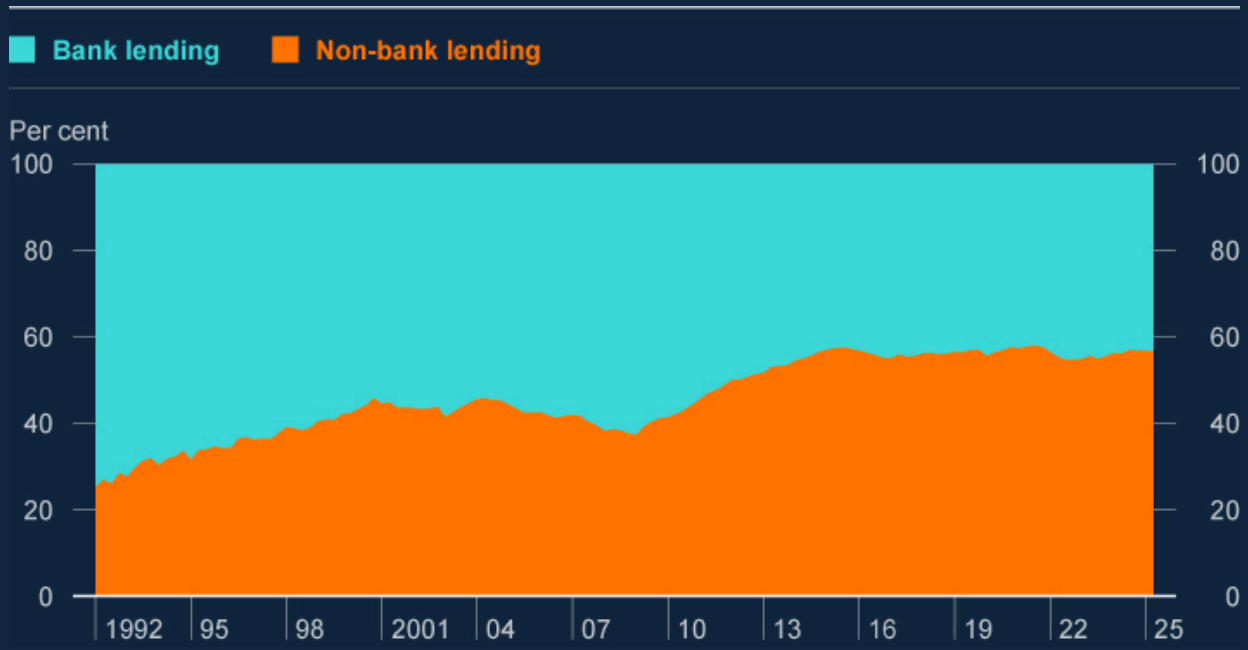
some fall in the risk premia that investors demand for holding UK banks' equity relative to their debt. At least in part, this fall likely reflects increased investor confidence in the sustainability of the higher RoTE that UK banks have delivered in recent years.

Although there has been a shift towards greater market-based provision of corporate finance, banks facilitate a large proportion of the leverage used by many NBFIs, and interlinkages between banks and NBFIs play a critical role in the functioning of the financial system.

As set out in Box B in the **December 2025 Financial Stability Report**, lenders and borrowers deleveraged after the GFC until around 2014 as they derisked their balance sheets. During that period, the supply of credit to corporates also diversified, as the share of market-based debt rose from a pre-GFC average of 43% (2003–07) to over 55% by 2015 (Chart 10). This signalled a structural shift in corporate financing that has moved the UK closer to the US, although non-banks still supply relatively less corporate debt to UK firms than their US peers.

Chart 10: UK corporate debt provision diversified after the GFC

Share of the stock of lending to UK non-financial corporates from bank and non-banks (a)



Sources: Association of British Insurers, Bank of England, Bayes CRE Lending Report (Bayes Business School (formerly Cass)), Deloitte, Finance & Leasing Association, firm public disclosures, Integer Advisors estimates, LCD an offering of Pitchbook London Stock Exchange, LSEG Eikon, ONS, Peer-to-Peer Finance Association and Bank calculations.

(a) These data are for private non-financial corporations (PNFCs), which exclude public, financial and unincorporated businesses.

The UK banking system increasingly supports market-based finance through the provision of lending and other services to various types of NBFIs. Banks facilitate a large proportion of the leverage used by many NBFIs as the counterparty to derivatives transactions (such as interest rate swaps) and securities financing transactions (including repo agreements and margin lending transactions). A small number of large UK and US headquartered banks provide the majority of these services to NBFIs that operate in the UK. This means that as the role of non-banks in providing corporate lending has increased over time, this shift has been enabled by the leverage and other services provided to them by banks.

> **The results of the 2025 Bank Capital Stress Test show that the UK banking system could continue to support growth, even if economic and financial conditions turned out materially worse than expected.**

The Bank Capital Stress Test results suggest that the UK banking system would be resilient to a severe but plausible global aggregate supply shock, and could continue to support lending and growth, as set out in the **December 2025 Financial Stability Report**. In the exercise, the banking system continues to meet the credit demand of creditworthy households and businesses throughout the stress.

3: Reviewing the FPC's assessment of bank capital requirements

3.1: The FPC's previous assessments

> **The FPC first assessed the appropriate level of Tier 1 capital requirements for the UK banking system in 2015, based on analysis of the level of capital that was most likely to maximise long-term growth in the UK economy.**

In making its assessment, the FPC drew on analysis by Bank staff of the macroeconomic costs and benefits of bank capital.[32] In particular, that assessment focused on:

- **The macroeconomic benefits of bank capital that arise due to a reduction in the likelihood and costs of financial crises,** which tend to have very large and long-lasting negative effects on economic growth, as seen during and after the GFC.
- **The macroeconomic costs of bank capital that arise because loss-absorbing capital is a more expensive way for banks to fund lending** than certain other debt liabilities, such as deposits. Notwithstanding that higher equity might put downward pressure on banks' equity and debt funding costs due to lower risk premia, overall, higher capital requirements increase the cost of credit to the real economy. At the margin, this reduces household spending and business investment, as well as potential economic output in the longer term.

The Bank's analysis in 2015 suggested that the optimal level for minimum requirements and buffers together, met with Tier 1 capital, was in the region of 10%−14% of banks' RWAs assuming no gaps or shortcomings in the measurement of risk weights. Within that range, the FPC judged at the time that the appropriate Tier 1 capital requirement for the UK banking system, in aggregate, would have been 11% of RWAs absent gaps and shortcomings in risk weight measurement.[33] In practice, the existence of such gaps and shortcomings meant that the benchmark needed to be higher.

In light of this, the FPC judged that the appropriate level of Tier 1 capital requirements for the UK banking system should include around an additional 2.5 percentage points of RWAs, consistent with Pillar 2A capital requirements that adjust for gaps and shortcomings in measurement of risk in the capital stack (Box A). The Committee further judged that this should be supplemented by capital associated with a neutral rate setting for the UK CCyB in the region of 1%. This added around another ½ percentage point of capital to the FPC's benchmark, given the geographic composition of major UK banks' activity.

Overall, this brought the FPC's 2015 benchmark for system-wide Tier 1 capital requirements to around 14% of RWAs, consistent with being towards the lower end of the estimated optimal range, once gaps and shortcomings in the measurement of risk weights were accounted for.

This benchmark refers to the Tier 1 capital requirement at the system-wide level appropriate for a standard risk environment. This requirement would be supplemented for individual banks by firm-specific buffers set by the PRA to address microprudential, idiosyncratic risks, by the non-UK component of the CCyB as set by foreign jurisdictions, and by additional time-varying buffers – through changes in the UK CCyB rate – to reflect changes in the aggregate risks that banks face.

The changes announced in the subsequent 2019 review kept capital requirements for the major UK banks broadly in line with the benchmark level set by the FPC in 2015, albeit with more of the capital stack in the form of releasable buffers and less in the form of minimum requirements.

The FPC reaffirmed its previous benchmark of around 14% in the 2019 review of the level and balance of capital requirements for the UK banking system.[34] At the same time, it increased the neutral rate that it expected to set for the UK CCyB from in the region of 1% to in the region of 2%. Reflecting the additional resilience associated with higher macroprudential buffers, the PRA then reduced Pillar 2A minimum capital requirements in 2020 in a way that kept overall regulatory loss-absorbing capacity, defined as minimum requirements for own funds and eligible liabilities (MREL) plus buffers, broadly unchanged following the increase in the neutral rate for the UK CCyB.

3.2: Reviewing key FPC judgements

The FPC continues to judge that post-crisis reforms – including a credible and effective resolution regime and the Committee's active use of the UK CCyB – will reduce the cost and probability of future crises, supporting previous judgements taken by the Committee, which reduced the benchmark for system-wide capital requirements.

The FPC's assessment of the appropriate level of Tier 1 capital is lower than other estimates of the optimal level of capital for the banking system, including those that were produced by the Basel Committee on Banking Supervision (BCBS) to inform the post-crisis Basel standards.[35] This reflects key judgements relating to: (1) credible and effective resolution arrangements; (2) effective supervision and structural reform; and (3) active use of the UK CCyB.

Credible and effective resolution arrangements

Credible and effective resolution arrangements were expected to materially reduce both the probability of future financial crises and the economic costs of any future firm failure.

The FPC's 2015 benchmark reflected a judgement that credible and effective arrangements for resolving banks, once fully embedded, would materially reduce both the probability of future financial crises and the economic costs of any future firm failure, and therefore reduce the appropriate level of Tier 1 capital requirements by about 5 percentage points – or £95 billion, based on major UK banks' end-2015 RWAs.

Since 2019, further progress has been made to maintain a credible and effective resolution regime, validating the forward-looking judgement made by the FPC in 2015. A statutory resolution regime remains in place, with recent, targeted changes in the Bank Resolution (Recapitalisation) 2025 Act providing greater flexibility to manage the failure of small banks. This is complemented by updates to the PRA and Bank's resolvability policies to ensure a robust and proportionate approach for managing bank failure. Large banks have successfully built up and are maintaining MREL, allowing for additional loss absorbing capacity of around twice their minimum capital requirements.

Significant progress has also been made to eliminate barriers to resolvability and develop cross-border cooperation – including the successful resolution of Silicon Valley Bank UK in 2023 – demonstrating that the resolution regime remains ready for use if required, to protect financial stability. In 2022, the Bank also set out the findings from its first assessment of the resolvability of major UK banks as part of the Resolvability Assessment Framework, which demonstrated that a major UK bank could enter resolution safely if needed. And in 2024, the second assessment reaffirmed these findings.[36]

Effective supervision and structural reform

The FPC placed weight on the role that forward-looking, judgement-led prudential supervision conducted by the PRA would play in ensuring the safety and soundness of UK banks.

Structural changes since the GFC include those associated with the implementation of ring-fencing from January 2019, as required by the Banking Reform Act, which separates core deposit taking (from households and small/medium-sized businesses) from investment banking activities. These restructuring efforts support resolvability and increase the ability of ring-fenced banks in the UK to support UK households and businesses, even if risks crystallise that originate in other parts of their group or the global financial system.

The resilience of the banking system has also been supported by the development of a broader framework of measures that support UK financial stability, as anticipated.

When assessing the appropriate level of capital for the UK banking system in 2015, the FPC accounted for the anticipated effects that post-GFC reforms would have on banking sector resilience. At the time of the FPC's original judgement, new international funding and liquidity rules were in train, and rules promoting the resilience of mortgage borrowers including the FPC's LTI flow limit and FCA affordability tests had been implemented. This set of measures is helping the banking system to absorb shocks rather than amplify them, alongside more adequate capital, and more effective supervision and stress-testing regimes.

Active use of the UK CCyB

> **Active use of the UK CCyB continues to facilitate lower capital requirements outside periods of elevated risk, supporting economic growth and efficiency.**

As part of its assessment of bank capital requirements in 2019, the FPC considered historical evidence on the level of the UK CCyB that would have been appropriate in an elevated risk environment.[37] That evidence suggested that in 2007, the UK CCyB rate would have needed to be set in the range of 3.5%−5% for the UK banking system to have had sufficiently large usable capital buffers to absorb losses that followed the preceding credit boom without severely restricting lending to the real economy.

The FPC has also made active use of the UK CCyB, with cuts to zero in 2016 and 2020, as described in Section 2.3.

The increase in the neutral rate for the UK CCyB, from in the region of 1% in 2015 to in the region of 2% currently (which was followed by a decrease in Pillar 2A requirements as noted in Section 3.1), is likely to have improved the effectiveness of the FPC's strategy of varying regulatory capital buffers in response to the financial cycle. This is for two reasons:

1. The higher neutral rate is expected to increase the effectiveness of releasing the CCyB to support lending when shocks materialise. This is likely to be especially important under the IFRS 9 accounting standard, which has led to earlier recognition of credit losses in banks' provisioning, underscoring the value of swiftly releasable capital buffers.
2. The higher neutral rate will help ensure the banking system is appropriately capitalised for risks at the peak of the financial cycle. Starting from a higher neutral rate for the UK CCyB will allow the FPC time to observe evidence of building financial vulnerabilities and respond in a way that does not require banks to raise capital as quickly, which could cause them to cut lending abruptly and so create a downturn in the economy. Box B provides more information on how the FPC approaches setting the UK CCyB rate.

Updates to the macroeconomic costs and benefits of bank capital

There is some evidence that the macroeconomic costs of capital are currently lower than at the time of the FPC's previous assessments of appropriate capital levels because the spread between banks' cost of equity and the cost of their debt may have fallen.

The FPC's 2015 benchmark for the appropriate level of capital requirements was underpinned by an assumption that the spread between banks' cost of equity and the cost of their debt liabilities would remain around 10 percentage points over the long run, based on market evidence available at the time. But banks' debt funding costs have risen in recent years as risk-free interest rates have risen; and while banks' cost of equity is unobservable and its estimation is subject to uncertainty, Bank modelling suggests that it is broadly in line with 2015 and 2019 levels as noted in Section 2.3. This implies that the risk premium investors demand to hold UK bank equity relative to bank debt has fallen, making it cheaper in relative terms for banks to increase their share of equity funding.

Some evidence from external academic literature also points towards lower macroeconomic costs of raising capital than assumed in previous FPC assessments. In particular, when a bank increases its share of equity funding, all else equal, this tends to be associated with some reduction in its cost of debt due to a perceived reduction in the bank's riskiness. This is sometimes referred to as the 'Modigliani-Miller offset'. Some academic literature suggests that this effect could be larger in practice than was assumed in 2015 (Box C), though there is a range of uncertainty around this. A larger Modigliani-Miller offset would reduce the impact on banks' lending spreads from a given increase in capital requirements, all else equal, and therefore reduce the macroeconomic costs of raising capital.

Some global vulnerabilities may have increased since 2019, which could in turn increase the average macroeconomic costs of future financial crises, and therefore increase the economic benefits of bank capital. However, the extent to which there has been a structural increase in long-term vulnerabilities is uncertain.

Global risks are elevated and there is a high degree of uncertainty about the global economic outlook, as explored in more detail in the **December 2025 Financial Stability Report**. Any decrease in global regulatory cooperation could reduce the resilience of the global financial system. Public debt-to-GDP ratios are also elevated globally, which could reduce the ability of governments to respond to future shocks.

Conversely, UK household and corporate debt vulnerabilities have fallen over recent years, as also set out in the **December 2025 Financial Stability Report**, reducing UK private sector vulnerability to a given macroeconomic shock. In part, that could reflect improved bank underwriting standards.

Reflecting the long-term nature of its assessment of the appropriate level of capital requirements, the FPC continues to judge that, absent gaps and shortcomings in the measurement of risk weights, system-wide Tier 1 capital requirements and buffers in the region of 10%−14% of banks' RWAs are likely to maximise sustainable long-term growth in the UK economy. That assessment continues to reflect the FPC's view that its past judgements related to credible and effective resolution arrangements, effective supervision and structural reform, and active use of the CCyB, remain appropriate.

3.3: The FPC's updated overall assessment

> **The FPC judges that the appropriate benchmark for the system-wide level of Tier 1 capital requirements is now 1 percentage point lower at around 13% of RWAs – equivalent to a CET1 ratio of around 11%.**

This 13% benchmark for Tier 1 capital requirements comprises an underlying optimal level of 11% (inclusive of the neutral rate for the UK CCyB), and an additional 2 percentage points to account for outstanding gaps and shortcomings in the measurement of RWAs. It excludes firm-specific PRA buffers and requirements set by overseas authorities such as the international component of the CCyB. Given this reduction in the FPC's benchmark, banks should have greater certainty and confidence in using their capital resources to lend to UK households and businesses.

This judgement is consistent with the evolution in the financial system since the FPC's first assessment, including a reduction in the systemic importance of some banks and improvements in risk measurement, such as through the forthcoming implementation of Basel 3.1.

The FPC's judgement is also consistent with the Committee's broader view of the banking sector's ability to support the real economy, including in adverse conditions. For example, while the Bank's regular stress tests are cyclical exercises that cannot directly inform the appropriate level of structural capital requirements, they nevertheless suggest that the UK banking system would be resilient to a severe but plausible global aggregate supply shock while continuing to meet the credit demand of creditworthy households and businesses.

As set out in Section 2.1, in practice, aggregate Tier 1 system-wide capital requirements for the UK banking system, as a proportion of RWAs, have been broadly stable since 2019. And the implementation of Basel 3.1 is expected to improve risk measurement, allowing the PRA to reduce minimum requirements by around ½ percentage point of RWAs to remove overlaps from Pillar 2A. As a result, the level of system-wide Tier 1 capital requirements is expected to fall to around 13%.

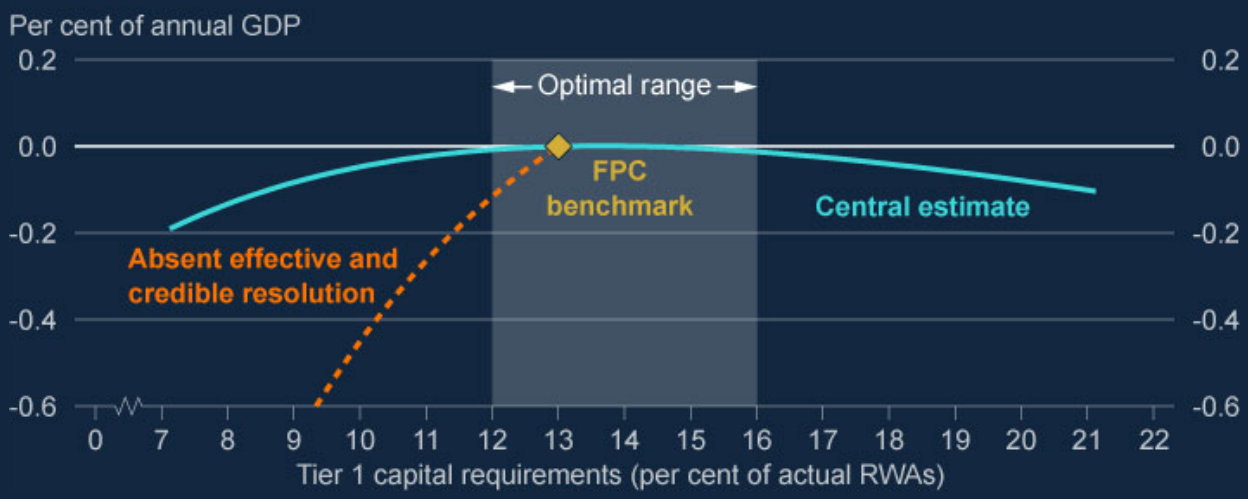
The Committee's updated benchmark remains in the range of capital requirements likely to maximise macroeconomic net benefits in terms of long-run growth, albeit towards the lower end. The FPC also judges that lowering Tier 1 requirements materially below its benchmark could lead to significant reductions in long-run expected GDP.

Bank staff analysis of the macroeconomic costs and benefits of capital, consistent with the **published analysis that underpinned the FPC's assessment in 2015**, suggests that the expected benefits associated with current Tier 1 capital requirements compared with pre-GFC Tier 1 capital levels are worth around £15 billion of annual GDP, or over £500 per household per year on average over the long run. This reflects the fact that materially lower capital requirements would be estimated to increase significantly the probability of financial crises, which tend to have very large and long-lasting negative effects on output. The Bank's 2015 analysis estimated the expected net present value of the economic costs of a crisis to be just under half of pre-crisis GDP, even after accounting for the positive effects of credible and effective resolution arrangements in reducing the costs of future crises.

As such, reducing system-wide capital requirements materially below the FPC's benchmark of 13% (unless due to further improvements in risk measurement that allow overlaps to be removed from Pillar 2A requirements) could be associated with significant reductions in long-run expected GDP. Analysis suggests that this effect would be compounded if reductions in capital were to undermine the credibility of the resolution regime. That could happen because of a reduction in banks' MREL, which is generally set at two times minimum capital requirements for the major UK banks, as well as their total loss-absorbing capacity – maintaining sufficient MREL is key to ensuring resolvability. The Bank's 2015 analysis noted that the uncertainty surrounding estimates of appropriate capital requirements is large, but highlighted that absent effective and credible resolution arrangements, the expected cost of crises would be materially higher. Consistent with this analysis, Chart 11 illustrates the Bank's central estimates of the expected annual net benefits associated with varying capital requirements relative to the FPC's benchmark, as well as the estimated steeper costs associated with reducing capital requirements in the absence of effective and credible resolution arrangements.

Chart 11: The net macroeconomic costs of reducing capital could increase sharply below the estimated optimal range

Estimates of the expected net benefits of varying system-wide Tier 1 capital requirements relative to the FPC's benchmark, as a percentage of annual GDP (a)



Source: Bank calculations.

(a) Calculations based on the analytical framework set out in **Brooke et al (2015)**. The optimal range shown is consistent with the reported optimal range of 10%–14% of RWAs, plus an additional 2 percentage points of RWAs that reflects the impact of outstanding gaps and shortcomings in the measurement of risk weights on optimal capital requirements.

Materially lower capital levels could also lead to higher risk premia on banks' equity and debt funding costs, for example if investors perceived that this had led to an increase in banks' riskiness. In turn, this could result in higher bank lending spreads, lowering business investment and therefore potential output.

> **An external literature review shows that the FPC's benchmark remains close to the bottom end of the range of optimal capital estimates.**

Bank staff reviewed over 70 studies from the external academic literature that are relevant to the assessment of optimal capital requirements and were published since the FPC's original assessment (refer to Box C for further details). This review included 14 studies that estimated an optimal level for bank capital requirements. All of the studies identified pointed to optimal levels of capital that are consistent with, or higher than, the FPC's benchmark. This is consistent with the findings in **Brooke et al (2015)**, which also suggested that the FPC's original benchmark was towards the bottom end of the range of estimates for optimal capital at the time.

Box B: The use of the CCyB through the financial cycle

This box sets out what the countercyclical capital buffer (CCyB) is, and how the FPC approaches its use. The Committee's strategy for using the CCyB is set out in more detail in its **CCyB policy statement**. The FPC has made active use of the CCyB as envisioned in 2015, when the Committee first assessed the appropriate level of capital requirements.

What is the CCyB?

The countercyclical capital buffer (CCyB) is used to help ensure capital levels respond to the risk environment. By increasing the CCyB when vulnerabilities are judged to be building up, the FPC ensures banks have an additional cushion of capital with which to absorb potential losses, enhancing their resilience and helping to ensure the stable provision of financial services. The CCyB is composed of UK and overseas elements, set by authorities in individual jurisdictions. The FPC is responsible for the element of the buffer that is calculated by reference to banks' relevant UK exposures.

The neutral rate for the UK CCyB

> **In 2019, the FPC increased the neutral rate that it expected to set for the UK CCyB from in the region of 1% to in the region of 2%.**

In the **December 2019 Financial Stability Report**, the FPC noted that many of its indicators ahead of the GFC did not point to financial vulnerabilities being elevated until 2004 or later. Given that any decision to increase the UK CCyB rate normally takes 12 months to become effective, the FPC judged that it was unlikely the Committee would have been able to identify risks sufficiently early to build the CCyB from a rate of 1% and ensure the banking system was appropriately capitalised for its risks at the peak of the cycle. Starting from a higher neutral rate for the UK CCyB would help provide the FPC time to observe evidence of building financial vulnerabilities. This would mean the Committee could respond in a way that did not require banks to raise capital as quickly, which could cause lenders to cut credit abruptly and so risk creating a downturn in the economy.

> **Reflecting the additional resilience associated with higher macroprudential buffers, in 2020, the PRA reduced Pillar 2A minimum capital requirements in a way that kept total regulatory loss-absorbing capacity, defined as MREL plus buffers, broadly unchanged following the increase in the neutral rate for the UK CCyB.**

The announced changes kept capital requirements for the major UK banks broadly in line with the benchmark level of around 14% of RWAs set by the FPC in 2015, albeit with more of the capital stack in the form of releasable buffers and less in the form of minimum requirements.

An increasing number of jurisdictions internationally have chosen to introduce a positive CCyB when risks are judged to be neither subdued nor elevated, including at 2% of RWAs (**BIS (2024)**).

How the use of the CCyB can reduce the size of economic downturns

The UK CCyB can be released by the FPC in a stress.

When banks cut lending or otherwise tighten lending conditions, households and businesses may have to cut back on spending and investment, or may even default on their loans. A reduction in the supply of credit that is greater than warranted by the changes in the macroeconomic outlook – for example if banks are concerned about their capital positions and act to defend them – can make a downturn in the economy much worse and lead to further defaults.

The FPC has made active use of the CCyB as envisioned in 2015, when the Committee first assessed the appropriate level of capital requirements. As set out in its **CCyB policy statement**, the FPC expects to reduce the UK CCyB rate – if necessary to zero – to create extra capital headroom if it anticipates that banks may face losses that could otherwise cause them to act to protect their capital positions by restricting lending by more than is warranted by the macroeconomic environment. In such circumstances, cutting the CCyB instead encourages banks to continue lending to creditworthy households and businesses, limiting potential damage to the economy.

The FPC has reduced the CCyB rate to zero twice: following the Brexit referendum in 2016 and the economic shock of the Covid-19 pandemic in 2020. In this way, the FPC not only supports its primary objective by helping to ensure the provision of lending in a stress, but also contributes to its secondary objective to support the economic policy of His Majesty's Government, including its objectives for growth and employment.

Circumstances under which the FPC might raise the CCyB

The FPC follows a two-stage approach in assessing whether changing the UK CCyB rate is appropriate.

First, it assesses the level of financial vulnerabilities and the channels through which vulnerabilities can affect financial stability, in order to judge where the UK is in the financial cycle. If UK domestic vulnerabilities were increasing, it might be evidence in favour of raising the CCyB. This could occur, for example, if a combination of some or all of the following were to arise:

- The proportion of UK households with high debt servicing ratios had risen significantly, or forecasts based on Bank analysis suggested it was likely to do so.
- The proportion of UK firms with low interest coverage ratios had risen significantly, or forecasts based on Bank analysis suggested it was likely to do so.
- There was evidence of loosening in UK bank lending standards beyond what was warranted by changes in the macroeconomic environment.
- There was a rapid expansion of credit relative to income levels.
- There was a sustained rise in UK asset prices, such as equity and house prices, greater than what appeared to be justified by economic fundamentals.

Rising global vulnerabilities could also be a factor in the FPC's decision, for example if there were a large credit boom building in a key UK trading partner. However, the UK CCyB rate would apply to banks' UK credit exposures, rather than their exposures to the trading partner. On that basis, raising the UK CCyB would only be an appropriate way to build resilience if the FPC considered that the future spillover to UK borrowers was likely to be significant.

In practice, the FPC's assessment of vulnerabilities is not mechanically tied to any level or rate of change for an individual or specific combination of indicators. Instead the FPC makes a comprehensive, qualitative assessment informed by a range of indicators.

In the second stage, the FPC forms a view on the resilience of UK banks and their ability to absorb shocks without an undue restriction in lending. In forming this view, the FPC considers a wide range of information. This includes looking at the riskiness of banks' lending and funding structures, as well as banks' current, forecasted and stress-tested capital and liquidity ratios. Consistent with this, while there is no mechanical link, if the results of a stress test of the banking system suggested that regulatory capital buffers were insufficient for the banking system to absorb losses on UK exposures without an unwarranted restriction in lending, the FPC might act to increase the UK CCyB rate.

In making its decision, the FPC also assesses banks' ability to build capital (eg based on profitability metrics and how much capital headroom they have) and the potential economic cost of them doing so. Increases in the CCyB are expected to have a

smaller economic impact if banks can increase capital by retaining earnings rather than having to issue new equity. However, in some cases the FPC may choose to build the CCyB at a faster rate than banks can meet through retaining earnings. The FPC might do this, for example, if it judges that risks from the financial cycle are particularly elevated, and/or that costs to the economy of banks having inadequate levels of capital are high.

Box C: Literature review

This box describes the key findings from a literature review conducted by Bank staff to assess how estimates from the research literature on optimal capital compare with the FPC's assessment.

Brooke et al (2015), which informed the FPC's original assessment of the appropriate level of capital requirements, included a review of relevant studies that had been published at that point in time. This showed that the FPC's original benchmark was towards the bottom end of the range of estimates for optimal capital.

This review additionally identified over 70 relevant studies on this topic published since the FPC's original assessment in 2015 across academic journals, refereed working paper series, or central bank websites. Of these, 14 included estimates of optimal bank capital.

The studies differ in several ways, making it difficult to compare their estimates of optimal capital directly. For instance, several follow the same empirical modelling approach used in **Brooke et al (2015)**. Some other more recent academic studies use structural approaches based on dynamic stochastic general equilibrium (DSGE) modelling in an attempt to capture feedback and general equilibrium effects. Although this latter type of model has some advantages, arguably DSGE models face some limitations when applied to analysis of tail events, including financial crises (eg because they are solved by near-linear approximations around a steady state; they model representative agents; they assume agents have rational expectations; and/or shocks are assumed to be normally distributed, thereby understating the probability of tail events occurring).[38] Studies also report optimal estimates for different qualities of capital (eg some CET1, some Tier 1 etc). Moreover, the studies do not adjust for gaps and shortcomings in the measurement of risk weights. To help facilitate comparison, Bank staff have therefore:

- **grouped studies according to four broad factors underlying each of the studies**: those that estimated limited costs of crises; considered impacts of other non-capital post-crisis reforms; estimated high economic costs of capital; and estimated high crisis costs;
- **mapped all studies into approximate CET1-equivalent optimal estimates** (also including Tier 1 estimates for transparency). This is done by adjusting Tier 1 estimates down by 1.5 percentage points (the difference between minimum Tier 1 and CET1 requirements in Pillar 1); and

- **set out the FPC's benchmark in the first row of Table A in terms of comparable CET1 and Tier 1 requirements**. These exclude the additional capital in Pillar 2A that adjusts for gaps and shortcomings in the measurement of risk in the capital stack, resulting in a comparable CET1 benchmark of 9.5% (equivalent to the FPC's 11% Tier 1 benchmark that assumes no gaps or shortcomings in the measurement of risk weights, minus the 1.5 percentage points of AT1 that can be used to meet Tier 1 minimum requirements within Pillar 1).

The literature review, summarised in Table A, suggests that the FPC's benchmark is at the bottom end of the range of optimal capital estimates across studies. This is consistent with the findings in **Brooke et al (2015)**, which also suggested that the FPC's original benchmark was towards the bottom end of the range of estimates for optimal capital at the time.

More generally, the review **found some evidence**:

- **supporting the FPC's judgments around the credibility and efficacy of resolution arrangements** in reducing the likelihood and costs of crises (based on a **Financial Stability Board evaluation of resolution in 2021**).
- **that the costs of crises are high and permanent, supporting previous FPC judgements.** Recent studies (**Romer and Romer (2019)**, **Bonciani et al (2021)**, **CEPR (2025)** and **Calomiris and Jaremski (2024)**) show that GDP losses after crises are long-lasting, with some studies finding statistically detectable contractions in GDP for decades. The persistence of output losses may be greater than previously estimated, supporting the original judgment in 2015 that crises have permanent effects on economic output.
- **that the reduction in banks' cost of debt associated with increases in their equity funding share – the so-called 'Modigliani-Miller' offset – may be larger than assumed in previous FPC assessments.** When a bank increases its share of equity funding, all else equal, this tends to be associated with some reduction in its cost of debt, due to a perceived reduction in the bank's riskiness. Some academic literature (eg **Gimber and Rajan (2019**) and **Clark et al (2023)**) suggests that this effect could be larger in practice than was assumed in 2015, though there is a range of uncertainty around this. A larger Modigliani-Miller offset would reduce the impact on banks' lending spreads from a given increase in capital requirements, all else equal, and therefore reduce the macroeconomic costs of raising capital.

Table A: Estimates of optimal capital from studies on optimal capital (published since 2015) (a)

Study	Optimal Capital Ratio (Tier 1)	Optimal Capital Ratio (CET1)	Notes on study
Memo: comparable part of FPC judgment on appropriate capital levels	**11%**	**9.5%**	**No adjustment for gaps and shortcomings in risk weight measurement is included.**
Panel A: Studies that estimated crises had limited economic costs			
Mendicino et al (2020)		**9.4%–10.2%**	Structural DSGE, euro area, 2001–16
Clerc et al (2015)		**10.5%**	Structural DSGE, euro area
Elenev et al (2021)		**10%–12%**	Structural DSGE, US, 1953–2014
Begenau (2020)		**12.4%**	Structural DSGE, US, 1999–2016
Andersen and Juelsrud (2024)		**12%–19%**	Empirical, Norway
Begenau and Landvoigt (2022)		**16.0%**	Structural DSGE, US, 1999–2019
Firestone et al (2019)	**13%–26%**	11.5%–24.5%	Empirical, US
Soederhuizen et al (2023)		**16%–31%**	Empirical, euro area
Panel B: Studies that considered the impacts of post-crisis reforms			
Brooke et al (2015)	**10%–14%**	8.5%–12.5%	Empirical, UK
Fender and Lewrick (2016)		**9%–11%**	Empirical, BCBS members, 1994–2012
Cline (2017)		**12%–14%**	Empirical, US, Japan, EU, 1977–2015
Andersen and Juelsrud (2024)		**12%–19%**	Empirical, Norway
Firestone et al (2019)	**13%–26%**	11.5%–24.5%	Empirical, US

Study	Optimal Capital Ratio (Tier 1)	Optimal Capital Ratio (CET1)	Notes on study
Panel C: Studies that estimated high economic cost of capital			
Fender and Lewrick (2016)		**9%–11%**	Empirical, BCBS members, 1994–2012
Dagher et al (2016)	**15%–23%**	**13.5%–21.5%**	Empirical
Soederhuizen et al (2023)		**16%–31%**	Empirical, euro area
Barth and Miller (2018)	**20%–30%**	18.5%–28.5%	Empirical, US
Almenberg et al (2017)		**25%–60%**	Empirical, Sweden
Panel D: Studies that estimated high crises costs			
Fender and Lewrick (2016)		**9%–11%**	Empirical, BCBS members, 1994–2012
Andersen and Juelsrud (2024)		**12%–19%**	Empirical, Norway
Dagher et al (2016)	**15%–23%**	**13.5%–21.5%**	Empirical
Soederhuizen et al (2023)		**16%–31%**	Empirical, euro area
FRB Minneapolis (2017)	**23.5%**	22.0%	Empirical, US, 1970–2011
Barth and Miller (2018)	**20%–30%**	18.5%–28.5%	Empirical, US
Almenberg et al (2017)		**25%–60%**	Empirical, Sweden

(a) Each study's reported optimal estimate is in bold. Where studies refer broadly to 'equity' it is assumed that this is equivalent to CET1, the highest quality of capital. Where studies do not report explicit optimal figures in terms of risk-weighted capital ratios, these are estimated based on the data reported in each study. Those reported in Tier 1 capital were mapped into approximate CET1 ratio equivalents by reducing them by 1.5 percentage points, the difference between minimum Tier 1 and CET1 requirements in Pillar 1. Panel A reports estimates from studies that either estimated that the economic costs of crises were low (eg due to non-permanent effects) or employed methods (eg DSGE models focusing on household welfare) that arguably had limitations when applied to analysis of financial crises. Panel B reports estimates from studies that considered the impacts of post-crisis reforms such as liquidity, total loss-absorbing capacity (TLAC), and resolution. Panel C reports estimates from studies that considered that the economic cost of capital (via impacts on lending and GDP) were high (eg, due to low or no Modigliani-Miller offsets). Panel D reports estimates from studies that estimated relatively high crises costs due to

no consideration of post-crisis reforms, or used a high estimate tailored to reflect the importance of the banking sector for a particular country (eg Norway and Sweden).

4: Priority areas for review to make the capital framework more effective, actions already taken, and next steps

4.1: The FPC's approach to identifying areas to review

> **Alongside reviewing its benchmark for capital requirements, the FPC has also considered whether the capital framework might warrant adjustment to make it more effective, efficient and proportionate in the future, and to address any unintended consequences.**

Developments over the past decade, lessons on how the capital framework operates in stress, and feedback provided by the banking industry and other stakeholders suggest there are ways in which some parts of the capital framework could be adjusted to support growth while maintaining appropriate resilience.

Therefore, the FPC has prioritised some material areas of the framework for review, notably:

- working with the PRA and international authorities to enhance further the usability of regulatory buffers, and so reduce banks' incentives to have capital in excess of regulatory requirements and buffers;
- reviewing the implementation of the leverage ratio in the UK, to ensure that it functions as intended; and

The FPC also supports initiatives by the Bank and PRA to respond to feedback on interactions, proportionality and complexity in the capital framework.

The FPC supports further work to consider how the capital requirements that are related to domestic exposures interact. Capital requirements that are related to domestic exposures include the UK CCyB, O-SII buffers, and Pillar 2A requirements for geographic credit concentration risk, which each serve different purposes in the capital framework, but are all calibrated based on measures of domestic lending. The FPC and the PRA intend to draw on several sources of information when conducting this work including on the impact of systemic failures and credit concentration, and banks' stress-test results.

Other initiatives include:

- further work to develop a systematic approach for updating the regulatory thresholds that define which different parts of the regulatory framework apply to firms, to ensure they reflect economic growth – such as through automatic indexation;

- the PRA's contribution to the Government's review of ring fencing. The Government has made clear its intention to uphold the ring-fencing regime to protect financial stability and safeguard depositors, while at the same time drive meaningful reform of the regime as part of plans to focus on growth and the release of capital for productive investment in the UK. The PRA will also review the application of the Basel 3.1 output floor at the ring-fenced sub-group level, based on evidence and experience of its implementation. It will do so after Basel 3.1 is implemented but before full weighting of the output floor in 2030; and
- reviewing feedback on the capital requirements for mortgages under internal ratings-based (IRB) models, to ensure the framework enables the appropriate channelling of finance to creditworthy households.

The FPC considers that focusing on these significant areas of the framework as priorities complements areas where changes are already taking place (Section 4.3). The FPC's focus on the areas outlined means that some other areas of feedback will not be prioritised at this time, including areas that will be reviewed in line with the **PRA's rule review approach** – such as the implementation of Basel 3.1 – or where available evidence does not suggest that further review is warranted; these areas are summarised in Annex 1.

4.2: Areas prioritised for review

Enhancing buffer usability

> **Capital buffers are intended to help maintain the provision of services to the real economy in a downturn by reducing incentives for banks to deleverage. But experience and feedback from lenders suggest that banks are reluctant to use their non-releasable buffers in practice.**

In 2015, the FPC considered that it was appropriate for around half of the system's going concern equity requirement to be in the form of buffers – reflecting their importance in absorbing losses while allowing banks to continue lending to the real economy. However, while the FPC and PRC have **communicated** their view that buffers are there to be used to absorb losses in a stress, there are nevertheless impediments to banks using them.

Evidence from the UK and other jurisdictions suggests that releasable buffers (buffers that can be reduced by regulators to zero in a stress like the CCyB) are more usable and useful for supporting credit supply in stress than those that are not releasable. While non-releasable buffers can still be used to absorb losses, banks may face restrictions on their distributions until that capital buffer is restored.[39] Impediments to buffer usability can have negative consequences, should they lead banks to prioritise maintaining capital positions rather than supplying credit during economic shocks, which can amplify the shock's impact.

> **Banks' reluctance to use non-releasable buffers also means that they maintain additional capital on top of regulatory requirements and buffers.**

The capital headroom that UK banks maintain over regulatory risk-based and leverage ratio buffer and minimum requirements tends to be sizeable, at around 2% of RWAs in CET1 in aggregate for the major UK banks, although this is lower than for euro-area peers and broadly comparable to US peers (see Section 2.2). While the PRA and FPC have no requirements – formal or informal – for capital headroom, banks maintain this additional capital for a number of reasons, which include market expectations, business models, regulatory requirements set by overseas regulators and the need to manage capital volatility. Another important motivation is the perceived lack of buffer usability. Banks cite market stigma, including investor and rating agency reactions, supervisory uncertainty, and automatic distribution restrictions (especially relating to AT1 coupon payment cancellation) as key impediments to using non-releasable buffers.[40] On that basis, enhancing the perceived usability of buffers could help reduce incentives to maintain capital headroom, and so provide a material boost to lending in normal times as well as in stress.

> **With the PRA and international authorities, the FPC will work to enhance further the usability of regulatory buffers, and so reduce banks' incentives to have capital in excess of regulatory requirements and buffers.**

The FPC and PRA have already taken a number of steps to enhance buffer usability. The FPC has cut the CCyB to zero on a number of occasions and both the FPC and PRA have emphasised that buffers are usable in a stress.[41] The reduction of the FPC's important Tier 1 benchmark to 13% should also provide banks with greater certainty and confidence to use their existing capital to support lending to the real economy.

In addition to this, the FPC will work to enhance further the usability of buffers, to provide clarity to firms. For example, that could include further exploring the ideas introduced in Sam Woods' '**Bufferati**' speech, which sets out a vision for a simpler capital framework, including moving to a single releasable buffer, and replacing thresholds and automatic distribution restrictions with a ladder of intervention tools operated with supervisory judgment.

Assessing the functioning of the leverage ratio framework

When the FPC introduced the leverage ratio as a complement to the risk-based framework in 2015, it was envisaged that risk-weighted requirements would form the binding constraint for a majority of UK banks most of the time. Over time however, falls in banks' average risk weights have meant that the leverage ratio is becoming binding or close to binding for a greater number of banks (Section 2.1).

That may be consistent with the leverage ratio acting in its intended role as a complementary measure to the risk-weighted framework, making the system more robust to potential gaps and shortcomings in risk measurement, and unanticipated events. However, it may alternatively be an unintended consequence of the way the leverage ratio is implemented in

the UK (Section 2.1). There are reasons for the way the leverage ratio is applied in the UK, including previous macroprudential decisions by the FPC, which resulted in a different approach from minimum Basel standards in (a) setting leverage ratio buffers; and (b) the composition of capital required to meet leverage ratio requirements. But international comparisons point to some potentially important areas to consider for reform (Section 2.2).

The FPC will review the implementation of the leverage ratio in the UK, to ensure that it functions as intended.

For example, the FPC will explore the extent to which the leverage ratio has become more binding as a result of underlying reductions in the riskiness of banks' exposures, and how the leverage ratio framework interacts with other policies such as ring-fencing. The Committee intends to prioritise reviewing the UK's approach to regulatory buffers in leverage ratio requirements.

Reviewing how capital requirements that apply to domestic exposures interact

The FPC supports further work to consider how capital requirements that are related to domestic exposures interact. These include the UK CCyB, O-SII buffers and credit concentration risk.

Several components of the UK capital stack – namely the CCyB, O-SII buffers and Pillar 2A capital for geographic credit concentration risk (CCoR) – are calibrated separately with reference to banks' exposure to UK lending. Conceptually, these components serve different purposes:

- The releasable UK CCyB enables banks to absorb shocks without an unwarranted restriction in credit.
- O-SII buffers ensure that systemic banks maintain a higher base level of buffer capacity than other banks due to the significant impact the failure of these banks could have on households and businesses.
- Pillar 2A capital for CCoR is required to correct for potential risk mismeasurement in banks' risk weights, which, in line with the Basel standards, assume that bank assets are well diversified geographically. As part of Pillar 2A minimum requirements, CCoR contributes to ensuring capital is sufficient to absorb losses at the point of failure and ensure an orderly resolution (Box A).

The Bank and the PRA will review the extent to which these individual elements address risks appropriately, and as part of that, assess how they interact. In making this assessment, the size of UK banks' domestic losses in stress test scenarios can be used as complementary evidence, alongside evidence on the impact of systemic failures on the broader financial system, and the impact of credit concentration on the likelihood of orderly resolution.

Automatic regulatory threshold indexation

> **The FPC also welcomes ongoing initiatives by the Bank and PRA to address feedback about the proportionality of the capital framework, including further work to develop a systematic approach for updating the regulatory thresholds that define which parts of the regulatory framework apply to firms, to ensure they reflect economic growth — such as through automatic indexation.**

The Bank and PRA are mindful that although some policy thresholds have been updated recently to account for nominal GDP growth since they were implemented, others have not, which can lead to 'prudential drag' as the economy grows – with more firms being subject to policies than may be consistent with Committees' original risk appetite. To this end, the Bank is exploring an approach for automatic indexation of regulatory thresholds, which would provide greater transparency and predictability to industry. The PRA intends to consult on a proposed approach in 2026.

Supporting the PRA's contribution to the Government's review of the ring-fencing regime

The Bank is contributing to the Government's review of the ring-fencing regime.[42] The Government has made clear its intention to uphold the ring-fencing regime to protect financial stability and safeguard depositors, while at the same time drive meaningful reform of the regime as part of plans to focus on growth and the release of capital for productive investment in the UK. The PRA will also review the application of the Basel 3.1 output floor at the ring-fenced subgroup level, based on evidence and experience of its implementation, after Basel 3.1 is implemented, but before full weighting of the output floor in 2030.

Supporting the PRA's work on risk weight modelling for mortgage lending

The FPC supports the PRA's plans to assess firms' feedback and supporting evidence to a range of possible policy changes to IRB models for mortgage lending outlined in **DP1/25**, during 2026. DP1/25 reflects the PRA's observation, and evidence heard, that medium-sized firms face barriers in developing IRB models for mortgage lending, in particular for estimating loss given default (LGD) and the probability of default (PD).[43] These barriers may limit the ability of those firms to access the IRB approach to risk weight measurement, which, in turn, may constrain effective competition and the ability of firms to scale and grow. While aimed at exploring ways to address challenges faced by medium-sized firms, some policy changes would also affect larger lenders.

4.3: Adjustments already underway

> **The proposed areas for further review add to the significant steps already being taken by the Bank and PRA to address feedback and improve the efficiency and effectiveness of the framework.**

The FPC has previously judged that the introduction of IFRS 9 should not lead to an unwarranted increase in capital requirements. In response, and following engagement with industry, the Bank made changes to the 2025 Bank Capital Stress Test relative to previous concurrent stress tests that were appropriate to make alongside the earlier provisioning under the IFRS 9 accounting standard. The FPC judges that taken together these changes are consistent with an unchanged risk tolerance for the resilience of the UK banking system and have avoided an unwarranted increase in capital requirements. They have also made the test simpler to deliver and more consistent with historical advanced economy stresses in terms of the size and timing of the shocks. The FPC has therefore decided to maintain these changes for future stress tests. To address firms' feedback on the burden and costs of stress tests, the Bank has also moved to a biennial approach to firm submission tests, and in the intervening year will use alternative tools which are less burdensome.

The forthcoming implementation of Basel 3.1 will deliver a better balanced and risk-sensitive approach to calculating regulatory capital – aiming to support the UK's growth and competitiveness, the resilience of the banking system, and alignment with global standards. The policy has been adjusted following feedback, in areas where the evidence received suggested too much conservatism in the PRA's original proposals, or where the proposals would have been too difficult or costly to implement in practice – including through adjustments to the proposed treatment for SME and infrastructure lending. Improvements in risk measurement associated with Basel 3.1 will allow for adjustments to Pillar 2A requirements, which are expected to fall by around ½ percentage point as a result.

The Bank has also taken significant steps to further advance proportionality, which is an integral part of the UK prudential framework:

- The PRA's recently published **Strong and Simple framework** is a key PRA initiative designed to deliver a more proportionate and simplified prudential framework for small, domestically focused deposit takers (SDDTs) in the UK, while maintaining their resilience. It includes simplifications to all elements of the capital stack, including Pillar 1, Pillar 2A, buffers, the calculation of regulatory capital and reporting, as well as simplifications to liquidity and disclosure requirements. The PRA considers that the framework will materially reduce costs for SDDTs and enhance competition in the UK banking sector.
- The Bank and PRA have recently updated the thresholds that apply to its resolution regime, O-SII capital buffers, and the application of leverage ratio requirements, to adjust

for nominal growth in the economy since they were implemented and thereby keep requirements proportionate.[44]

- The PRA has also recently published a near-final policy (**PS19/25**) on securitisation capital requirements for banks that would make securitisation an economically viable mechanism of risk transfer for a wider range of banks. It also plans to consult, together with the FCA, on further changes to securitisation general requirements to make that regime more proportionate.

To provide greater certainty to firms to aid their capital planning strategies – and recognising that it will take time for the above measures to become fully established – the FPC and PRA are not planning to prioritise the further review of IFRS 9, stress testing, Basel 3.1 and Strong and Simple in the near term. In line with the **PRA's Rule Review approach**, the PRA will keep the impact of Basel 3.1 and Strong and Simple under review once implemented.

4.4: Next steps

The FPC and PRA would welcome feedback and evidence on the issues set out in this FSiF from a broad range of stakeholders, including UK lenders, think-tanks, industry groups, investors, and academics. The FPC and PRA are particularly interested in receiving evidence on the areas identified for further assessment in Section 4.

In early 2026 the Bank intends to organise structured evidence gathering sessions on the topics listed. It is also open to written feedback on the FSIF, which can be submitted up until 02 April 2026 via ✉ **FPCBankCapitalReview@bankofengland.co.uk**.

The FPC will update on the evidence gathered and its next steps in the next Financial Stability Report.

Annex 1: Summary of industry feedback on the operation of the capital framework and how the Bank is responding

Area of industry feedback	Outcome of the review
1 **Overall capital requirements:** UK lenders consider that the FPC's capital benchmark is overly conservative, including because risks in the banking sector have decreased following the implementation of post-GFC reforms.	The FPC has revisited its assessment of the appropriate capital benchmark for the banking system. This weighs the macroeconomic costs of capital, which stem from the impact of higher capital pushing up on borrowing costs, against the benefits of capital, which come about because higher bank capital reduces the likelihood and costs of financial crises. The Committee has taken into account the experience of the 10 years since it first made its assessment. The Committee judges that the updated benchmark for the level of Tier 1 capital requirements is now around 13% of RWAs (equivalent to a CET1 ratio of around 11%).
Areas prioritised for review	
2 **Capital buffer usability**: UK lenders have raised concerns about frictions (including MDA restrictions) that reduce their incentives to use non-releasable capital buffers, and the lack of releasability of capital buffers other than the CCyB.	Capital buffers play an important role in helping maintain the provision of services to the real economy in a downturn by reducing incentives for banks to restrict credit supply abruptly and excessively. However, experience and a range of research suggests that banks are reluctant to use their capital buffers in practice, which could deepen a financial crisis and losses to banks and the economy. Furthermore, the desire to avoid using regulatory capital buffers contributes to banks' incentives to maintain capital headroom over regulatory requirements and buffers. Therefore, with the PRA and international authorities, the FPC will explore further ways to facilitate the use of buffers. The aim of that work will be to meaningfully reduce incentives for banks to (a) deleverage in stress; and (b) maintain capital in excess of regulatory requirements and buffers in normal times.

	Area of industry feedback	Outcome of the review
3	**Leverage ratio**: UK lenders consider the UK framework to be overly conservative, including because it deviates from minimum Basel standards and implementation in some other jurisdictions. Firms also consider that the interaction with the ring-fencing regime makes the framework overly strict.	The falls in banks' average risk weights have meant that the leverage ratio is becoming binding or close to binding for a greater number of banks. As a result, the FPC will review how the leverage ratio has been implemented in the UK, how it is operating in practice, how it is interacting with other policies such as ring-fencing, and whether this matches the original intention of the framework. For example, the FPC will explore the extent to which the leverage ratio has become more binding as a result of underlying reductions in the riskiness of banks' exposures. While there are reasons for the differences in application of the leverage ratio in the UK and some other countries, including previous macroprudential decisions by the FPC to apply buffers alongside Basel minimum standards, international comparisons point to some potentially important areas to consider for reform. The Committee intends to prioritise reviewing the UK's approach to regulatory buffers in leverage ratio requirements.
4	**Interactions between capital requirements that apply to domestic exposures:** the amount of capital banks are required to have in respect of the UK CCyB rate, O-SII buffers, and Pillar 2A requirements associated with geographic credit concentration risk (CCoR) are all closely related to the size of their UK lending. Banks perceive that these requirements penalise domestic activity.	Several components of the UK capital stack – namely the UK CCyB, O-SII buffers and Pillar 2A capital for geographic CCoR – are calibrated separately with reference to banks' exposure to UK lending. Conceptually, these components serve different purposes. The FPC supports work by the Bank to consider how these different capital requirements interact, while continuing to ensure the resilience of the system as a whole.
5	**Regulatory thresholds**: lenders have provided feedback on how regulatory thresholds are set, including that since the majority of regulatory thresholds do not have built-in review dates, this could lead to PRA/Bank policies becoming more risk averse than originally intended.	The Bank is exploring an approach for more systemic updating of regulatory thresholds, such as through automatic indexation, to provide greater transparency and predictability to lenders. The PRA intends to consult on its proposed approach in 2026. The FPC welcomes ongoing initiatives by the Bank and PRA to address feedback from firms about the effectiveness and efficiency of the capital framework, including the work on automatic threshold indexation.

Area of industry feedback	Outcome of the review
6 **Internal models for mortgage risk-weight measurement**: Firms have raised concerns that IRB requirements are particularly difficult to meet for smaller and newer lenders. They note that difficulty for mid-tier lenders in getting approvals to use IRB modelling puts them at a disadvantage relative to larger lenders. In addition, firms argue that the expectation that they should use historic time series dating back to the 1990s in measuring long-run average mortgage default rates is too conservative and not representative of the riskiness of their current lending books.	The PRA has observed, and heard evidence, that medium-sized firms face barriers in developing IRB models[45] for LGD and PD estimation, and that these barriers may limit the ability of those firms to access the IRB approach. In turn, this may constrain effective competition and the ability of firms to scale and grow. Therefore, in **DP1/25**, the PRA sought feedback and supporting evidence on a range of possible policy changes to the treatment of residential mortgage exposures under the IRB approach to credit risk. While aimed at exploring ways to address challenges faced by medium-sized firms, some policy changes would also affect larger lenders. The feedback period ended on 31 October 2025. During 2026, the PRA will assess firms' feedback on the possible policy options outlined in the discussion paper. The PRA considers the early 1990s to be representative of 'bad' economic conditions for risk weight modelling. The PRA considers that this period is suitable because arrears and repossessions increased materially; interest rates increased; and the nature and extent of government intervention was different than in the GFC.
Areas that the Bank is already addressing	

Area of industry feedback	Outcome of the review
7 **Proportionality for smaller banks**: smaller UK lenders have raised concerns about the proportionality of the UK's capital requirements, and how they compare to regimes aimed at smaller banks in other jurisdictions. Some are concerned that Basel 3.1 will increase capital requirements for some smaller firms.	Proportionality is an integral feature of the UK prudential framework. The PRA's recently published **Strong and Simple framework** is a key PRA initiative designed to deliver a more proportionate and simplified prudential framework for small, domestically focused deposit takers (SDDTs) in the UK, while maintaining their resilience. The approach to simplifications – targeted simplifications of existing requirements rather than imposing a small number of conservatively calibrated requirements (like some jurisdictions have introduced) – has been supported by the industry. The framework includes a simplified capital regime, which could help to foster growth, innovation and competition. A key benefit of the regime is that it will make capital requirements and buffers more predictable for SDDTs, which should help these firms plan and allow them to maintain lower management buffers. The near-final policy has been welcomed by the industry. The Bank does not intend to make further changes to the simplified capital regime for SDDTs before it is finalised in early 2026 and implemented on 1 January 2027.

	Area of industry feedback	Outcome of the review
8	**IFRS 9:** The introduction of IFRS 9 accounting standards brought forward the recognition of impairments in a stress. The interaction between stress tests and the adoption of IFRS 9 accounting standards had the potential to lead to an increase in capital requirements in normal times. In a real stress, banks are also concerned about the potential for an overlap between provisions made for expected credit losses under IFRS 9 and regulatory capital.	The earlier recognition of losses under IFRS 9 enhances transparency and market confidence in measures of banks' capital positions, including in a downturn, thereby supporting financial stability and the safety and soundness of individual banks. IFRS 9 reduces the risk of banks being under-provisioned for losses that occur later in a stress. This year the Bank has introduced a number of changes to its stress-testing framework relative to previous concurrent stress tests, to ensure that the resilience that comes with earlier recognition of losses under IFRS 9 is recognised. These changes make the stress test simpler to deliver and avoid an unwarranted increase in capital requirements. They are set out in more detail in the **December 2025 Financial Stability Report**. The Bank has considered proposals to adjust minimum capital requirements or to add a permanent change in CET1 capital to offset the impact of IFRS 9. However, to varying degrees these different options would be complex to implement, inconsistent with the intended purposes of IFRS 9, or inconsistent with Basel capital standards.
9	**Bank stress-test burden:** Firms have raised concerns about the value of annual stress tests relative to costs. In particular, they consider data burdens too large and that the stress-test timeline is too long. They also note that published results and scenario disclosures are useful but that additional detail would be helpful.	To address firms' feedback on the burden and costs of stress tests, as set out in the **Bank of England's approach to stress testing the UK banking system** published in 2024, the Bank has moved to a biennial approach for its main Bank Capital Stress Test, and in the intervening years will use alternative inputs, which are less burdensome, to assess the resilience of the banking system to risks related to the financial cycle.
10	**Securitisation**: in the industry's view, it is important that the PRA increases the attractiveness of securitisation, particularly significant risk transfers, to expand UK balance sheet capacity for lending.	The PRA has recently published its near-final policy on securitisation capital requirements for banks that would make securitisation an economically viable mechanism of risk transfer for a wider range of banks (**PS19/25**). The PRA, together with the FCA, plans to consult on further changes to securitisation general requirements to make that regime more proportionate.
	Areas proposed not to be prioritised as part of this review	

Area of industry feedback	Outcome of the review
11 **Amendments to features of the Basel 3.1 framework:** UK lenders consider that the PRA should fully offset the CET1 impact of removing the SME support factor under Basel 3.1 (or retain it); that the application of the output floor at the ring-fenced bank (RFB) level is too strict; and that the PRA should reconsider the calibration of UK mortgage risk weights under the standardised approach, so that the output floor does not inappropriately increase modelled capital requirements.	The PRA is prioritising the implementation of the Basel 3.1 framework on 1 January 2027 in order to avoid delays that would increase uncertainty and costs to firms. In line with its approach to rule review,[46] the PRA will assess aspects of Basel 3.1 based on evidence and experience of its implementation. This includes reviewing the application of the output floor at the RFB level before 2030.[47] The PRA will introduce more risk-sensitive standardised approach risk weights for residential real estate exposures, based on loan to value (LTV), as part of Basel 3.1 implementation. Risk weights under this proposal will better reflect risk, as lower LTV exposures would be assigned a risk weight that is relatively lower than exposures with higher LTVs. The SME lending adjustment delivers the PRA's commitment to ensure that the removal of the support factor does not result in upward pressure on overall capital requirements. When comparing the impact on capital requirements and pricing with current arrangements, it is important to consider the broader changes being introduced under Basel 3.1 as a whole. Once these changes are accounted for, following the implementation of Basel 3.1 (using available data and making certain reasonable assumptions), total capital requirements are expected to be slightly lower, and CET1 requirements to be approximately the same for SME lending at an aggregate level across firms.
12 **Capital deductions for software assets**: firms have argued that software assets should not be subject to capital deduction, and that the UK is out of line with the US and the EU in its treatment of software assets.	When the PRA made the decision to maintain the requirement for full capital deduction of software assets, it drew on evidence – including from firms – that the realisable or recoverable value of software assets could not absorb losses effectively in liquidation or in stress.[48] It has not received evidence that leads it to change that assessment.

Area of industry feedback	Outcome of the review
13 **Bank stress-test conservatism**: major UK lenders consider that UK stress testing is overly conservative. They have argued that the Bank's approach to stress testing is more conservative than in other jurisdictions (eg due to lending constraints within the exercise), and that this could be re-examined without departing from international norms.	Post-GFC regulatory reforms, including regular stress testing of the banking system, are intended to help ensure that banks can absorb stresses – rather than create or amplify them, as they did during the GFC. This includes by meeting demand for credit from creditworthy borrowers in stress. The economy remains subject to a wide range of potential shocks – including from elevated risks in the global environment against a backdrop of significant structural change. As such the FPC considers it appropriate to continue using its approach to calibrating Bank Capital Stress Test scenarios. That involves using the 1st percentile of the historical distribution as a starting point, benchmarking relative to the GFC, and adding countercyclical judgements based on risk assessments. Recent US Federal Reserve and European Banking Authority stress tests have featured scenarios of comparable severity. While the approach to setting lending constraints is not common across all jurisdictions, other jurisdictions feature static balance sheets which do not allow for deleveraging. Separately, in contrast to other jurisdictions, the Bank allows for the use of management actions to reduce the impact of a stress.
14 **The PRA's solo capital regime**: lenders consider that the PRA's solo capital regime, which requires individual authorised legal entities (ie banks, building societies and designated investment firms) to meet capital requirements at the level of that legal entity, creates inefficiencies in capital allocation. Relatedly, lenders also fed back that deductions for overseas investment are overly conservative.	The UK solo capital regime ensures adequate allocation of capital to UK entities for resolution. It is also a core design choice of the PRA's supervisory approach to banking supervision, namely that capital should be held close to risks to ensure that those entities are capable of absorbing losses or meeting liabilities as they fall due.[49] Capital deduction of investments in subsidiaries (domestic and foreign) is an integral part of the PRA's solo capital approach.

Area of industry feedback	Outcome of the review
15 **Neutral rate CCyB calibration**: lenders have argued that setting the neutral rate for the UK CCyB at 2% makes the UK uncompetitive and that this rate is higher than in other jurisdictions.	The UK CCyB level should not be considered in isolation but as the releasable element of the capital stack. For a given level of total capital, there are benefits in having a larger proportion of it being usable. In 2019, the FPC increased the neutral rate that it expected to set for the UK CCyB from in the region of 1% to in the region of 2%. The FPC judged that starting from a higher neutral rate for the UK CCyB would help provide it time to observe evidence of building financial vulnerabilities and respond in a way that did not require banks to raise capital quickly, which could cause them to cut lending abruptly and so risk creating a downturn in the economy. Reflecting the additional resilience associated with higher macroprudential buffers, in 2020 the PRA reduced Pillar 2A minimum capital requirements in a way that kept total regulatory loss-absorbing capacity, defined as MREL plus buffers, broadly unchanged following the increase in the neutral rate for the UK CCyB. An increasing number of jurisdictions internationally have chosen to introduce a positive CCyB when risks are judged to be neither subdued nor elevated, including at 2% of RWAs (**BIS (2024)**). That said, the FPC supports further work by the Bank to consider the interaction of capital requirements that apply to the same domestic exposures but are intended for different purposes and are calibrated separately. These include the UK CCyB, O-SII buffers and Pillar 2A requirements for geographic credit concentration risk.

Annex 2: Components of the capital framework

Capital is a part of banks' funding that can absorb losses. The holders of bank capital are first to bear the costs when a bank's assets decline in value. This provides protection from losses to holders of some other types of liabilities, such as deposits.

Banks need capacity to absorb losses so that they are resilient to the wide range of risks they could face and so that they can absorb rather than amplify shocks. To help ensure banks have sufficient loss-absorbing capacity, authorities in the United Kingdom and globally have established robust standards for bank capital and other forms of loss-absorbing capacity, including to address lessons learned during the GFC.

Different components of the bank capital framework (or 'capital stack') can be met with different qualities of regulatory capital instruments:

- CET1 capital is the highest quality form of regulatory capital. It mainly consists of ordinary shares issued by banks and retained earnings.
- Additional Tier 1 (AT1) capital consists of capital instruments that are convertible into CET1 instruments, or where the principal can be written down when the CET1 ratio falls below a pre-determined trigger point.
- Tier 2 capital (eg subordinated loans) is the lowest quality capital instrument, and can be used to meet a specified share of banks' minimum risk-based capital requirements.

The capital framework for banks includes risk-weighted and non-risk weighted (ie leverage) measures.

Under the risk-weighted framework, assets are assigned a 'risk weight' according to how risky they are, with rules for calculating risk-weights for UK banks determined by the PRA based on international standards.[50] These weights are then applied to a bank's assets, resulting in risk-weighted assets (RWAs). This allows banks, investors and regulators to monitor a risk-weighted capital ratio, which is a bank's capital as a share of its RWAs.

If banks were only subject to risk-based requirements, they would be free to run a highly leveraged balance sheet. In other words, they could have very little capital relative to a large balance sheet, if they held assets that were mainly judged to be low risk. The potential danger in such a situation would be if the low risk-weights on their assets turned out to be mismeasured, or were to inflate in stress (because some risk weights can be procyclical, for example). These dynamics could leave banks undercapitalised in a stress, causing them to deleverage rapidly (eg through fire sales) or default.

Recognising that risk measurement is imperfect, the risk-weighted framework is complemented by a leverage ratio framework, which is risk-insensitive and holds firms to a relatively simple indicator of solvency (dividing their capital resources by the value of their exposures, without adjusting for risk). This can protect banks against scenarios which are thought to be 'low risk' or are unforeseen altogether until they occur.

Risk-based capital requirements

Risk-based capital requirements comprise buffers and minimum capital requirements, as shown in Figure A2.A. These two components have different purposes:

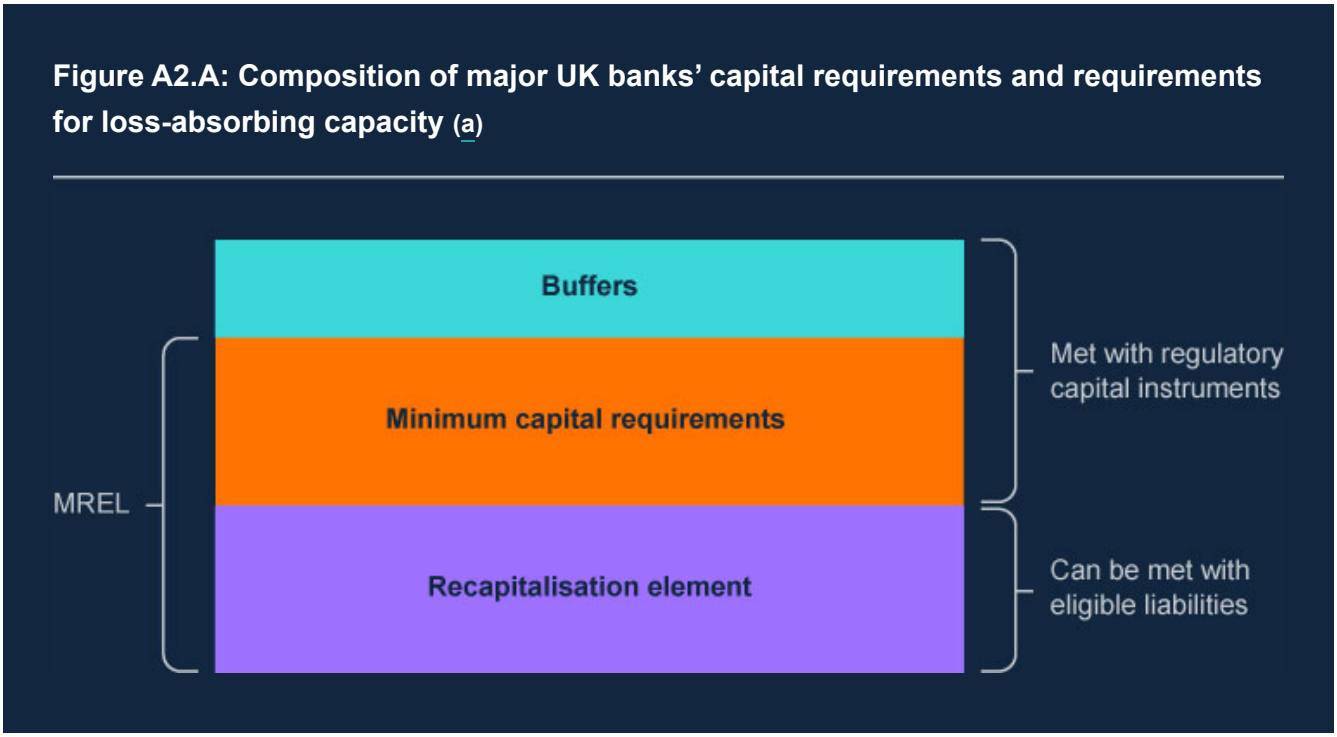
- **Buffers** aim to ensure that banks have sufficient capacity to absorb losses while remaining a going concern and continuing to lend to the economy, even in times of stress. This helps avoid a situation in which bank losses prompt them to cut lending and make a downturn deeper, which could in turn further amplify stress in the banking system. The Bank's regular stress tests can inform an assessment of whether major UK banks have big enough capital buffers to absorb the losses they could incur in a severe but plausible stress. Because buffers can be used to absorb losses while a bank continues to operate, they must be met with the highest-quality, most readily loss-absorbing capital, CET1.
- **Minimum capital requirements** aim to ensure that banks can continue to operate, even after a stress, with an adequate layer of capital to protect depositors, maintain the confidence of markets, and enable an orderly failure (if necessary) without losses to the taxpayer. When a bank does not have sufficient loss-absorbing capacity to meet its minimum capital requirements, the PRA may judge it to have breached its 'Threshold Conditions'.[51] In that event, minimum capital requirements can provide the capacity to absorb losses during the resolution of a bank that is failing (or likely to fail). The benefits of appropriate minimum capital requirements were illustrated by the March 2023 episode, which saw the orderly failure of some overseas banks, and the UK incorporated subsidiary of a US bank (Silicon Valley Bank UK). Minimum capital requirements can be met with a mix of different types of regulatory capital instruments, as described in more detail below.

Banks must also meet minimum requirements for loss-absorbing capacity. These comprise banks' minimum capital requirements, plus any recapitalisation element if applicable. The sum of minimum capital requirements and any recapitalisation element is collectively referred to as 'MREL' (minimum requirements for own funds and eligible liabilities), as shown in Figure A2.A.

- The **recapitalisation component** of MREL, if applicable, is intended to be used to recapitalise a bank that is failing (or likely to fail) and is in scope of the Bank of England's statutory resolution powers.[52] The use of these powers seeks to ensure the continuity of the failing bank's critical functions and banking services, protect public funds and covered depositors, and minimise disruption to the wider economy that would otherwise occur if a

UK bank were to fail in a disorderly way. Once buffers and minimum capital requirements have absorbed losses, the recapitalisation component of MREL can be used to recapitalise a bank to meet its minimum capital requirements and Threshold Conditions after resolution. This recapitalisation component of MREL can be met with regulatory capital instruments and/or eligible liabilities that qualify for MREL.[53]

Figure A2.A: Composition of major UK banks' capital requirements and requirements for loss-absorbing capacity (a)

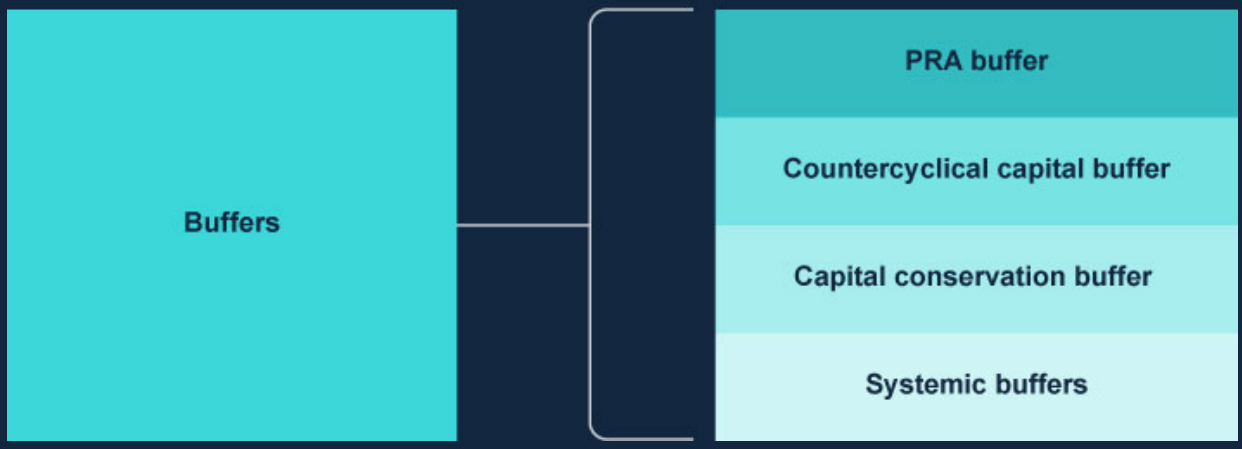


(a) For major UK banks, MREL requirements are generally set at two times minimum capital requirements. More detail is provided in **Statement of policy: The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)**.

Capital buffers

Banks' capital buffers are made up of specific components, some of which vary across banks and through time (Figure A2.B).

Figure A2.B: The composition of buffers in the capital framework



These buffers include:

- **Systemic buffers,** which are set for banks judged to be systemically important for either the global or domestic economy (ie for banks designated as globally systemically important banks (G-SIBs) or for certain other systemically important institutions (O-SIIs), respectively). By having bigger buffers, these banks are held to higher standards, because their distress or failure would cause more damage to the economy. They are also consequently more able to absorb the impact of stresses.
- The **capital conservation buffer (CCoB),** which applies to all banks. This is set as 2.5% of RWAs and establishes a base level of capacity across the system to absorb losses while continuing to provide services to the real economy.
- The **countercyclical capital buffer (CCyB),** which is used to help ensure capital levels respond to the risk environment. The FPC sets the CCyB rate that applies to UK exposures, and foreign authorities set the rates that apply to foreign exposures. See Box B for further details.
- The **PRA buffer,** which is a microprudential buffer, set for each bank, reflecting its idiosyncratic risks. This buffer is set by the PRA, and contrary to other buffers, it is (i) not publicly disclosed and (ii) not subject to maximum distributable amount (MDA) restrictions. Its size is set by the PRA based on several factors, including individual banks' stress-test results, the quality of risk management and governance, as well as supervisory judgement.

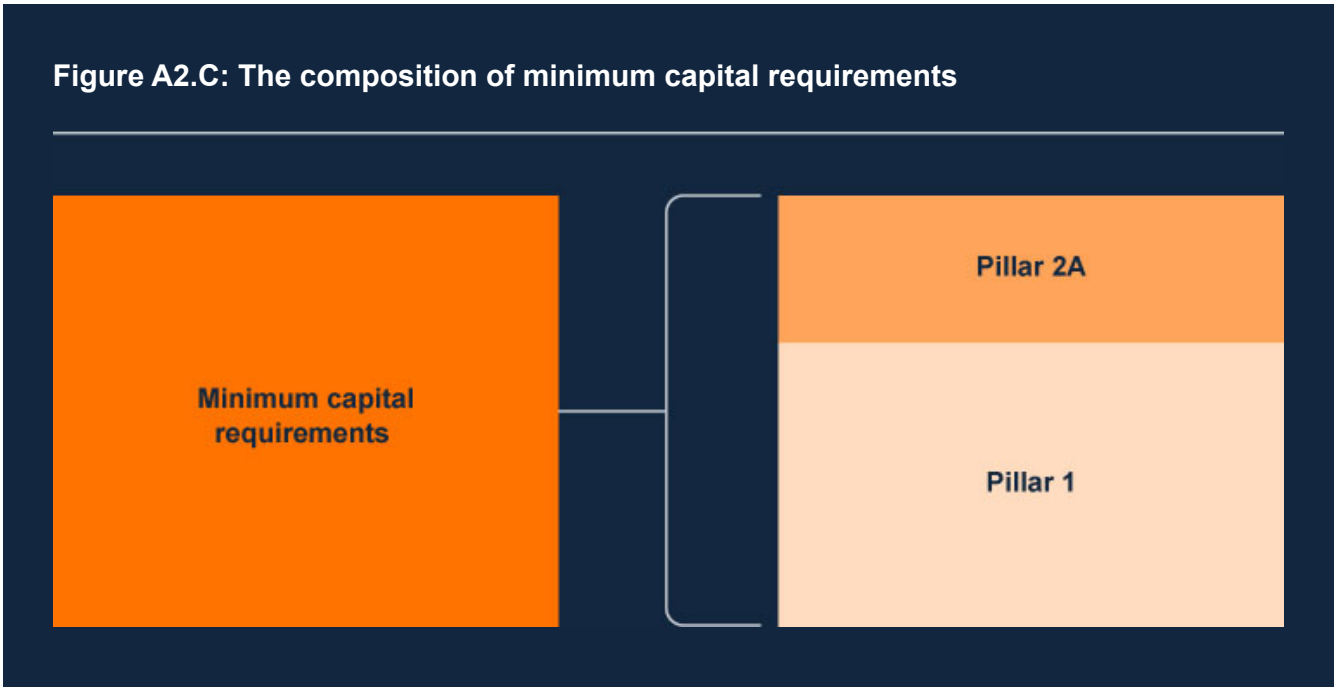
All regulatory buffers are 'usable', meaning that banks are permitted to operate normally if their capital ratios are above minimum requirements but below regulatory buffers. However, banks that draw down their CCyB, CCoB or systemic buffers are subject to maximum

distributable amount (MDA) restrictions on the proportion of earnings that can be distributed through dividends, share buy-backs, bonuses and AT1 coupons. MDAs are intended to help firms that breach buffers to rebuild them over time. The CCyB is both usable and 'releasable,' meaning that FPC can choose to reduce it – including to zero – in turn reducing banks' regulatory capital requirements.

Minimum requirements

Banks' minimum capital requirements are made up of two components (Figure A2.C):

Figure A2.C: The composition of minimum capital requirements



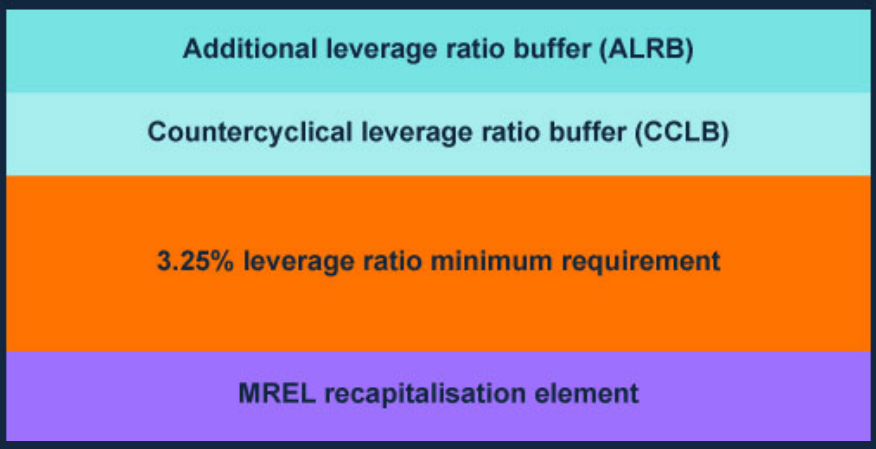
- **Pillar 1** requirements are set at 8% of RWAs for all firms, in line with international standards. Within that, at least 6 percentage points must be met with Tier 1 capital (so at most 2 percentage points of Pillar 1 requirements can be met with Tier 2 capital instruments). In turn, at least three quarters of the Tier 1 capital used to meet Pillar 1 requirements (ie at least 4.5% of RWAs) must be CET1.
- **Pillar 2A** requirements vary across banks. In line with international standards, these are set to capitalise risks that are either not measured (for example, pension risk or interest rate risk in the banking book) or only partially measured (for example, credit risk) by Pillar 1 risk weights (See Box A). These additional minimum requirements are set periodically for UK banks by the PRA and must be met with the same minimum proportions for quality of capital as Pillar 1 requirements.

The leverage ratio framework

The leverage ratio framework mirrors key elements of the risk-weighted framework and comprises minimum capital requirements and any recapitalisation component of MREL, with leverage ratio buffers sitting on top (Figure A2.D):

- The FPC currently sets the leverage ratio minimum requirement **at 3.25% excluding central bank reserves**. When the leverage ratio framework was initially implemented, the requirement was set at 3% of relevant assets including central bank reserves, informed by (among other factors) empirical evidence on the size of historical losses incurred by major UK and international banks during the GFC. This showed that a 3% leverage ratio requirement would have absorbed the average peak losses experienced by the major banks between 2007 and 2013, although it would not have been sufficient to absorb losses in around a quarter of banks. As a result, the FPC judged in 2014 that the minimum leverage requirement could be set at this level, provided that other leverage ratio buffers were also in place to ensure additional loss absorbing capacity.[54] In 2016, the FPC decided to exclude central bank reserves from the UK leverage exposure measure, to avoid the leverage ratio framework from impeding the transmission of monetary policy; in 2017, the Committee therefore recalibrated the leverage ratio minimum requirement to 3.25%, to ensure that the amount of capital needed to meet the UK leverage ratio requirement would not decline.
- UK firms subject to the leverage ratio requirement must also meet an **additional leverage ratio buffer (ALRB)** that is linked to banks' systemic importance, and a **countercyclical leverage buffer (CCLB)**. The ALRB and CCLB are set equal to 35% of the firm-specific risk-based systemic buffer rate (G-SIB or O-SII) and CCyB rate, respectively. This 'exchange rate' of 35% mirrors the relationship between the original leverage ratio minimum requirement of 3% and Tier 1 risk-weighted requirements of 8.5%[55] and aims to ensure that the ALRB and CCLB maintain a proportionate relationship between leverage ratio requirements and risk-weighted requirements for systemic and non-systemic firms, and through the cycle.

Figure A2.D: The composition of leverage ratio requirements



Given the desire to keep the leverage ratio framework relatively simple, not all elements of the risk-weighted framework are mirrored in the leverage ratio framework.

In implementing the leverage ratio in 2014, the FPC decided to mirror the countercyclical and systemic buffer components of the risk-weighted framework. The CCLB means that the Committee's ability to release capital in a downturn is not impeded by the leverage ratio becoming relatively more binding when the risk-weighted CCyB is released during times of system-wide stress. The UK application of the ALRB to large domestically focused firms reflects their material importance to the UK real economy – they account for over 50% of bank lending to UK households and businesses.

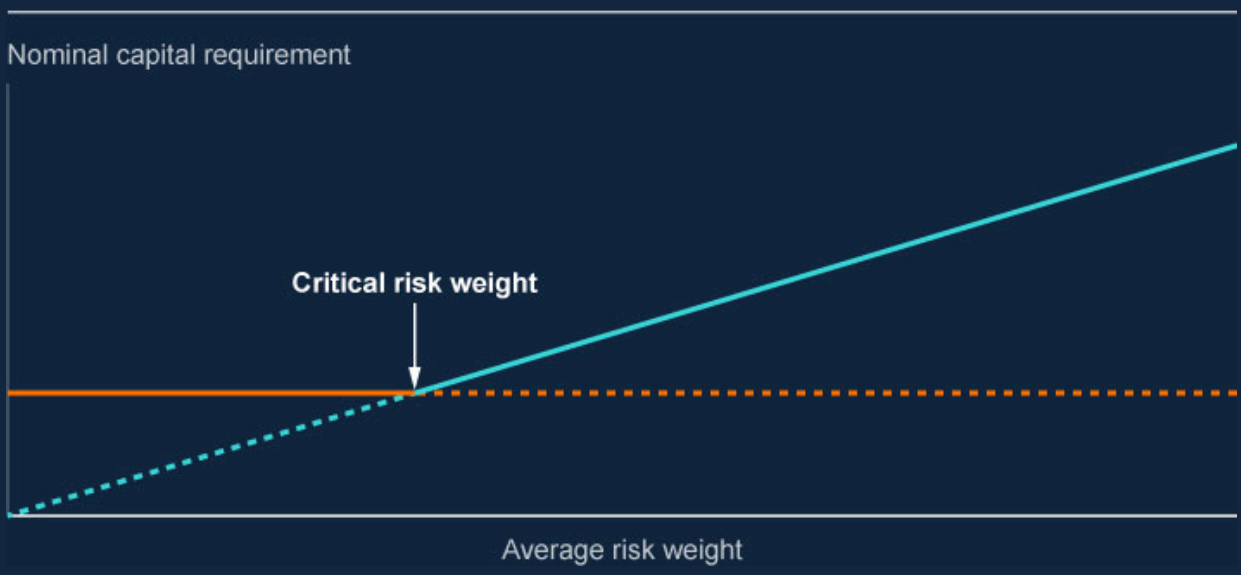
At the same time, the FPC decided not to impose a separate leverage ratio capital conservation buffer and accounted for this in its calibration of the leverage ratio minimum requirement. The leverage ratio framework also does not have an equivalent to Pillar 2 risk-weighted requirements, as components of this relate to risk weight measurement which should not increase the leverage requirement, or would otherwise add too much additional complexity to justify inclusion in the leverage ratio framework.

The UK leverage ratio mirrors the risk-weighted framework in its capital quality. As for risk-weighted requirements, leverage ratio buffers need to be met with CET1 capital. Minimum leverage ratio requirements are to be met with Tier 1 capital, CET1 constituting at least 75% of this.

There is an average risk weight at which risk-weighted and leverage ratio constraints are equally binding (Figure A2.E). If a firm's average risk weight falls below this risk weight, the leverage ratio becomes the firm's binding capital requirement – that is, its capital

requirements become determined by the leverage ratio framework. This is a core feature of the leverage ratio as designed by the FPC.

Figure A2.E: Stylised capital requirements implied by the leverage ratio and the risk-weighted ratio (a) (b)



Source: Bank calculations.

(a) The risk-weighted capital requirement increases linearly (aqua line). The leverage ratio capital requirement stays constant (orange line). The critical risk weight is the average risk weight for which both ratios imply the same amount of capital.
(b) Average risk weights are defined as RWAs/total assets.

Annex 3: Further detail on adjustments made for the purposes of comparing capital requirements across jurisdictions

This annex provides further information about how the international comparisons of capital requirements shown in Section 2.2 are constructed.

Adjustments to risk-weighted capital ratios are made to reflect differences in how risks are captured across different jurisdictions.

In comparing requirements across jurisdictions, it is necessary to take into account different approaches to capturing risks within firms' RWAs and their capital ratio requirements. In particular, it is important to consider how national regulators ensure that banks have adequate capital to support all the risks in their business, given that the Basel approach to calculating RWAs does not claim to capture fully all material sources of risks. On this front, the US takes a different approach to the UK and the EU. The UK captures missing or underestimated risks via a capital add-on in Pillar 2A, and the EU assesses risks to be captured in Pillar 2R, which is also a capital add-on. In contrast, the US tends to apply higher risk weights in Pillar 1 RWA calculations – largely through the application of the 'Collins floor', which effectively floors RWAs at 100% of the US standardised approach, as explained in Section 2.2. **As a result, the same nominal capital requirement, for similar underlying risks, would be represented by a higher capital ratio in the UK or EU, whereas the US would capture it in higher RWAs. That is because capitalising for those risks as a Pillar 2 add-on increases the ratio requirement (ie the height of the capital stack), whereas the US approach increases the denominator (ie total RWAs).**

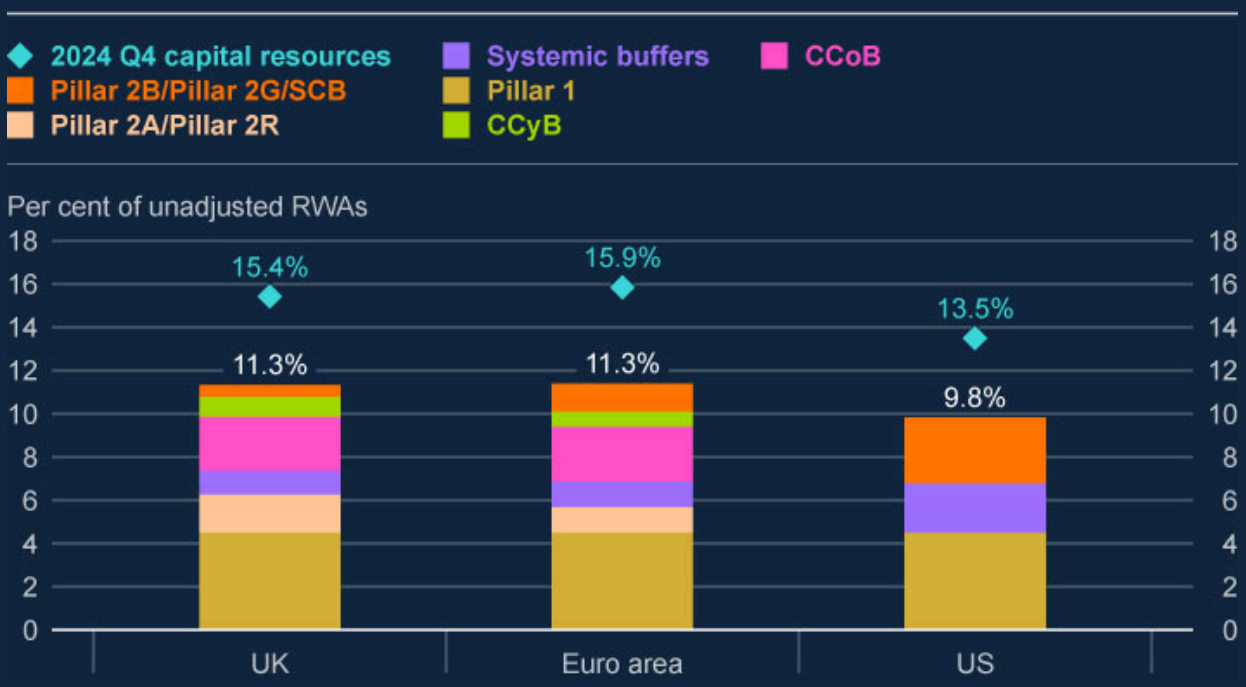
In this FSiF, this difference in approach is adjusted for by converting some of UK Pillar 2A and euro-area Pillar 2R requirements into RWAs, which improves comparability with the US.

Importantly, the adjustment maintains the same nominal capital requirement (and actual capital), with the RWA denominator increased. The adjustment is only made for relevant risks for the UK – for example only UK Pillar 2A add-ons for risks typically captured in Pillar 1 (credit, operational and market risks) are converted. Risks separately captured in Pillar 2A that are not captured in Pillar 1 RWAs (eg IRRBB or pension risks) are not converted, as these reflect a genuine difference in approach compared to the US. For the euro area, Pillar 2R cannot be disaggregated between risks mostly captured in Pillar 1 and other risks not captured at all in Pillar 1. Given that, to aid comparison with the US, all of euro-area Pillar 2R

is translated into RWAs. This is a limitation of this method of comparison and so it is important also to compare the UK and euro area on an unadjusted basis. Either way, **UK and euro-area requirements for large banks are broadly in line** (Chart A3.A).

Chart A3.A: On an unadjusted basis, UK and euro-area capital requirements for large banks are broadly in line

Comparison of unadjusted CET1 risk weighted requirements and capital resources for large banks across the UK, euro area and US (a)



Sources: Published banks' results, European Central Bank and Federal Reserve Board publications, PRA regulatory returns, and Bank calculations.

(a) Chart shows risk-based requirements and CET1 capital resources as a percentage of RWAs, on a weighted average basis, as of December 2024. Requirements are as applied at the start of 2025, while US stress capital buffer (SCB) requirements reflect those effective from October 2025.

As outlined in Section 2.2, large UK banks other than G-SIBs (UK O-SIIs) face lower requirements than euro-area peers. However, on an unadjusted basis, **large UK domestically focused banks** (a subset of UK O-SIIs) face somewhat higher requirements on average (Chart A3.B). This can be explained by a range of factors:

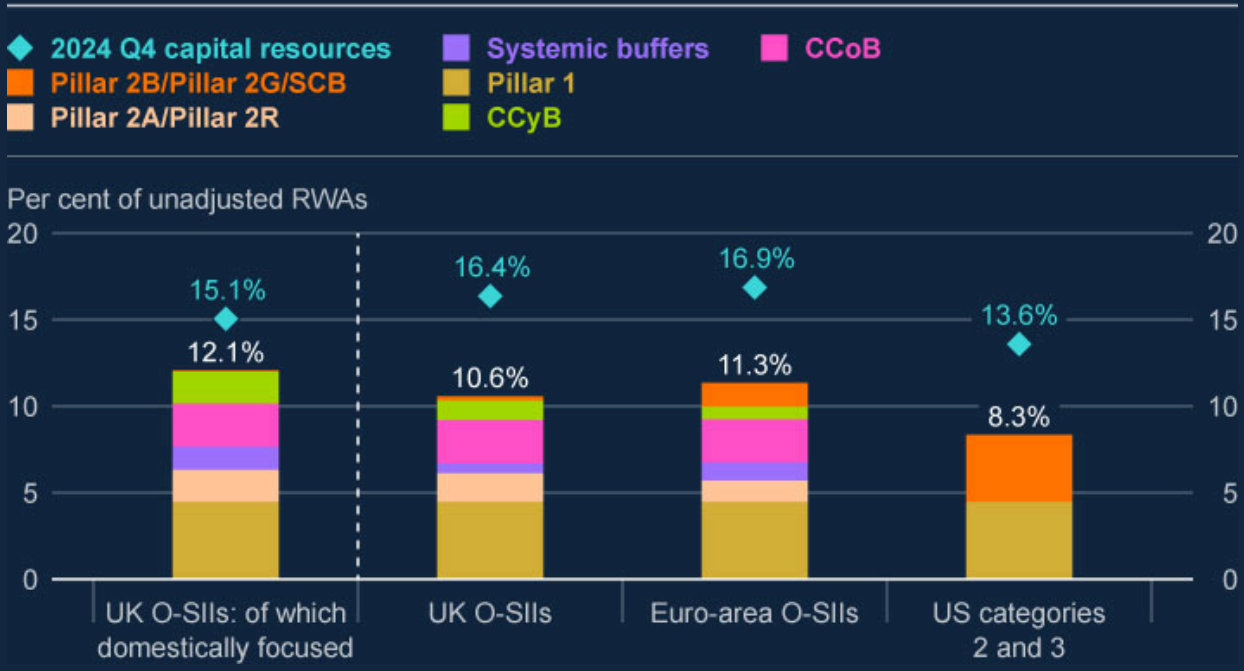
- **Pillar 2A** is higher than Pillar 2R, though this gap is expected to narrow following the implementation of Basel 3.1. Given Pillar 2A captures specific shortcomings in risk measurement, whereas Basel 3.1 will improve risk measurement and better capture certain

risks in banks' RWAs (eg operational risk), the PRA will reduce Pillar 2A requirements to remove any double-counting.[56]

- **Systemic buffers** are somewhat higher in the UK, which may reflect the larger systemic importance of large UK domestically focused firms, since the UK banking sector is particularly concentrated.
- The **CCyB** is higher for UK banks. However, it is important to bear in mind that the FPC and PRA coordinate to avoid an overlap between the CCyB and the **PRA Buffer**. Taking these components together shows that, in aggregate, they are much more similar to the equivalent euro-area requirements (CCyB and Pillar 2G).
- While requirements are somewhat higher for this cohort of firms, ratios of actual **capital resources** for large domestically focused UK banks are significantly lower than those for large euro-area banks (Chart A3.B).

Chart A3.B: Large UK banks other than G-SIBs face lower risk-based requirements than euro-area peers on average, although domestically focused UK banks' requirements are higher than other UK O-SIIs

Comparison of unadjusted CET1 risk weighted requirements and capital resources for large banks (excluding G-SIBs) across the UK, euro area and US (a)



Sources: Published banks' results, European Central Bank and Federal Reserve Board publications, PRA regulatory returns, and Bank calculations.

(a) Chart shows risk-based requirements and CET1 capital resources as a percentage of RWAs, on a weighted average basis, as of December 2024. Requirements are as applied at the start of 2025, while US stress capital buffer (SCB) requirements reflect those effective from October 2025.

There are other national features of capital frameworks that make like-for-like comparisons difficult. Banks across jurisdictions differ, including because they respond to incentives provided by local regulations to structure in certain ways, but also due to underlying differences in local markets themselves – this becomes more pronounced when comparing domestically systemically important firms.

Differences in the underlying riskiness of banks' assets have not been adjusted for in the analysis presented. Business models of banks may vary across jurisdictions, influencing the composition of their balance sheets, with different types of assets attracting different risk weights. It is notable that even after adding Pillar 2A for the UK, and Pillar 2R for the euro area into RWAs, average risk weights by jurisdiction continue to differ and UK banks continue to have the lowest risk weights.

Additional elements of the capital framework not reflected in the comparison

The comparisons in Section 2.2 reflect going-concern requirements, but a comparison of total loss absorbing capacity (TLAC) – ie including MREL – is also important to make a full comparison across jurisdictions. For G-SIBs, requirements follow common TLAC global standards.[57]

Additionally, a quantitative comparison of group level requirements does not reflect all international differences that could impact banks' capital management. For example, it is possible that aggregate capital requirements set across individual legal entities in a banking group exceed the group consolidated requirements, ie the binding capital constraint for some firms could reflect the sum of individual entity requirements.

There are also differences in the measurement of regulatory capital across jurisdictions, reflecting factors such as differences in accounting standards or regulatory deductions. It is difficult to make a quantitative adjustment for all these differences, however, and the analysis presented in Section 2.2 does not do so. For example, under US accounting standards US banks record lifetime expected credit losses (ECL), whereas UK and EU banks record ECL for possible defaults within 12-months and record lifetime ECL only for exposures with a 'significant increase in credit risk' under IFRS. This accounting difference, all else equal, can impact the level of CET1 resources.

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1. Throughout this document, references to 'system-wide requirements' refer to aggregate capital requirements and buffers for the major UK banks, excluding firm-specific PRA buffers and requirements set by overseas authorities such as the international component of the CCyB. This reflects the significant role of the major UK banks in supplying vital services to the UK economy. Similarly, unless otherwise stated, aggregate figures presented in this document refer to an aggregate for major UK banks. Within the banking system, in practice, there will be a distribution of capital requirements reflecting individual banks' business models, their level of systemic importance, the degree of gaps and mismeasurement in their RWAs, and the PRA's view of firm-specific risks.
2. For example, **The Bank of England's approach to stress testing to the UK banking system**, the **policy statement on the Strong and Simple framework** and **PS22/25 on the Leverage Ratio**.
3. **Supplement to the December 2015 Financial Stability Report: The framework of capital requirements for UK banks** and **Measuring the macroeconomic costs and benefits of higher UK bank capital requirements**.
4. See **Financial Stability Report December 2019**.
5. Basel 3.1 is due to be implemented on 01 January 2027, with full end-state implementation by 01 January 2030. Refer to **The PRA announces a delay to the implementation of Basel 3.1** for further detail.
6. The UK leverage ratio framework came into force on 1 January 2016, although prior to this major firms were already subject to expectations in relation to the leverage ratio as set out in **Supervisory Statement 3/13**. The additional leverage ratio buffer was phased in from 2016-2019 alongside risk-weighted systemic buffers.

7. The UK leverage exposure measure includes all on-balance sheet exposures and off-balance sheet items, excluding central bank claims where matched by liabilities in the same currency and of equal or longer maturity (see **Article 429a A1-A2 of the PRA Rulebook** for further detail).

8. Average risk weights calculated as the ratio of banks' RWAs to the UK leverage exposure measure.

9. Some lenders' risk weights are such that small changes in risk weights or capital requirements could alter whether leverage or risk-based requirements bind for them.

10. The analysis of average risk weights is based on the structure used in regulatory returns, which distinguish data by transaction type and counterparty type. For trading book exposures, the split is typically by exposure type (eg derivatives, SFTs), whereas for banking book exposures, the split is usually by exposure category or asset class.

11. Hybrid models should limit the extent to which risk weights rise in stress, which should support continued financing to households.

12. **Basel standards on supervisory review process**.

13. While both the UK's Pillar 2A and the EU's Pillar 2R supplement the Pillar 1 minimum capital requirement where it underestimates or does not cover certain risks, the approaches underlying those capital add-ons differ. In the UK, Pillar 2A applies a granular, risk-specific methodology, allowing clear identification of add-ons for risks that are underestimated versus those that are missing from Pillar 1. In the EU, by contrast, Pillar 2R tends to reflect a more holistic assessment of a bank's overall risk profile, including governance and business model factors, that cannot be easily disaggregated.

14. **Dodd-Frank Act, Section 171**.

15. While the US SA excludes operational risk and credit valuation adjustment, it has higher credit risk weights than are applied in the UK SA (eg US regulators apply risk-weights of i) 50% for residential mortgages, ii) 100% for unsecured retail exposures and iii) 100% for corporate SMEs, compared with the following risk-weights in the UK: i) 35%, and only increasing marginally when above 80% loan-to-value, ii) 75%, and iii) 76-85% for unrated corporate SMEs).

16. For example, UK G-SIBs report, on average, 30 basis points larger systemic buffers than euro-area G-SIBs despite the same Basel G-SIB methodology applying in both jurisdictions, reflecting relative differences in banks' systemic importance.

17. These include differences in how capital resources are measured, differences in accounting standards, or level of application. These are not adjusted for in this section. Refer to Annex 3 for more considerations.

18. The FPC keeps the exclusion of these claims under review. It confirmed the continued appropriateness of this exclusion, having regard to the interaction between monetary and macroprudential policy, in the October 2025 FPC Record. These claims are excluded only when they are matched by liabilities denominated in the same currency and of identical or longer maturity. For further details, refer to **Article 429a of the Leverage Ratio (CRR) Part of the PRA Rulebook**.

19. The FPC leverage ratio framework requires banks subject to the requirement to meet the minimum with at least 75% CET1 capital and buffers with 100% CET1 capital, in line with the risk-weighted framework. This exceeds international standards, which refer to Tier 1 capital.

20. Eleven UK O-SIIs (excluding UK G-SIBs ie excluding Barclays plc, HSBC Holdings plc, Standard Chartered plc) – **list of UK O-SIIs**.

21. Lloyds Banking Group, Nationwide, NatWest Group, Santander UK.

22. This gap is expected to narrow following the implementation of Basel 3.1. Systemic buffers are also somewhat higher for the domestically focused UK O-SIIs, which may reflect the larger systemic importance of this cohort, since the UK banking sector is particularly concentrated. Annex 3 provides more information on the level of requirements facing domestically focused UK O-SIIs relative to the wider euro-area O-SII cohort.

23. As set out in **The Capital Buffers and Macro-prudential Measures Regulations 2025**, and **The Financial Policy Committee's framework for the systemic risk buffer (updated 29 July 2025)**.

24. Defined by FPC for the purpose of setting O-SII buffers as the potential impact that an institution may have on the UK economy through restricting lending to UK households and non-financial corporates.

25. Eleven UK O-SIIs (excluding UK G-SIBs) – **list of UK O-SIIs**.

26. Although the UK's leverage ratio framework sets a lower calibration of G-SIB buffers in the leverage ratio framework than required by Basel standards and implemented in other jurisdictions. See **The Financial Policy Committee's review of the leverage ratio - October 2014**.

27. That said, US banks' capital headroom is lower on an unadjusted basis (see Chart A3.A).

28. All regulatory buffers are 'usable,' meaning that banks are permitted to operate normally even if their capital ratios decline below their regulatory ratios. However, banks that draw down their CCyB, CCoB or systemic buffers are subject to maximum distributable amount restrictions on the proportion of earnings that can be distributed through dividends, share buy-backs, bonuses and Additional Tier 1 (AT1) coupons. Maximum distributable amounts are intended to help firms that breach buffers to rebuild them over time. The CCyB is both usable and 'releasable' – meaning that the FPC can choose to reduce it – including to zero – in turn reducing banks' regulatory buffer requirements.

29. BCBS evaluations (**2021**, **2022**) and academic studies (eg **Berrospide et al (2021)**, **Couaillier et al (2022)** and **Mathur et al (2023)**) have found that during the Covid period, banks with low headroom over buffers took defensive actions to avoid using them, including by tightening credit. Banks' reluctance to use buffers was also confirmed in BCBS outreach sessions and survey responses (**BCBS (2021**).

30. The analysis covers the largest five UK and largest five US banks. The discount for other sectors is for the FTSE 350 (excluding banks) relative to the US S&P 500 (excluding banks and information technology). The impact of the information technology sector on the S&P 500 has been stripped out given its significantly larger impact on the US index than the UK.

31. These Bank staff estimates are based on: (1) a capital asset pricing model, which estimates cost of equity based on the estimated sensitivity of bank equities' daily excess returns to market-wide excess returns, market-wide equity risk premia, and a measure of risk-free rates; and (2) a dividend discount model, which models banks' equity prices at a given point in time as the sum of all expected future dividends (based on analyst expectations where available, grown forward in line with long-run nominal GDP growth forecasts) discounted by the implied cost of equity.

32. **Supplement to the December 2015 Financial Stability Report: The framework of capital requirements for UK banks** and **Measuring the macroeconomic costs and benefits of higher UK bank capital requirements**.

33. This excluded capital requirements related to individual banks' PRA buffers and the non-UK component of the CCyB.

34. See **Financial Stability Report December 2019**.

35. **An assessment of the long-term economic impact of stronger capital and liquidity requirements, August 2010**.

36. **Resolvability assessment of major UK banks: 2024**.

37. **Financial Stability Report December 2019**.

38. For a discussion of the merits of different types of economic modelling approaches, see for example **Review of the analytical framework supporting financial policy at the Bank of England**.

39. BCBS evaluations (**2021**, **2022**) and academic studies (eg **Berrospide et al (2021)**, **Couaillier et al (2022)** and **Mathur et al (2023)**) found that during the Covid crisis, banks with low headroom over buffers took defensive actions to avoid using them, including through tightening credit conditions.

40. **BCBS (2021)**.

41. See, for example, the PRA's **Q&A on the use of Liquidity and Capital Buffers** published during the Covid period.

42. **UK Government's Financial Services Growth and Competitiveness Strategy**.

43. IRB models allow banks to use their own internal models to estimate credit risk and calculate RWAs for capital adequacy purposes.

44. See **PS22/25 on the Leverage Ratio**, **the FPC's response to the 2024 O-SII buffer framework review**, and the **statement of policy on the Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)**.

45. Permission to use the IRB approach allows firms to use their own internal models to estimate credit risk and calculate RWAs for capital adequacy purposes.

46. See **PRA's statement on the review of rules**.

47. The FPC also supports the Bank's contribution to the Government's review of the ring-fencing regime. The Government has made clear its intention to uphold the ring-fencing regime to protect financial stability and safeguard depositors, while at the same time drive meaningful reform of the regime as part of plans to focus on growth and the release of capital for productive investment in the UK.

48. **PS17/21: Implementation of Basel standards**.

49. 'Location of capital', paragraph 76 of the **PRA's approach to banking supervision**.

50. There are two approaches to calculating capital requirements for credit risk. Standardised approaches, under which banks' risk weights align to guidance set by regulatory authorities, are designed to be broad-brush and relatively simple. Internal ratings-based (IRB) approaches, under which risk weights are determined by bank models that are subject to regulatory approval, are intended to be more complex, but also allow a greater degree of refinement and risk-sensitivity. Both approaches assign capital requirements that are intended to reflect a bank's credit risk based on its exposures to a wide range of counterparties, including sovereigns, other banks, corporates and retail customers.

51. The Threshold Conditions are the minimum requirements that firms must meet at all times in order to be permitted to carry on the regulated activities in which they engage. For more detail see **The PRA's approach to banking supervision**.

52. The Bank of England is the UK resolution authority.

53. As defined in **Statement of policy: The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL)**

54. **The Financial Policy Committee's review of the leverage ratio - October 2014**

55. Including Tier 1 Pillar 1 requirements of 6% and the 2.5% CCoB.

56. The PRA has outlined that as part of its day one off-cycle review of firm-specific requirements it will adjust Pillar 2A to address any double-counting with Pillar 1 (**PS9/24**).

57. Refer to **Stacking orders and capital buffers**, European Banking Authority (2024) for an international comparison.