Bank of England

Financial Stability Report

Financial Policy Committee
November 2026



Bank of England

Financial Stability Report

Presented to Parliament pursuant to Section 9W(10) of the Bank of England Act 1998 as amended by the Financial Services Act 2012.

November 2026

Financial Stability Report

November 2026

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.

This Financial Stability Report sets out the FPC's 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. It also reports on the activities of the Committee over the reporting period and on the extent to which the Committee's previous policy actions have succeeded in meeting the Committee's objectives.

The Report meets the requirement set out in legislation for the Committee to prepare and publish a Financial Stability Report twice per calendar year. In addition, the Committee has a number of duties, under the Bank of England Act 1998. In exercising certain powers under this Act, the Committee is required to set out an explanation of its reasons for deciding to use its powers in the way they are being exercised and why it considers that to be compatible with its duties.

The Financial Policy Committee:

Andrew Bailey, Governor
Katharine Braddick, Deputy Governor responsible for prudential regulation
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
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 18 November 2026.

The sections and annex were finalised on 19 November 2026.

PowerPoint™ versions of the Report charts and Excel spreadsheets of the data underlying most of them are available at **www.bankofengland.co.uk/financial-stability-report/2026/november-2026.**

©2026 Bank of England

ISSN 1751-7044

Contents

Financial Stability Report Summary		6
1:	**Developments in the global risk outlook, financial markets and the resilience of market-based finance**	**13**
1.1:	Developments in the global risk environment	13
1.2:	Global interest rates and sovereign debt markets	15
1.3:	Gilt and gilt repo markets	20
1.4:	Global risky asset markets	26
1.5:	Private markets and risky credit	31
Box A:	Enhancing the resilience of the gilt repo market	34
2:	**UK household and corporate debt vulnerabilities**	**40**
2.1:	Overview of UK economic developments	40
2.2:	UK household debt vulnerabilities	41
2.3:	UK corporate debt vulnerabilities	45
Box B:	High loan to income (LTI) lending since the FPC's 2025 Recommendation on the LTI flow limit	50
3:	**Sustainable economic growth – long-term capital and high-growth firms**	**56**
3.1:	Summary of the FPC's assessment of key issues and actions needed	57
3.2:	For HGFs, improving specialist investor assessment and support navigating the funding ecosystem could help viable companies become investment-ready and access suitable finance	62
3.3:	For specialist intermediation, actions to support the development of financing vehicles and their links to long-term investors could improve the flow of capital between these investors and HGFs through successive funding rounds	63
3.4:	For a more effective deployment of long-term capital, actions to improve scale, governance, investment capability, and access to specialist vehicles could support deployment into venture and growth investment	65

4:	**UK banking sector resilience**	**68**
4.1:	Recent developments in UK banks' resilience	68
4.2:	UK banks' provision of credit to households and businesses	71
4.3:	Banks-NBFI interlinkages	73
5:	**The evolving operational risk environment and the resilience of the financial system**	**74**
5.1:	The evolving operational risk environment	74
5.2:	Developments in frontier AI, financial system risk implications and response measures	75
5.3:	Operational risks from developments in quantum computing	82
5.4:	Strengthening system-wide operational resilience	85
5.5:	Managing technological change	87
Annex:	**Macroprudential policy decisions**	**88**
Glossary		**91**

Financial Stability Report Summary

Overall summary

Since the July Financial Stability Report (FSR), the conflict in the Middle East has continued to disrupt global energy markets and supply chains; concerns about sovereign debt sustainability have intensified; and there have been repeated swings in investors' expectations about the future earnings of artificial intelligence (AI) companies. These developments have contributed to higher expected policy rates, higher bond yields and volatility in financial markets. Some market moves have been amplified by vulnerabilities previously identified by the Financial Policy Committee (FPC).

Despite some amplification within markets, spillovers across markets have been limited and the UK financial system has been resilient. AI investment has supported global growth. However, the very rapid expansion and broadening of its financing – in a form that is increasingly complex, circular and opaque – is also contributing to a deepening of interconnections across the global financial system, making it increasingly likely for stress in one area to propagate to another. Alongside this, the higher interest rate and cost environment is eroding financial headroom for some households and adding to sovereign debt sustainability pressures. Taken together, these developments heighten the risk that multiple vulnerabilities crystallise simultaneously.

Meanwhile, frontier AI capabilities have continued to grow since the July FSR, notably in the sophistication of AI agents and open-weight AI models. Recent incidents have further illustrated the challenges in aligning and controlling both individual agents and multi-agent dynamics. These developments are making cyber and operational risks a more prominent threat to financial stability, and are contributing to deeper interconnections across the financial system through common technologies and providers.

Global risk environment

The continued conflict in the Middle East has led to a protracted negative supply shock to the global economy. Energy prices have increased since the July FSR, adding to inflationary pressures and contributing to higher interest rates. The outlook for inflation and interest rates remains uncertain and sensitive to developments in the Middle East and their impacts.

Global growth has so far been resilient, in part supported by AI-related investment. This investment also increases the demand for capital which may be contributing to upward pressure on global real interest rates. Uncertainty over the pace of data-centre development,

and how much AI investment will translate into future earnings, has contributed to asset price volatility.

Financial vulnerabilities

Vulnerabilities previously highlighted by the FPC in sovereign debt markets, risky asset valuations, and risky credit markets including private credit, remain and, in some cases, have amplified market volatility.

Sovereign debt-to-GDP ratios continue to move upwards globally, reducing the capacity of governments to respond to future shocks. Government bond yields have risen further, reaching near two-decade highs in several advanced economies. In the UK, the increase in yields has mainly reflected higher expected policy rates, driven by higher energy prices and resilient growth, rather than higher term premia. Fiscal and political uncertainty have contributed more materially to increases in yields in some other countries, particularly France. Many sovereign bond markets are characterised by a relatively high use of leverage by hedge funds pursuing similar trading strategies across jurisdictions. Market intelligence suggests that deleveraging by hedge funds contributed to the increase in French sovereign bond yields. Spillovers from French sovereign bonds to other markets, including gilts, have been limited.

UK gilt and gilt repo markets have functioned well, with gilt bid-offer spreads remaining within historical norms. Hedge fund leverage remains elevated by historical standards, although net repo borrowing has declined somewhat since July. In a severe stress, deleveraging by highly leveraged market participants could amplify market moves, impair market functioning and transmit stress back to banks providing financing to these participants. Although the gilt repo market has been resilient recently, past episodes of market dysfunction have highlighted the importance of reforms to ensure the resilience of this market in stress (see Box A).

Equity valuations remain stretched on some measures, despite recent falls, with valuations of AI and technology-related companies embedding strong expectations for future earnings. Leveraged funds and retail investors remain exposed to AI stocks, with hedge funds also obtaining leverage through significant prime brokerage borrowing. The value of AI-related equities fell sharply following the US midterm elections, as investors re-assessed the scale, pace and cost of AI-related investment. These moves were amplified by some hedge funds deleveraging. Recent volatility in South Korean equity markets has also provided evidence that procyclical rebalancing by leveraged exchange-traded funds can amplify falls in equity prices. While spillovers to other markets were limited across these episodes, in a more severe shock, losses on equity positions could also lead globally active investors to deleverage in other markets, including sovereign debt markets.

Higher borrowing costs have increased refinancing pressures in corporate debt markets, particularly for weaker borrowers. Spreads widened sharply for US CCC-rated debt and for some lower-quality AI-related borrowers. Spread widening across higher-rated corporate debt has been more limited. There are some signs of increasing stress in parts of private credit, though vulnerabilities have not materially changed overall and stress remains more contained among UK borrowers. A further tightening in risky credit markets could increase financing costs for UK businesses and amplify the impact of an adverse shock.

AI-related financing has grown rapidly and is increasingly spanning equity markets, public bond markets, private credit and more complex financing structures. This is increasing interconnections across the financial system, making it more likely for stress in one area to propagate to another. Hyperscaler bond issuance is set to exceed $305 billion in 2026, accounting for around 8% of global investment grade issuance, with the share rising considerably when considering the broader AI-related issuer ecosystem. Some AI-related companies are also providing finance to others in the sector to support investment, in arrangements linked to future revenue commitments, strengthening sectoral interconnections. Greater use of debt financing could increase the potential for losses in the financial system, while more complex structures and circular financing arrangements can make it more difficult to identify concentrations of risk and where exposures ultimately sit.

Operational vulnerabilities

Firms will need to keep pace with the growing scale and sophistication of cyber threats, including by ensuring that any deployment of frontier AI to identify and remediate cyber threats is undertaken safely, while accelerating long-term preparations for quantum-resistant cryptography. They will also need credible arrangements to recover quickly from operational disruption, in order to maintain the provision of vital financial services. Taken together, these will place competing demands on technology skills and management capacity. A failure to take action will compromise firms' operational resilience with potential system-wide implications.

Frontier AI capabilities have continued to grow since the July FSR, notably in the sophistication of AI agents and open-weight AI models. Recent incidents have further illustrated the challenges in controlling the risk that increasingly autonomous AI agents act in ways that are misaligned with the objectives intended by developers and users. Separately, the rapid development of open-weight AI models that could be run more cheaply than proprietary models, with safeguards more easily disabled or removed, can make advanced AI models more readily available and useful to malicious actors.

In addition, recent Google Cloud and Microsoft outages have illustrated how operational dependencies mean disruption at a single provider can affect many firms at once. Firms increasingly rely on common technologies and third-party providers, and growing AI adoption deepens these dependencies and creates new ones. This underlines the importance of continuing to operationalise the UK's critical third party regime.

The FPC underlines the importance of firms engaging with guidance from regulatory authorities, such as the joint consultation paper published on 19 November by the Bank, the Prudential Regulation Authority (PRA) and the Financial Conduct Authority on Cyber Risk and Resilience Management, with proposals for a set of principles-based and outcomes-focused expectations for regulated firms and FMIs to strengthen their cyber risk and resilience. The FPC also notes the importance of sector-wide collaboration in helping firms address emerging frontier AI risks and ensuring the system continues to deliver vital financial services throughout operational incidents.

Further ahead, quantum computing could compromise widely used cryptography and hence cyber security. This makes an orderly transition to quantum-resistant cryptography a priority and has implications for actions and decisions firms have to take now.

Overall, the FPC judges that the evolving operational risk environment reinforces the need for significant and sustained investment by the financial sector in building resilience.

UK household, corporate and banking system resilience

UK household and corporate balance sheets remain strong in aggregate, supported by stronger than expected GDP growth, but financial headroom is being eroded across borrowers, with some households more affected than others. Successive interest-rate and cost shocks are reducing the capacity of some households to absorb further shocks. Businesses are facing higher costs and tighter financial conditions. Pressures are greatest for small and medium-sized enterprises, energy-intensive firms and highly leveraged corporates, particularly where exposure to higher energy costs, limited financial buffers and refinancing needs overlap.

The UK banking system remains well capitalised with high levels of liquidity, and impairments remain low. The banking system therefore has the capacity to support households and businesses even if economic and financial conditions were to be substantially worse than expected. Despite heightened uncertainty, banks have continued to support lending to the real economy – aggregate gross lending to UK households and businesses in 2026 Q3 was 9% higher than in the same period last year – while providing dividends and share buybacks to their shareholders.

The FPC has maintained the UK countercyclical capital buffer (CCyB) rate at its neutral setting of 2%. Maintaining a neutral setting of the UK CCyB in the region of 2% helps to ensure that banks continue to have capacity to absorb unexpected future shocks without restricting lending in a counterproductive way.

Bank capital framework

The FPC has completed its review of the bank capital framework – covering how much capital the UK banking system needs, and how the framework delivers it. Over the course of the review, the Committee has sought and taken account of stakeholder feedback, evaluated how the UK compares to other major jurisdictions, and considered carefully and critically how the framework best serves the needs of the UK economy. The reforms proposed as a result will bring meaningful change to the capital framework for UK banks and support sustainable growth of the UK economy.

As an outcome of the final part of the capital review, outlined in the Financial Stability in Focus published today, the PRA will consult on lower minimum requirements related to domestic lending. This is to reflect more fully the resilience provided by maintaining a 2% neutral CCyB rate in the UK, and to better reflect the risks of geographic concentration. After this reduction, system-wide capital requirements for the major UK banks will be consistent with the FPC's updated benchmark of around 13%.

Changes announced as part of the capital review (today and in earlier parts of the review) will make capital requirements more proportionate, better targeted and – as a result – lower. Taking the proposals for risk-weighted and leverage requirements together, Tier 1 capital requirements for major UK banks will be reduced by an amount equivalent to around 50 basis points of risk-weighted assets in normal times, with additional reductions in capital banks need to maintain through stress scenarios. The impact varies by bank, depending on their business model. These measures will free up further capacity to lend to UK households and businesses.

The changes from this review balance the costs and benefits of bank capital to support sustainable growth in the UK. They will maintain a level of resilience that allows the banking system to support the economy in good times and bad, and maintain consistency with international standards.

Reducing capital requirements much further would risk financial instability. Reductions beyond those set out in the review would put long-term economic growth at risk by undermining the banking system's ability to absorb rather than amplify shocks. Banks could lose market confidence more quickly when losses arise, and materially lower UK capital requirements would also risk undermining international standards intended to promote financial stability and a level playing field.

The FPC and PRA intend to enhance banks' confidence in using their capital resources to support the economy. Banks currently maintain levels of capital in excess of regulatory requirements – sometimes worth several percentage points of risk-weighted assets – driven by a range of factors including impediments to the use of regulatory capital buffers.

To that end, the FPC has set out its vision of a single releasable buffer that – as part of a capital benchmark of around 13% – could be used, critically, without automatic distribution restrictions. Such reform of the capital buffer framework will ideally be achieved in co-ordination with international authorities, and the Bank will continue to pursue this in the first instance. The FPC and PRC will evaluate progress on this work in 2027 Q4.

The FPC and PRA will also consider how further actions by UK authorities can reduce incentives for firms to maintain capital in excess of requirements and will bring forward proposals in 2027. As part of this, the PRA will engage further with banks, investors and ratings agencies to understand better the drivers of management buffers, including firms' commercial decision making, as well as regulatory factors such as the role of the supervisory reaction function and Maximum Distributable Amount restrictions, and to support understanding of how regulatory buffers are intended to operate. This builds on the PRA's recently launched consultation to clarify how systemic buffers for domestic banks can be released in a systemic stress, including guidance on the rebuild of these buffers.

With this review complete, the FPC and PRA have begun to consult on the changes outlined above, with a view to implementing them as soon as possible. Their prompt implementation will provide clarity and certainty to firms about the capital framework in the years to come, supporting the PRA's strategic priorities of resilience, growth, innovation and transparency.

Supporting sustainable economic growth

A resilient financial system is a precondition for sustainable economic growth. It supports the economy by providing vital services to households and businesses and by enabling productive investment while absorbing, rather than amplifying, shocks.

In response to its 2025 remit letter, the FPC's work on long-term capital and high-growth firms (HGFs) has identified the actions which, from a macroeconomic perspective, would have the most significant impact on the supply of long-term finance for HGFs seeking to scale up. Overall, the evidence suggests that while the UK has deep pools of domestic capital and a substantial pipeline of innovative firms, frictions affect how efficiently these are matched. Capital does not consistently reach viable firms in the right form or at the right stage of their development, with gaps becoming particularly evident as firms seek to scale and their financing needs increase. The FPC identified frictions at three broad points across the financing chain: in helping viable high-growth firms become investment-

ready and navigate the funding ecosystem; in providing specialist finance that can support them through successive funding rounds; and in enabling long-term investors to deploy capital into venture and growth opportunities.

A range of Government and industry initiatives are already seeking to address these financial frictions, creating welcome momentum. However, further efforts to reduce the complexity of the support system, which is perceived to be fragmented, and to improve co-ordination between initiatives appear needed.

Although largely outside the FPC's direct policy responsibilities, the Committee identified several other actions that would have a significant impact, both across the financing chain and in addressing non-financial barriers to firms scaling. These are set out in more detail in Section 3 of the FSR.

1: Developments in the global risk outlook, financial markets and the resilience of market-based finance

Since the July FSR, the conflict in the Middle East has continued to disrupt global energy markets (Section 1.1) resulting in higher and more volatile interest rates (Section 1.2), while reassessments by investors around artificial intelligence (AI) developments have prompted repricing in AI-related equities and in segments of credit markets (Section 1.4). Some of these market moves have been amplified by vulnerabilities previously identified by the FPC. Deleveraging by concentrated and leveraged investors has, for example, contributed to particularly sharp moves in equity and some sovereign debt markets. However, spillovers across markets have been limited (Section 1.2).

The rapid expansion and broadening of AI-related financing, alongside increasingly complex, circular and opaque financing arrangements, are deepening interconnections across the financial system, making it more likely for stress in one area to propagate to another (Section 1.4).

1.1: Developments in the global risk environment

> **The continued conflict in the Middle East has led to a protracted negative supply shock to the global economy. Energy prices remain well above July FSR levels and continue to be volatile.**

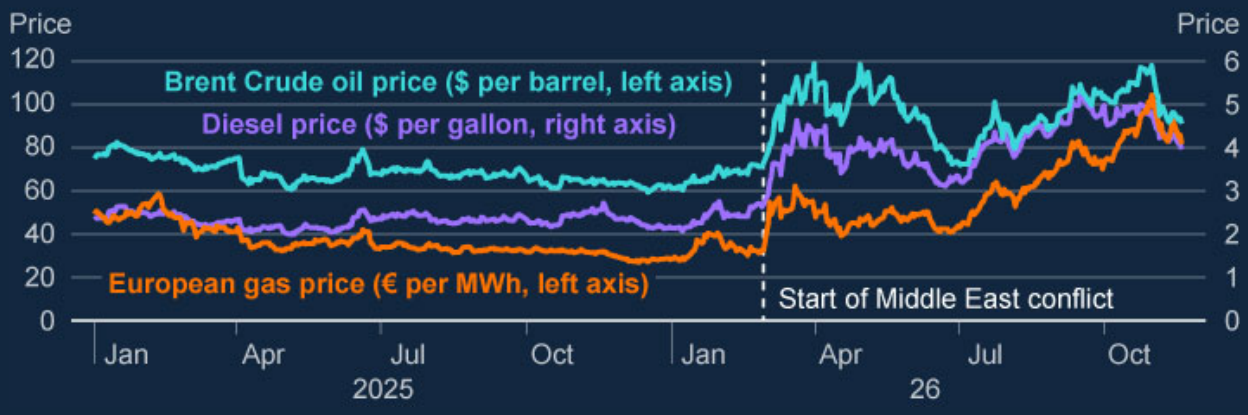
Since the July FSR, the conflict in the Middle East has continued to disrupt global energy markets. Having fallen earlier in the summer, energy prices rose sharply on several occasions before falling around the US midterm elections. Prices remain highly sensitive to developments in the region. Brent crude is currently $92 per barrel, up from $75 at the time of the July FSR. European spot gas prices have risen to €81 per MWh, up from around €46 at the time of the July FSR (Chart 1.1).

Alongside this, investors have begun to price in an even more protracted period of global energy supply disruption, with futures curves for oil and gas having moved materially higher. The December 2027 European gas contract has doubled in price from around €32 to €60 per MWh since the July FSR.

European gas storage levels remain below historical levels, while Middle East gas exports have recovered more slowly than crude oil, leaving Europe exposed to renewed price increases in the event of a colder winter or further escalation.

Chart 1.1: Multiple conflicts and low inventories have kept oil, gas and refined product prices elevated

Wholesale Brent crude oil, European natural gas and diesel prices



Source: Bloomberg Finance L.P.

The persistence of higher energy prices is likely to add to near-term inflationary pressures globally. Price increases have been particularly pronounced in refined products, including diesel and jet fuel.

The conflict in the Middle East, impacts from the continued war in Ukraine, historically low product inventories, and export bans have contributed to higher refined-product prices. Crack spreads, which measure the difference between crude oil inputs and refined product outputs, alongside diesel and jet fuel prices, all remain significantly elevated since the beginning of the year. As refined product costs feed into household bills and corporate costs relatively directly, sustained higher refined product prices are likely to add to near-term inflationary pressures.

The absence of a resolution to the Middle East conflict could pose risks to growth and financial stability beyond those arising from higher energy prices alone. Continued disruption to global shipping routes would prolong or intensify existing supply-chain pressures and weigh on activity, particularly in export-dependent economies such as China, as well as economies with stronger economic and financial links to the region.

The global economy has remained resilient to the negative supply shock and global growth has continued to surpass expectations. However, a prolonged shock could increasingly weigh on economic activity.

The resilience of global activity to the energy shock and protracted disruptions to global supply chains may partly reflect the lower energy intensity of the global economy compared with previous decades. It may also reflect economies' and businesses' greater ability to adapt to shocks, for example through increased hedging against fluctuations in energy prices, as

well as support from AI-related investment in some countries, particularly the US and Asia, and increased euro-area public spending on defence and infrastructure. In addition, there will be lags as the energy price shock feeds into other prices, and as the associated increases in interest rates impact real activity.

Global growth has been stronger than expected in 2026 but is projected to slow in 2027, as the effects of the energy shock build alongside tighter financial conditions and fiscal support measures, such as energy-related subsidies that had been supporting activity, are phased out. The growth outlook remains vulnerable to further shocks. In particular, more persistent energy prices, weather-related pressures on food prices and higher semiconductor prices associated with rising AI-related demand could prolong inflation and prompt further increases in interest rates, weighing on economic activity.

1.2: Global interest rates and sovereign debt markets

Global sovereign bond yields are higher relative to the July FSR, for reasons that vary across jurisdictions.

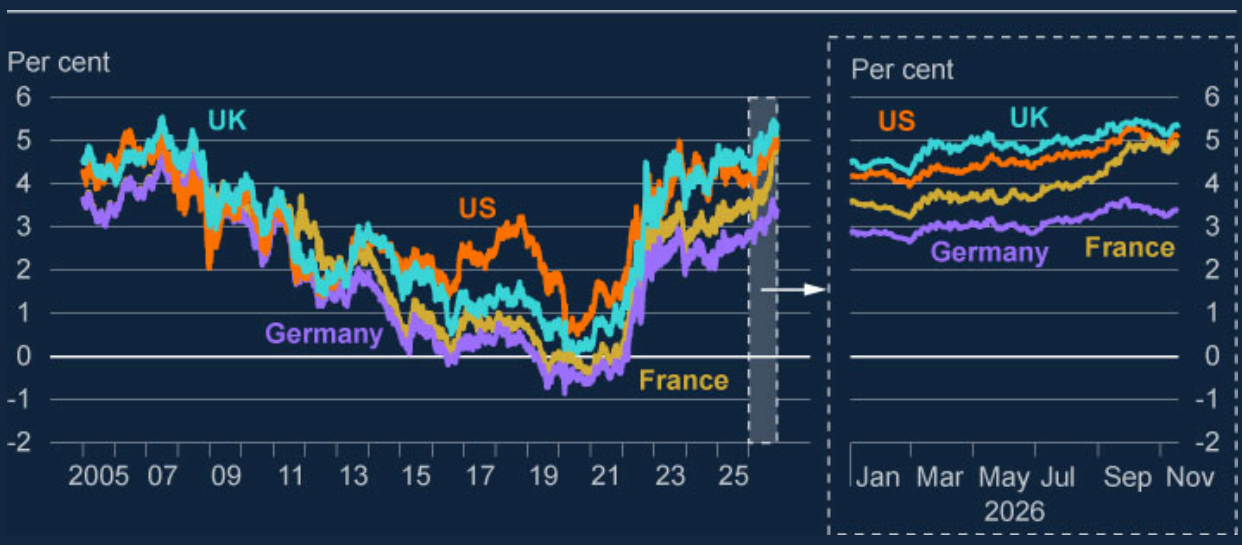
Global sovereign bond yields have risen further since the July FSR, with yields in several advanced economies reaching near two-decade highs. The UK 10-year gilt has increased by 40 basis points since the July FSR, and the US 10-year Treasury by 50 basis points (Chart 1.2).

Expected policy rates have risen globally, reflecting higher energy prices and resilient growth. Term premia, the amount of additional compensation that investors require to hold longer-term rather than short-term government bonds, have also risen in some jurisdictions against a backdrop of weakening fiscal outlooks and elevated sovereign and corporate debt issuance (Section 1.4) and persistent geopolitical uncertainty. The relative importance of these factors varies across jurisdictions.

In the UK, the rise in gilt yields has been driven predominantly by higher expected policy rates, reflecting higher energy prices and resilient growth, while term premia have been stable. Bank of England staff estimates indicate that expected rates account for broadly all of the increase in the 10-year gilt yield since the July FSR.

Chart 1.2: Longer-term bond yields have continued to increase

UK, US, French, and German 10-year yields



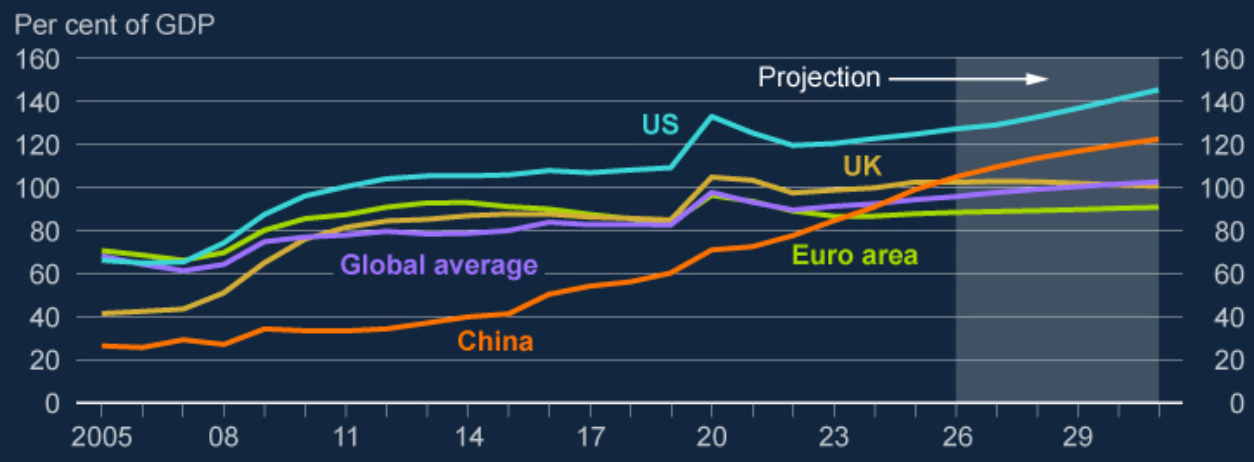
Source: Bloomberg Finance L.P.

Sovereign debt vulnerabilities have increased in some countries where fiscal outlooks have weakened since the July FSR.

Sovereign debt to GDP ratios are substantially higher than when yields were last at current levels (Charts 1.2 and 1.3). Higher borrowing costs are increasing debt servicing burdens across advanced economies.

Chart 1.3: Global debt-to-GDP ratios continue to move upward

Sovereign debt as a percentage of GDP (a)



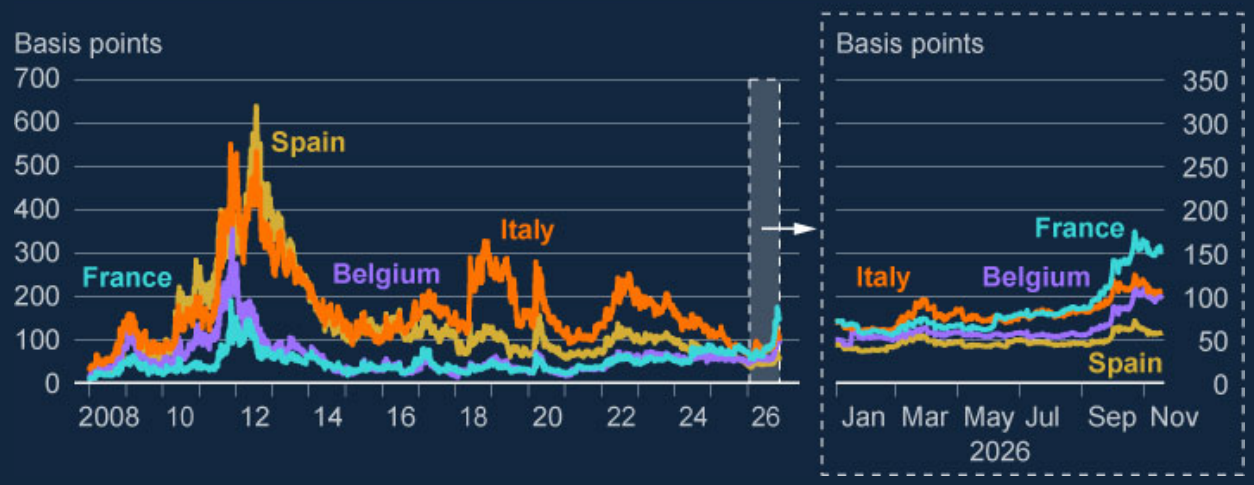
Sources: International Monetary Fund (IMF) and Workspace from LSEG.

(a) Use of IMF Content and Data is subject to the IMF's terms of Copyright and Usage.

During September, increases in European yields initially reflected a repricing of policy expectations globally, before market focus over September and October began to concentrate on France's fiscal outlook amid political uncertainty. The OAT-Bund spread, the difference between French and German government borrowing costs, widened from around 86 basis points in early September to around 174 basis points in October. Spreads also widened materially in some other euro-area sovereign markets, including Italy and Belgium, suggesting selective cross-market spillovers, rather than a generalised repricing across the euro area. In general, spreads remain far below levels seen at the height of the euro-area sovereign debt crisis (Chart 1.4).

Chart 1.4: European bond spreads to their German equivalents have widened since July

Spreads between French, Italian, Belgian and Spanish 10-year government bonds and equivalent German government bonds



Source: Bloomberg Finance L.P.

Moves in European sovereign bond markets may have been exacerbated by leveraged investors.

Many sovereign bond markets are characterised by a relatively high use of leverage by hedge funds pursuing similar trading strategies across jurisdictions (Section 1.3). As highlighted in prior FSRs, these positions have the potential to amplify price movements in a stress. Market intelligence suggests that this was a contributor to the increase in yields in France. The initial repricing of policy-rate expectations in the euro area put crowded sovereign debt positions under pressure. As attention shifted towards France's fiscal and political outlook, some hedge funds unwound their leveraged positions, while elevated use of trend-following strategies reportedly added momentum to the sell-off. The move spilled over somewhat to some other euro-area sovereign debt markets, reflecting broader risk aversion and technical linkages between markets, rather than a generalised reassessment of sovereign fundamentals. These market moves took place in thin liquidity conditions, contributing to wider bid-offer spreads and periods of relatively poor market functioning. UK transaction-level data suggest that despite some deleveraging, hedge funds' overall leverage in French sovereign debt markets remains elevated. Spillovers from French sovereign debt markets to UK gilt markets have so far been limited, as discussed in Section 1.3.

Developments in AI could interact with sovereign debt vulnerabilities through several channels. The scale of AI-related investment may be contributing to upward pressure on real interest rates, for example by increasing competition for capital or through raising expected

productivity growth. However, there is limited evidence that, so far, AI-related debt issuance has materially crowded out investment in other sectors. Nevertheless, the risk of this could increase as issuance grows. Major mutual-fund positioning appears broadly unchanged, while market intelligence suggests there is limited evidence of material reallocation away from sovereign bonds, including gilts, towards AI credit. At the same time, fiscal outlooks depend in part on expectations for future growth and interest rates, and developments in AI may be an important determinant of both. A downward reassessment of expected productivity gains from AI could add to pressure in sovereign debt markets. However, the implications for debt sustainability remain uncertain, as weaker expected growth could be accompanied by lower real interest rates. More recently, the sell-off in AI-related equities has been accompanied by flight-to-safety demand for US Treasuries.

Large global imbalances could amplify any reassessment of sovereign creditworthiness or expected returns on assets across countries.

Persistent current account surpluses in some large economies and deficits in others have contributed to large net external creditor and debtor positions, with global current account balances widening again last year to near historic highs. At 3.7% of world GDP, the global current account balance, the sum of absolute values of current account surpluses and deficits divided by world GDP, is the largest it has been since the global financial crisis of 2008–09. It has been higher on just two other occasions in the past 150 years. China's current account surplus has been driven primarily by persistently high private saving, roughly double the levels in advanced and emerging economies according to the IMF. Since 2023, its surplus has widened further, as the need to rebuild balance sheets following the end of the property boom has dampened both household consumption and domestic investment.

The US current account deficit, meanwhile, continues to be driven primarily by its fiscal deficit. Strong growth in AI has so far not resulted in a material change in the US current account but could do so if investment in the US AI sector continues to grow. In China, strong growth in AI is contributing to both stronger export and import growth.

Large gross cross-border holdings of government bonds, equities and other assets, which at more than four times world GDP are also at near historic highs, represent significant channels for shocks to propagate internationally. Strong demand for AI-linked stocks has driven much of the rise in US equity prices since 2022, increasing the value of foreign investors' holdings. These valuation gains have in turn increased US external liabilities, adding to a longer run deterioration in the US net international investment position (NIIP) since 2010 of 15% of world GDP. The US NIIP now stands at negative 18% of world GDP.

Large negative NIIPs can increase vulnerabilities, especially where they reflect high levels of external debt, rising net investment income payments or reliance on continued foreign financing. However, in the US, much of the deterioration in the NIIP reflects increases in the

market value of foreign investors' US equity holdings, rather than an increase in external debt. A fall in US equity valuations could nevertheless generate significant losses for foreign investors, transmitting the effects of the adjustment beyond the US.

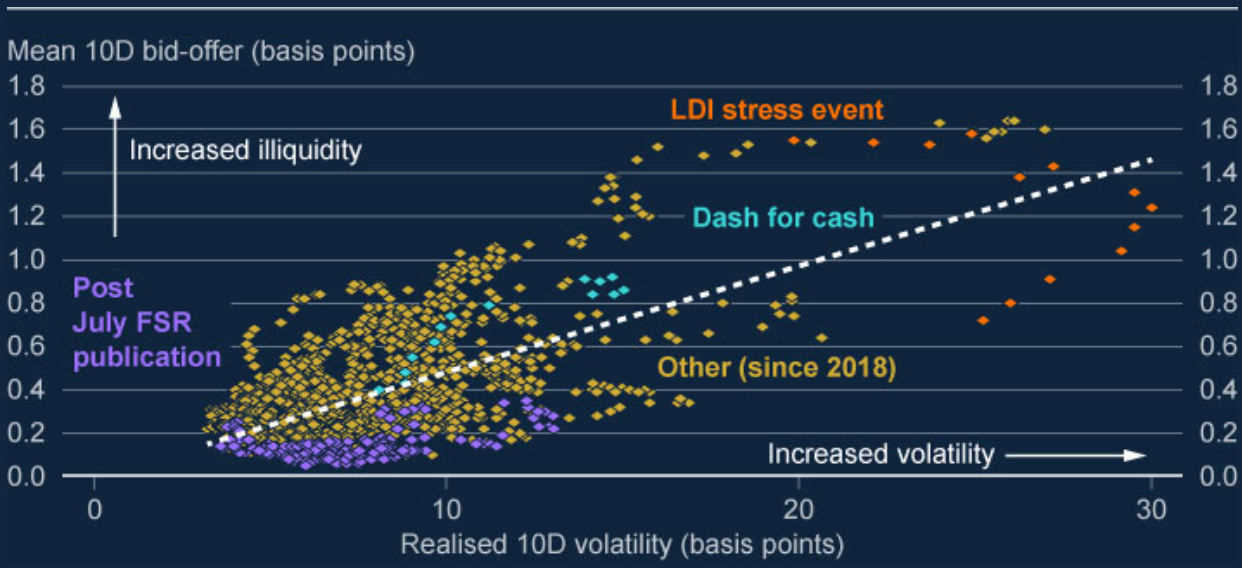
A reassessment of fiscal sustainability, growth prospects or asset valuations (including risky assets, Section 1.4) in jurisdictions with large external balance sheets that global investors are particularly exposed to, could prompt investors to rebalance their portfolios, leading to sharp movements in yields, asset prices and exchange rates. Leverage, liquidity mismatches and forced asset sales would likely amplify these movements, tightening financial conditions globally and in the UK. An orderly adjustment by both deficit and surplus economies, where current account positions exceed those warranted by fundamentals and desirable policies, would reduce the likelihood of a disorderly correction.

1.3: Gilt and gilt repo markets

UK gilt and gilt repo markets have remained orderly since the July FSR, despite periods of elevated volatility.

Despite increases in yields, gilt and gilt repo market functioning has remained orderly. Measures of market functioning, such as bid-offer spreads, have remained well within historical norms, despite elevated realised volatility (Chart 1.5). In gilt repo markets, the spread between overnight repo rates and Bank Rate remained narrow, aside from expected increases around period-end reporting dates, indicating that the market was functioning well.

Chart 1.5: Gilt market functioning has remained orderly since the July FSRBid-offer spread of 10-year benchmark gilt relative to its realised volatility (10-day rolling averages) (a)



Sources: Bloomberg Finance L.P., FCA MiFID II and Bank calculations.

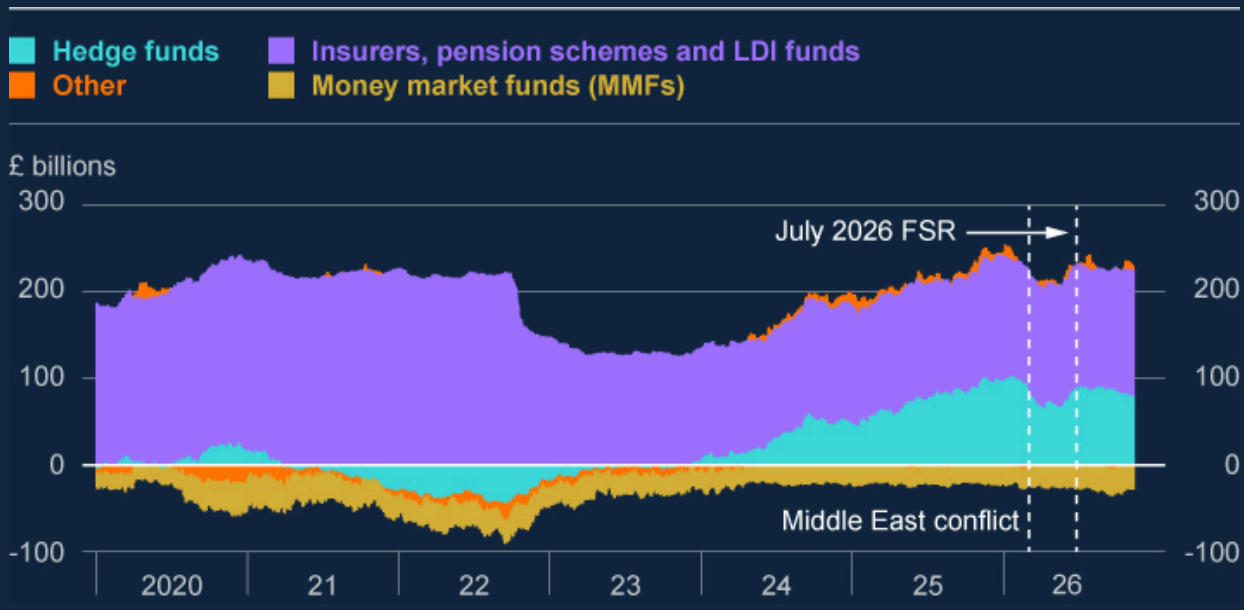
(a) Realised volatility is calculated as the 10-day average of the high-low intraday range in the 10-year benchmark gilt yield. Data are updated to 18 November 2026. The bid-offer spread series shows the difference in daily end-of-day quoted bid and ask yields for the generic 10-year benchmark gilt, calculated as the 10-day average.

Hedge fund leverage remains a potential source of amplification in gilt and gilt repo markets during periods of market stress.

Hedge funds can play an important role in government bond markets, including by improving market liquidity, acting as a counterparty to asset managers seeking long futures exposure and supporting price discovery. However, their use of leverage, if not properly managed, could amplify shocks. As set out in previous FSRs, this section aims to share aggregated data on these trends that market participants may find useful in their own risk management practices. In common with other sovereign bond markets, hedge funds use repo borrowing to maintain material leveraged positions in gilt markets, across a range of gilt maturities (Charts 1.6 and 1.7).

Chart 1.6: Hedge funds have reduced their net gilt repo borrowing, but it remains elevated by historical standards

Net repo borrowing by the non-bank financial institution (NBFI) sector (a)

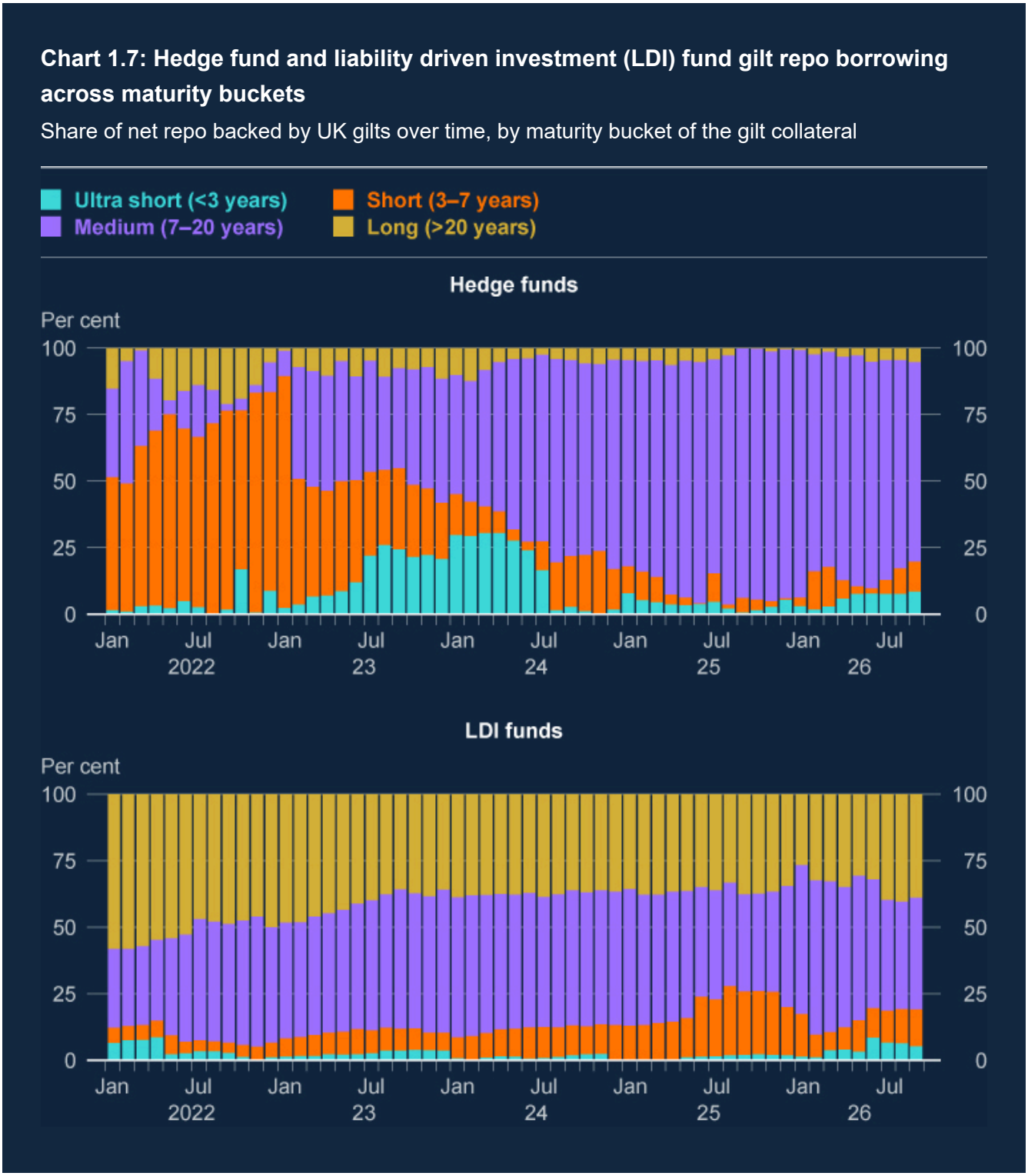


Sources: Sterling money market data (SMMD) and Bank calculations.

(a) Updated to 12 November 2026. SMMD data and the sector classification are reviewed on an ongoing basis in order to continuously improve the quality and coverage of the data set.

Chart 1.7: Hedge fund and liability driven investment (LDI) fund gilt repo borrowing across maturity buckets

Share of net repo backed by UK gilts over time, by maturity bucket of the gilt collateral



Sources: UK Securities Financing Transactions Regulation (SFTR) and Bank calculations.

For example, leveraged relative value strategies use repo borrowing to intermediate differences in demand between gilts and related markets, including between cash gilts and gilt futures. The cash-futures basis trade is one example of a popular relative value strategy. Hedge fund net borrowing in gilt repo markets has declined somewhat since July, alongside some reduction in gilt futures positioning (ahead of the regular increase in notional associated with gilt futures contract change), consistent with an unwind of some leveraged relative value

trades (Chart 1.8). This adjustment has taken place in an orderly manner, without amplification in gilt markets. Despite these falls, both repo borrowing and futures positioning remain elevated by historical standards.

Chart 1.8: Data suggest that hedge fund net gilt repo borrowing is related to the popularity of the cash-futures basis trade

Change in hedge fund net gilt repo borrowing and notional outstanding in gilt futures since January 2024 (a)



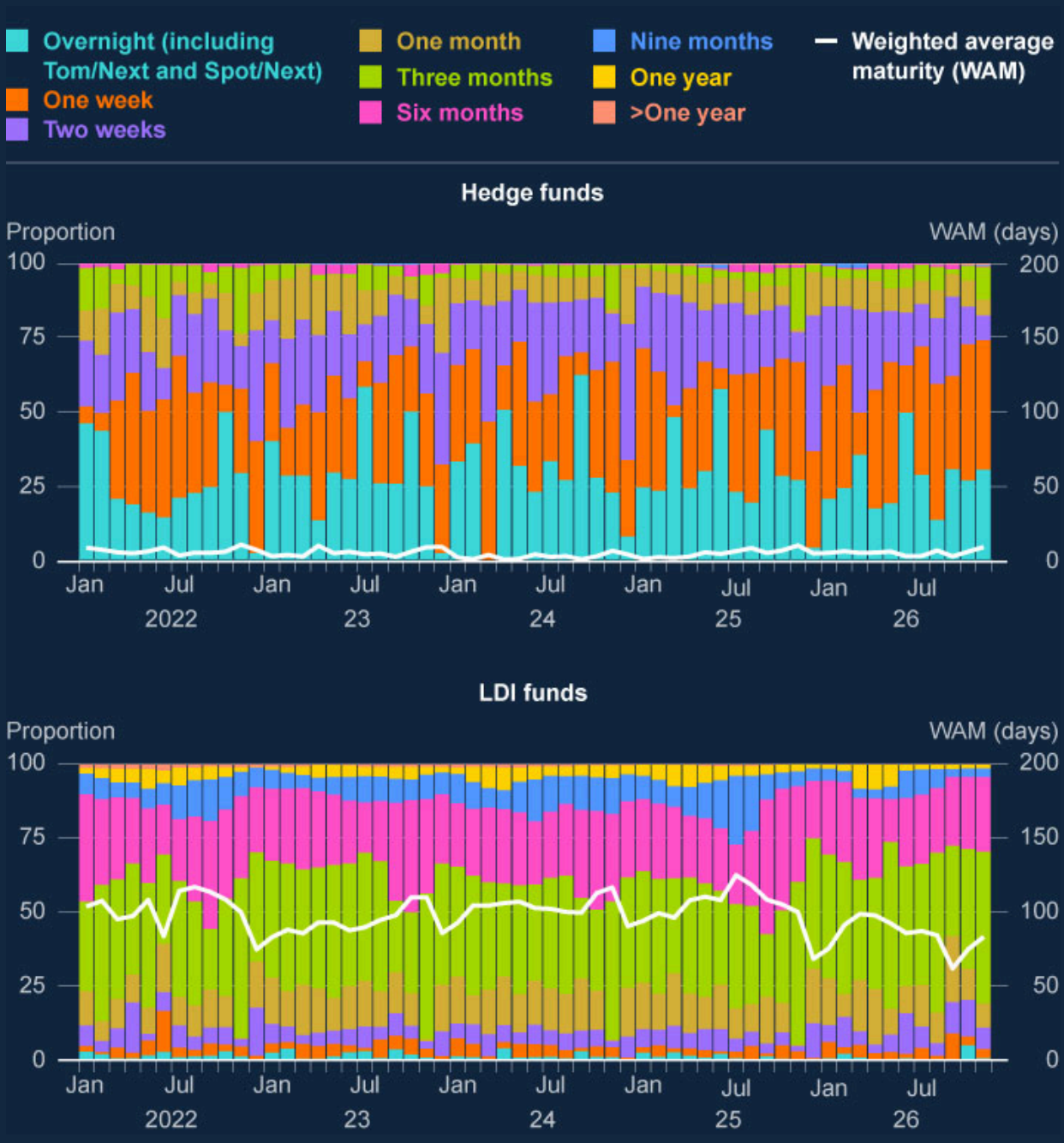
Sources: ICE Futures Europe, SMMD and Bank calculations.

(a) Spikes seen in gilt futures open interest relate to contract roll periods. Shaded areas refer to indicative contract roll periods.

High leverage and short-term funding could leave hedge funds vulnerable to simultaneous deleveraging if funding conditions were to tighten significantly, if funds experienced losses approaching internal risk limits, or if they collectively reassessed their positions (Chart 1.9 shows the maturity of hedge funds' and LDI funds' repo funding). Such deleveraging could amplify initial price moves, potentially impairing gilt market functioning.

Chart 1.9: Hedge funds' repo funding is concentrated in the overnight and one-week segments, potentially exposing them to rollover risk

Repo borrowing of hedge funds and LDI funds by loan maturity bucket (left axis) and weighted average maturity (WAM) of repo positions (right axis) as at 30 October 2026



Sources: UK SFTR and Bank calculations.

There were some signs of limited spillovers from the recent pressures in French sovereign bond markets (Section 1.2) to the gilt market. Losses on French sovereign positions prompted some funds to reduce exposures in other sovereign debt markets and some individual funds

deleveraged their gilt repo positions around the same time, but sterling core markets continued to function in an orderly manner. The market moves in France illustrate how leveraged investors can amplify market moves when positions are unwound. Box A sets out the Bank's work to enhance the resilience of the gilt repo market.

Bank staff analysis suggests that some leveraged gilt investors also have material exposures to individual AI-related equities. This means that, under severe stress, losses on equity positions could lead to deleveraging more broadly, including in gilt markets. However, Bank staff analysis suggests that, currently, this risk to gilt markets is limited. Publicly available and transaction-level data on equity positioning, while incomplete, suggest that hedge funds with the largest directional AI-related equity exposures do not appear to have material gilt repo positions. Section 1.4 discusses hedge funds' use of leverage in equity markets.

Other major participants in gilt and gilt repo markets have remained resilient and have not acted as amplifiers over the recent period. LDI funds continue to maintain substantial interest-rate buffers and sterling money market funds (MMFs) maintain robust liquidity buffers, alongside broadly stable outflows.

1.4: Global risky asset markets

> **Despite recent falls in global equity prices, particularly among some AI companies, equity valuations remain stretched on some metrics relative to the July FSR.**

Since the July FSR, major equity indices have fallen slightly from historical highs, with the S&P 500 and FTSE 100 down 2.4% and 1.1%, respectively. Index performance was initially supported by resilient global growth and corporate earnings that exceeded expectations, with technology stocks a significant driver of gains. Equity valuations remain highly stretched on some backward-looking metrics. For example, excess cyclically-adjusted price-to-earnings (CAPE) yields, which compare historical earnings yields with risk-free interest rates, remain highly compressed relative to historical norms (Chart 1.11). This indicates that equity prices remain elevated relative to historical earnings.

That valuation stretch looks less pronounced on forward-looking earnings-based measures. The S&P 500's 12-month forward price-to-earnings ratio has continued to edge lower (Chart 1.10), and now stands at 18.9 times, compared with 20.1 times at the time of the July FSR and roughly in line with its 10-year average. However, this reflects consensus expectations for very strong earnings growth over the next 12 months, particularly for a concentrated group of AI and technology companies. This leaves equity prices highly susceptible to shifts in expectations around the pace of development and adoption of AI.

That sensitivity became apparent on several occasions over October and November. Earnings announcements at some notable technology companies that disappointed markets, alongside expectations of greater regulatory scrutiny of AI and constraints on data-centre

development following the US midterm results, prompted investors to reassess the scale, pace and cost of AI-related investment. This led to sharp falls in AI-related equity prices. The technology-heavy Nasdaq 100 has fallen around 13% from its October peak.

Chart 1.10: 12-month forward price-to-earnings multiples have come down as expectations for earnings growth have increased

FTSE 100, S&P 500 and Nasdaq 100 12-month forward price-to-earnings ratios



Source: Bloomberg Finance L.P.

Continued high levels of concentration in AI within some indices could amplify further corrections if earnings were to disappoint.

Concentration within major equity indices remains elevated across two dimensions. Despite recent falls in the equity prices of the largest AI and technology companies, AI-related companies continue to account for slightly over half of the S&P 500's market capitalisation. Separately, the 10 largest companies account for 41% of the index's market capitalisation, which is broadly unchanged since the July FSR. This is slightly below the all-time high of 42% at the end of 2025, but well above the approximate 25% recorded at the peak of the dot-com bubble in 1999. Concentration is also high in some Asian equity indices. South Korean semiconductor and memory-chip manufacturers Samsung and SK Hynix together account for around half of the market capitalisation of South Korea's KOSPI index. These concentrations mean that an earnings disappointment or reassessment of returns on capital expenditure among a small number of AI-related or other large companies is likely to materially affect broad indices and expose a range of different investors to a common shock.

Any further repricing of equities, particularly in AI-related stocks, could be amplified by deleveraging, margin and collateral calls, and rebalancing by leveraged exchange-traded funds (ETFs).

Common positioning and leverage have acted to amplify an initial fall in equity prices. Recent episodes of volatility in the US and South Korean equity markets have been amplified by concentrated and correlated positioning among institutional and retail investors. Over the summer, falls in AI and semiconductor stocks caused significant losses for some leveraged investors in the US, pushing them towards risk limits and prompting them to unwind concentrated exposures. The resulting deleveraging and portfolio rebalancing amplified equity market moves. Market intelligence suggests the mechanically procyclical rebalancing of leveraged single-stock ETFs linked to Samsung and SK Hynix, and at times rebalancing from broader leveraged ETFs, alongside hedge-fund deleveraging, generated additional sales as prices fell, amplifying and prolonging moves in the underlying stocks and the wider index. These dynamics have resulted in prolonged periods of amplified volatility. Spillovers to other markets were limited, although in a more severe shock, losses on equity positions could lead globally active investors to deleverage in other markets, including sovereign debt markets.

Banks could be exposed through their financing of leveraged investors. Growth in prime brokerage (Section 4.3) over the past 18 months has fuelled many of the leveraged positions within equity markets and has increased interconnections between banks and leveraged NBFIs. These interconnections have the potential, beyond a certain level of severity, to transmit stress back to the banking system and exacerbate a disorderly unwind, potentially leaving banks holding risk that cannot be readily redistributed within the system.

Volatility in equity markets has risen from low levels and has been more prominent in markets with greater exposure to technology companies, including those in Asia and the US. The VIX, a measure of implied volatility of the S&P 500, was near its year-to-date lows at the July FSR and remains much lower than volatility in individual stocks. Market intelligence suggests that passive flows and structural volatility-selling strategies may be contributing to subdued implied volatility at the index level, leaving investors vulnerable to sharp increases in volatility.

> **The growth and broadening of markets used to finance AI-related investment is deepening interconnections across the system, making it more likely for stress in one area to propagate to another.**

The pace of AI-related debt issuance has slowed relative to the first half of 2026, though it remains high. Overall, the expected pace and scale of investment in AI remain unprecedented. Borrowing by hyperscalers,[1] data-centre operators and other AI-infrastructure firms is almost double its 2025 level. Hyperscaler bond issuance is set to exceed $305 billion in 2026, accounting for around 8% of global investment-grade issuance, with the share rising considerably when considering the broader AI-related issuer ecosystem of hyperscalers, semiconductor companies and data-centre operators. Total issuance in 2026 from this broader ecosystem exceeds that of many individual sovereigns, including the UK.

These financing needs are expected to increase further, with AI investment increasingly drawing on a broad range of funding sources, including investment-grade bonds, leveraged finance and private credit, alongside public and private equity.

Private markets (Section 1.5) are also playing a growing role in the financing of data-centres and other AI-infrastructure vehicles, although limited disclosure makes the scale and distribution of these exposures difficult to assess. A material increase in AI-related credit exposures could reinforce the existing structural vulnerabilities associated with the growth of private markets, the role of which is expected to increase further alongside leveraged lending and high-yield bonds. While estimates are not directly comparable, Morgan Stanley analysts estimate that $700 billion of data-centre capital expenditure between 2026 and 2028 would be financed by private credit. J.P. Morgan analysts estimate, more broadly, that $1.4 trillion of anticipated AI capex could be financed by alternative capital.[2] This compares with a current total private credit market size of around $2.5 trillion.[3]

> **At the same time, increasingly complex and circular financing arrangements are increasing sectoral interconnections across the AI ecosystem, as well as the opacity of the wider financial system.**

Businesses across the AI supply chain increasingly rely on equity investments or contractual commitments, including leases, purchase agreements, backstops and guarantees, from a small number of large hyperscalers and chip designers. In some cases, these large firms are simultaneously investors, customers and suppliers, creating relationships sometimes described as ‘circular financing’. Off-balance-sheet arrangements make assessing the serviceability of potential future liabilities (and the associated risks) more challenging.

In addition, the financing of hyperscalers increasingly combines bond issuance with joint ventures and special purpose vehicles funded by public and private capital. These structures can match different risks with investors best placed to bear them but can also make the distribution of exposures less transparent. Hyperscalers’ long-term contractual commitments help these vehicles raise debt by providing expected revenues to service it, strengthening financial interconnections between hyperscalers, data-centre operators and investors. Internal Bank estimates put hyperscalers’ total potential exposure, including debt and off-balance-sheet contractual commitments, at just over $4 trillion.[4] The scale and nature of these financing commitments could come under strain in a stress or if expectations around future AI revenues were revised down, particularly where the path to monetisation remains uncertain for some of the AI-related companies reliant on this financing.

These complex financing arrangements can distribute risk across the financial system, but they also increase interconnections between hyperscalers and other AI businesses and investors, including private credit funds and insurers.

There are also signs of increasing differentiation in the financing conditions facing AI-related borrowers, amid investor concerns about their portfolio concentration.

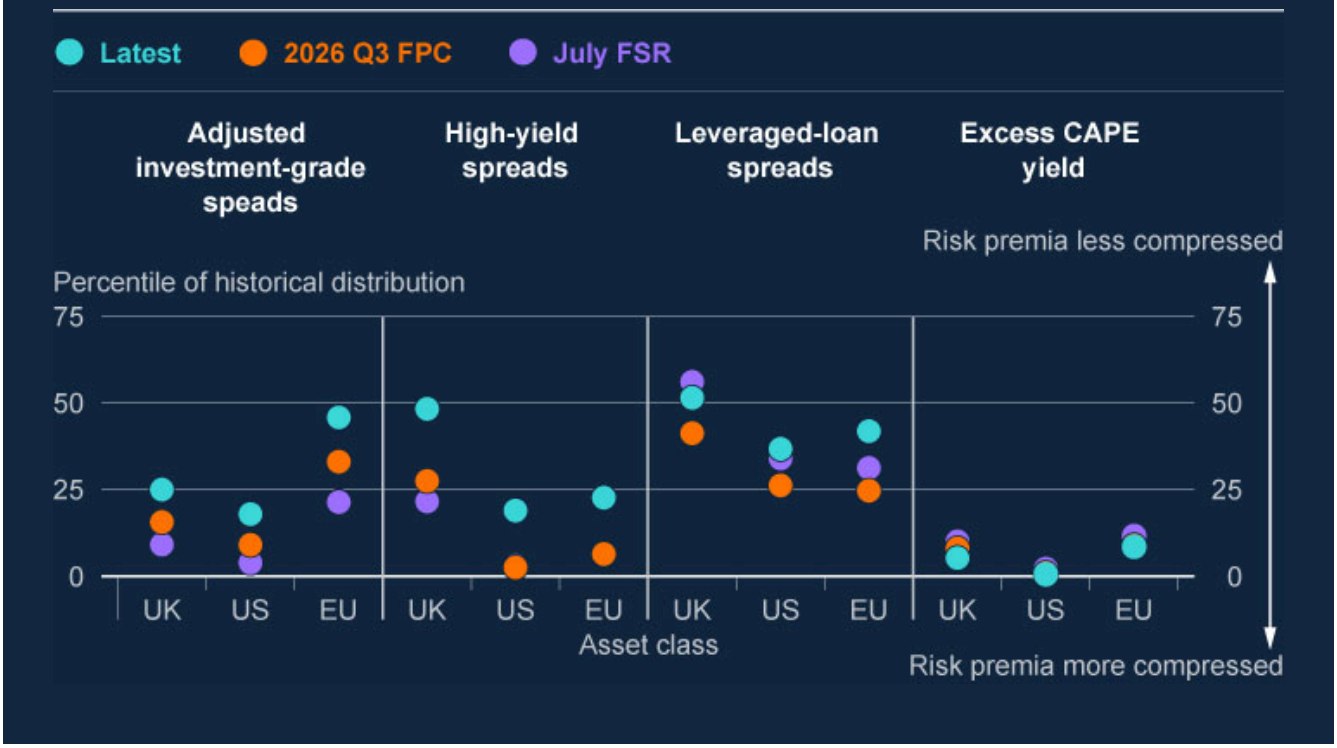
Credit spreads have widened particularly sharply for some lower-quality AI-related borrowers since the July FSR. This is partly consistent with the broader market trend (Chart 1.12). However, recent repricing and concerns over credit quality have particularly affected the financing of some data-centre projects, highlighting how stress at individual firms can affect financing conditions for similar projects. Recent market intelligence suggests that some private credit funds are becoming more selective about further AI and data-centre financing, with some looking to distribute or offload exposures amid concerns about concentration in their investment portfolios.

More broadly, credit spreads have widened since the July FSR.

Alongside falls in equity markets, credit spreads have widened since the July FSR (Chart 1.11), reflecting tighter financing conditions, weaker risk appetite and greater investor differentiation. The largest widening in spreads was concentrated among lower-rated borrowers, where firms are refinancing debt at materially higher interest rates. Despite this, market functioning has remained orderly. After a prolonged period of unusually compressed credit spreads, an orderly widening that better reflects underlying credit risk can support financial stability by reducing the risk of a sharper, destabilising correction later. However, greater interconnections across markets could amplify further repricing, trigger broader spillovers and increase the risk that an orderly adjustment becomes destabilising.

Chart 1.11: Investment-grade, high yield and leveraged loan spreads have all widened, while excess CAPE yields have become more compressed

Current levels of selected risk premia as a percentile of their historical distribution, compared to levels as at the September 2026 FPC meeting and the July 2026 FSR (a)



Sources: Bloomberg Finance L.P., Datastream from LSEG, ICE BofAML, PitchBook a Morningstar company Inc., S&P Dow Jones Indices, a subsidiary of S&P Global and Bank calculations.

(a) Risk premia data are a percentile of a five-day rolling average (except for leveraged-loan (LL) spreads, which are a percentile of a monthly average). Percentiles are calculated from 1998 for investment-grade spreads and high-yield bond spreads, from 2008 for LL spreads and from 2006 for excess CAPE yields. Data updated to 18 November 2026 except LL spreads, which are as at 13 November 2026. All data are daily except for LL spreads, which are weekly. Investment-grade spreads are adjusted for changes in credit quality and duration.

1.5: Private markets and risky credit

> **Private markets and risky credit markets encompass a broad and overlapping range of financing for firms. While they describe different concepts, they are closely related, and many borrowers access finance from both.**

Private markets include private equity and private credit, along with related areas such as infrastructure and venture capital. Private credit is a subset of private markets in which loans are originated directly by NBFIs to both investment-grade and non-investment-grade borrowers.

Risky credit markets include parts of private credit, but also high-yield bonds and leveraged loans, and they fund primarily non-investment-grade borrowers. These markets are also closely linked to private equity, with private-equity-sponsored companies accounting for a

significant share of borrowing in leveraged loan, private credit and high-yield bond markets.

In publicly traded risky credit markets, the widening in credit spreads has been particularly evident in lower-rated segments, pointing to growing investor differentiation by credit quality.

Spreads on US CCC-rated debt, for example, rose to their highest level since early 2023 (Chart 1.12), driven by refinancing pressures, while higher-quality credit has been comparatively resilient, with more limited spread widening in BB-rated and investment-grade debt. While on average high-yield spreads have remained relatively stable, there has been significant dispersion in performance, as the sharp widening in CCC-rated debt has been offset in high-yield benchmarks by the relative resilience of higher-quality bonds. This differentiation has also been evident in leveraged-loan markets, where spreads have widened further. Stress among riskier borrowers may also be less visible where financing is provided through private markets.

Chart 1.12: Public credit spreads, especially in riskier credit grades, have widened

Indexed US credit spreads by rating bucket



Sources: Bloomberg Finance L.P. and Bank calculations

The FPC is focused on monitoring private markets given their growing size, importance to the economy, and increasing interconnections with other parts of the financial system.

Private markets contribute to a competitive and diverse financing landscape that can meet a range of business funding needs and support productive investment. Given their importance to the UK economy, the FPC has previously highlighted the vulnerabilities of these markets, including high leverage, opacity, complexity and uncertainty around valuations, as well as the channels through which they could affect financial stability (see **July 2025 FSR**, **December**

2025 FSR and **July 2026 FSR**). Private markets have not been tested through a broad-based macroeconomic stress at their current size. The FPC has therefore prioritised improving the understanding of these markets and the risks associated with them. Consistent with this, the Bank is undertaking the private markets system-wide exploratory scenario to assess how the private markets ecosystem could operate under stressed conditions. The Bank intends to provide an update on initial findings from the exercise in early 2027, before publishing a full report in 2027 Q2.

> **Since the July FSR, credit stress has increased in parts of private credit, although less so in the UK.**

While credit quality in private markets is challenging to measure accurately, some indicators suggest that since the July FSR, stress has increased in parts of private credit. Fitch Ratings estimates that the US private credit default rate reached 6.3% in the 12 months to September 2026, up from 6.0% in June and 5.4% a year earlier. Consistent with this, indicators developed by Bank staff using loan-level data from business development companies (BDCs) point to some deterioration in credit quality in portfolios of non-UK private credit borrowers. BDC loans to UK corporates show lower levels of distress and non-accrual rates, with the latter capturing loans where a borrower has stopped paying interest, principal or both (usually for 90 days or more). BDC data, however, have some limitations, including valuation lags and limited representativeness.

Higher interest rates and refinancing pressures add to these strains, particularly in private credit markets where loans are predominantly floating rate. Indicators of investor sentiment towards private markets remain mixed. Fundraising has remained relatively strong despite ongoing redemption requests at some BDCs. According to some annual estimates, global private credit assets under management grew by 17% in the 12 months to the end of 2025,[5] extending a period of sustained strong growth. For UK corporates, the percentage of outstanding private credit debt due to mature within the next three years is higher than the corresponding proportion in previous years, increasing the amount of debt exposed to potentially adverse refinancing conditions.

Box A: Enhancing the resilience of the gilt repo market

This box sets out the need for further action to strengthen the resilience of the gilt repo market, shares further analysis on potential reforms, and details next steps.

> **Improving the resilience of the gilt repo market is a key priority for the Bank and the FPC.**

The gilt market is central to the stability of the UK financial system and real economy owing to its role in government financing, its use as a benchmark for other asset classes, and its use by firms in meeting regulatory requirements such as liquidity standards. The gilt repo market plays a critical role in ensuring the functioning of the cash gilt market and in transmitting liquidity throughout the financial system.

Episodes of market dysfunction, including the 2020 dash for cash and the September 2022 liability-driven investment (LDI) funds market stress, alongside the findings from the first **System-Wide Exploratory Scenario** (SWES), have highlighted that gilt repo provision can reduce during stress and amplify moves in gilt yields in a way that can significantly increase government borrowing costs and decrease the availability of credit to the real economy. In particular, the SWES underscored how counterparty credit risk concerns can prevent dealers from extending repo lending to their counterparties in stress.

UK authorities have since taken steps that enhance the resilience of the gilt repo market (for example, resilience standards for LDI funds). However, the Bank has identified the need for further action (Breeden (2026)).

Government bond markets globally – including in the UK – have undergone significant structural change in recent years, including higher issuance with an increasing skew towards shorter-term bonds. Alongside this, some long-term, less price-sensitive investors such as defined benefit (DB) pension funds have reduced their demand for gilts (**July 2026 FSR**).

Meanwhile, leveraged and more price-sensitive investors that are active across different markets and jurisdictions have increased their footprint in the gilt market (Section 1.3). While these participants can support liquidity in normal market conditions, their positioning can adjust quickly to changes in the risk environment and funding conditions, including those in the gilt repo market, amplifying movements in gilt prices. Moreover, where these investors' leveraged strategies are enabled by zero haircuts on gilt repo transactions that are not supported by robust netting or portfolio-

margining arrangements, they risk contributing to an unsustainable build-up of poorly managed leverage, weaker counterparty risk management, and an increase in the risk of abrupt liquidations of gilt holdings. Such abrupt liquidations could amplify increases in government borrowing costs and tighten broader financing conditions, beyond what is justified by economic fundamentals.

As set out in the **2026 Q2 Record**, the FPC has agreed to proceed with proposed reforms to the leverage ratio, which the Bank expects to consult on in early 2027. Given the additional leverage enabled by this change, it increases the importance of continuing to develop and implement measures to improve the resilience of the gilt repo market.

> **The Bank is therefore evaluating policy measures to increase the resilience of the gilt repo market.**

As set out in its **Discussion Paper** (DP) published last year, these measures include greater central clearing and the potential introduction of minimum haircuts on non-centrally cleared repo transactions. The Bank is grateful for the **industry feedback** it received, which will inform the assessment and design of potential future reforms.

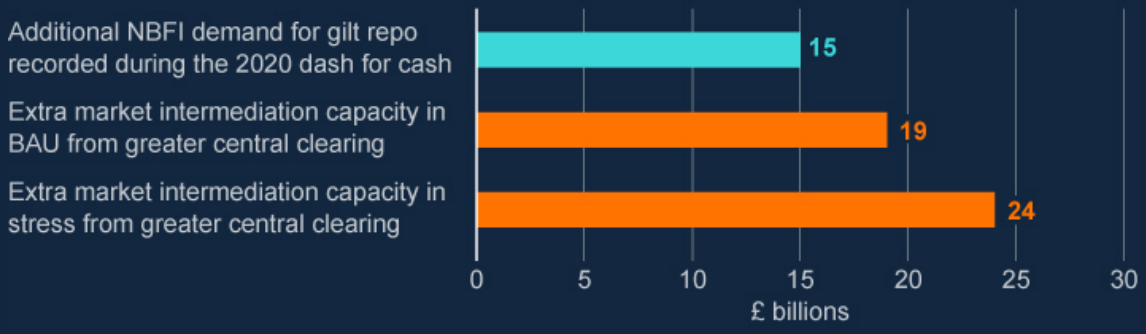
Greater use of central clearing would improve counterparty risk management, create multilateral netting opportunities and improve the management of leverage. These would all improve the resilience of gilt repo provision in stress.

Risk-sensitive, portfolio-level minimum haircuts in the non-centrally cleared gilt repo market would reduce risks from poorly managed leverage by reducing counterparty credit risk, again improving the resilience of gilt repo provision in stress.

> **New Bank staff estimates suggest that multilateral netting opportunities from greater central clearing could unlock up to £19 billion of additional aggregate market intermediation capacity in business-as-usual (BAU) conditions and £24 billion in stress.**

This compares to the £15 billion of additional demand for gilt repo recorded during the 2020 dash for cash (Chart A). This additional intermediation capacity from netting could grow further as central clearing drives greater standardisation in repo maturity dates, which in turn could drive greater adoption of central clearing.

Chart A: Estimated additional aggregate market intermediation capacity in BAU and stress resulting from greater central clearing in the gilt repo market



Sources: Bank Capital Returns, Sterling Money Markets Data (SMMD) and Bank calculations.

> **In addition, recent Bank analysis combining gilt repo and supervisory data adds to previous supervisory evidence that commercial pressures are behind some of the prevalence of zero haircuts observed in the gilt repo market.**

The analysis found that some zero haircuts offered to hedge funds came from dealers who told the Prudential Regulation Authority (PRA) they 'allow' cross-margining between fixed income products for their clients. The results align with some of the industry feedback received. However, the same analysis also revealed that a sizeable volume of zero haircuts on gilt repo transactions with hedge funds was taking place at dealers that told the PRA they 'do not allow' cross-margining between fixed income products (Chart B). This analysis excluded nettable repo and reverse-repo transactions, which are typically offset by dealers.

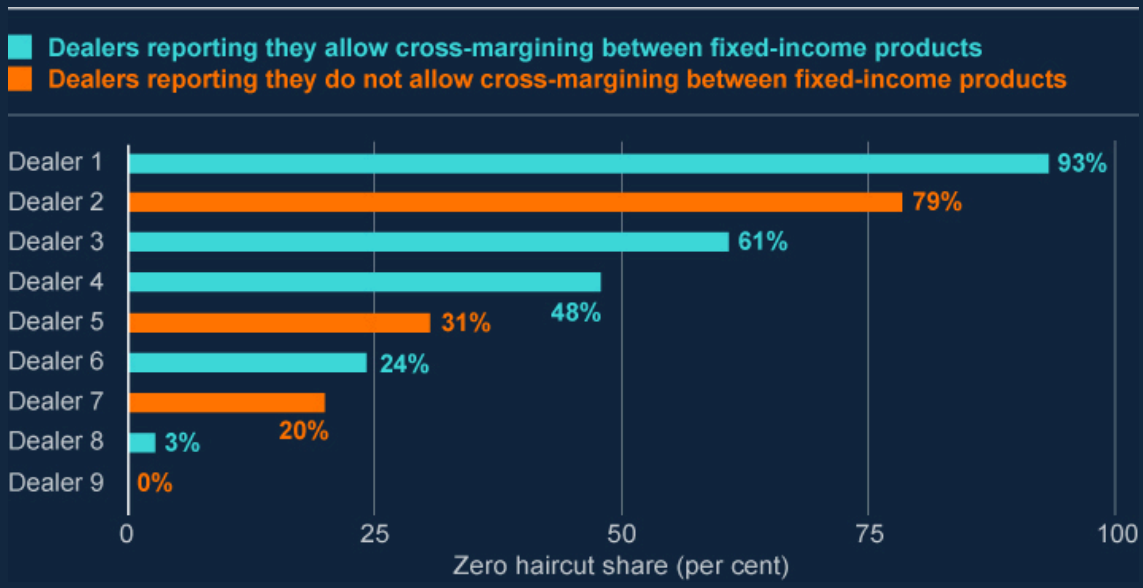
In analysis of a broader dataset of dealers not interviewed by the PRA, the Bank identified several smaller banks offering zero haircuts on the entirety of their gilt repo transactions with hedge funds.

Widening the scope of the dataset still further to include dealers and several types of non-bank financial institutions (NBFIs), the Bank observed that the largest pension funds, LDI funds and hedge funds accounted for a greater share of zero-haircut transactions than their share of overall repo activity would suggest.

Together, these findings provide evidence that zero haircuts offered on gilt repo transactions may not always be supported by robust netting or portfolio-margining arrangements. They also build on previous evidence of commercial pressures driving some of the haircut-setting practices in the gilt repo market (PRA's 2023 **fixed income financing thematic review**).

Chart B: Zero haircuts on gilt repo cash lending are prevalent even after accounting for portfolio netting and fixed income product cross-margining practices

Share of hedge fund gilt repo cash borrowing conducted at zero haircuts at dealers after excluding nettable repo and reverse-repo trades. Dealers are categorised by their reported use of fixed income product cross-margining. Dealers are ordered by zero-haircut share (a)



Sources: PRA data, Securities Financing Transaction Regulation (SFTR) data set and Bank calculations.

(a) Correction made on 26 November to amend the colour shown for Dealer 7 and Dealer 9. The underlying data are unchanged, but the revised chart displays accurate colour and labelling, reporting they do not allow cross-margining between fixed-income products (orange bar, 20%; orange text 0%).

Supporting measures could unlock more of the financial stability benefits of greater central clearing.

The Bank is mindful that sufficient uptake of central clearing is needed to realise its financial stability benefits. However, as flagged by industry in responses to the DP, the current structure of the gilt repo market, coupled with NBFI access barriers and costs of central clearing, discourages further uptake.

The UK gilt market is currently characterised by dealer banks performing maturity transformation between short-term cash lenders (for example, money-market funds) and longer-term cash borrowers (for example, pension funds). This limits the scope for multilateral netting of long-dated or directional exposures and the consequent benefits to dealer balance sheet capacity. This contrasts with the US Treasury repo market, where activity is more concentrated at shorter, largely overnight, maturities, which generates greater netting efficiencies. However, market structures and access models

can evolve over time, as was observed in derivatives and US Treasury repo markets (**Breeden (2026)**). Reforms could help drive this change, provide greater certainty to support the adoption of central clearing and reduce its costs.

Multiple industry responses to the DP proposed the introduction of cross-margining as a cost-reduction measure. Cross-margining would allow the recognition of offsetting risk exposures across clearing services when calculating margin requirements. It could reduce margin requirements for dealers and buy-side firms by recognising cross-product diversification benefits. However, it would require prudent management across infrastructures and different authorities, as well as careful calibration, given the potential for correlations to break down in stress, greater complexity in default management and the potential for this to result in higher system-wide leverage.

The Bank is also mindful that the clearing access models adopted will matter for realising the financial stability benefits of counterparty credit risk reduction and more prudent management of leverage that could come from greater central clearing (**Benjamin (2026)**).

The Bank is assessing the best way to deliver structural improvements to the resilience of the gilt repo market.

Reforms to the gilt repo market are primarily intended to strengthen the resilience of liquidity provision via gilt repo in stress, while ensuring that industry costs and potential impacts on gilt market liquidity in normal times remain manageable. In designing the policy options, the Bank is also considering their potential to mitigate risks from extreme, correlated, concentrated or poorly managed NBFI leverage; their implications for central counterparty operational and liquidity resilience and associated mitigants; and their viability and implementation challenges. As part of this balanced assessment, the Bank is working with the Financial Conduct Authority and with input from HM Treasury and the UK Debt Management Office.

The Bank will publish a roadmap in the first half of 2027.

In the first half of 2027, the Bank will set out its preferred package of policy measures, laying out how it will develop them collaboratively with market participants and domestic and international authorities.

The Bank will work with industry in developing any potential measures, so that all market participants have sufficient time to input into the design of, and prepare for, any proposed changes.

The FPC recognises that careful design will be critical to achieving the intended financial stability benefits of enhancing gilt repo resilience while balancing any costs, operational considerations and market impact.

2: UK household and corporate debt vulnerabilities

The financial system plays a vital role in supporting households and businesses in good times and bad, and in doing so supports sustainable economic growth. For growth to be sustainable over the long term, credit needs to flow to households and businesses that can afford to service their debts. High levels of debt can make households and businesses more vulnerable to shocks, leading them to cut consumption, investment, or employment sharply in a downturn, amplifying the shock to the wider economy. Defaults can also generate losses for lenders and further amplify stress through the financial system. The FPC therefore monitors the resilience of UK households and businesses and has policies in place to guard against an unsustainable increase in household indebtedness.

2.1: Overview of UK economic developments

> **The continued conflict in the Middle East has led to a protracted negative supply shock, with higher energy prices and tighter financial conditions increasing pressures on households and businesses.**

Global energy prices remain well above their levels at the time of the July FSR and remain volatile, despite falling from recent peaks. The conflict has also led markets to expect a more prolonged period of disruption to global energy supply. Higher energy prices have increased near-term inflation and interest-rate expectations. Consistent with this, borrowing costs for households and businesses have risen.

House price growth has also weakened since the July FSR. On a seasonally adjusted basis, house prices fell month on month in July and August and were flat in September, while annual price growth remained positive but slowed. Higher mortgage rates, reflecting in part higher interest-rate expectations associated with the negative supply shock, have weighed on housing demand, with mortgage approvals and other indicators of activity weakening. However, bank credit remains widely available for UK corporates, with lending to both large businesses and small and medium-sized enterprises (SMEs) growing at rates well above their 2015–19 averages (Section 4), although terms are increasingly differentiated by borrower quality.

Economic activity has nevertheless proved more resilient than expected, with Gross Domestic Product (GDP) growth stronger than projected. This resilience supports household incomes and corporate revenues, although higher energy prices and tighter monetary conditions are weighing on demand and are expected to continue to do so.

2.2: UK household debt vulnerabilities

UK household balance sheets are strong in aggregate, providing resilience against future shocks.

Measures of household indebtedness remain low relative to historical averages. The aggregate household debt to income ratio is around 130%, compared with an average of 153% since 2000, while the household debt to GDP ratio is 70%, compared with an average of 86% since 2000. Households also have relatively high cash buffers, equivalent to around 140% of income, above the post-2000 average of 127%. Measures of households' debt-servicing burden are less benign: aggregate debt-servicing ratios (DSRs) remain around their long-run averages (Chart 2.2), having risen in recent years and are projected to rise further as recent increases in energy prices and borrowing costs feed through. Successive interest-rate and cost of living shocks have therefore reduced some households' capacity to absorb further shocks without cutting consumption.

Mortgage rates have increased since the July FSR, consistent with higher market interest rates, and more households are now projected to see increases in mortgage repayments over the next three years. However, the median increase is projected to be materially smaller than the increases experienced during 2023 and 2024.

Quoted two-year fixed mortgage rates are 5.39% at 75% loan to value (LTV) and 5.60% at 90% LTV, while equivalent five-year fixed rates are 5.19% and 5.38%, respectively. The two-year rates are 47 and 28 basis points higher, respectively, than at the time of the July FSR.

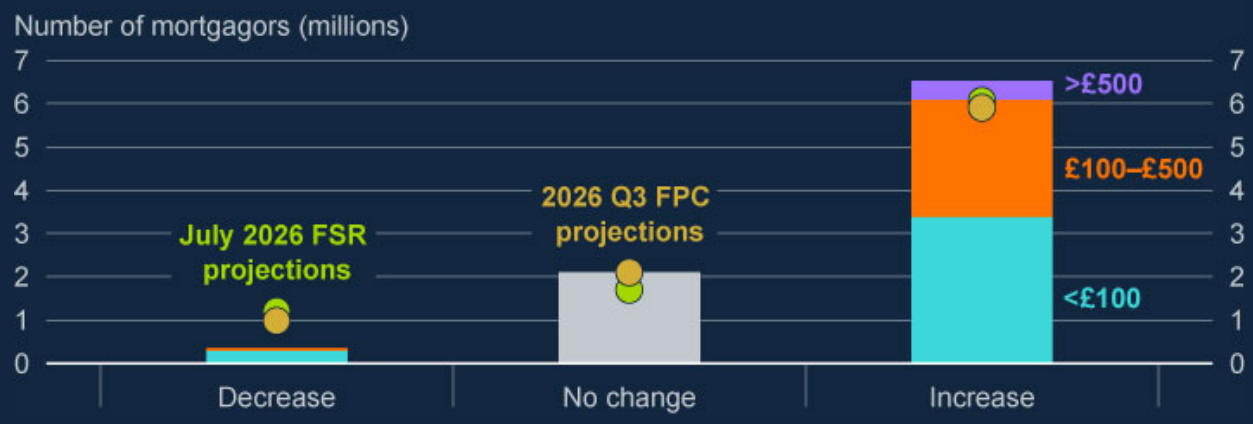
Higher mortgage rates mean that more borrowers are projected to experience an increase in monthly payments when fixed-rate deals mature. Of the approximately 9 million owner-occupier mortgages outstanding, around 7 million are projected to refinance between June 2026 and December 2029 (Chart 2.1). Of these, around 6.5 million are projected to see payments rise, compared to around 6 million at the time of the July FSR, while around 350,000 are projected to see payments fall.

Of the 6.5 million projected to see a rise in payments, the vast majority of borrowers have already refinanced at rates materially above those available before 2022. For a typical owner-occupier mortgagor rolling off a fixed-rate deal over the next three years, the median projected increase in monthly repayments is now around £100, around twice the increase projected at the time of the July FSR. This still remains well below the median estimated increase of just under £200 experienced by borrowers refinancing during 2023 and 2024.

Nevertheless, a number of households remain exposed to substantially larger increases in mortgage payments, particularly those whose fixed-rate deals were agreed before interest rates began rising in 2022. Just over 1 million households currently on mortgage rates below 3% are due to refinance by 2027 Q4, meaning that by then most mortgages remaining on such low rates will have refinanced.

Chart 2.1: Many borrowers are projected to see increases in mortgage payments, but most increases are smaller than those experienced by borrowers refinancing during 2023 and 2024

Number of owner-occupied mortgages by estimated change in monthly mortgage costs, from 2026 to December 2029, and comparison to the same projections at the time of the July 2026 FSR and 2026 Q3 FPC round (a) (b) (c)



Sources: Bank of England, Bloomberg Finance L.P., FCA Product Sales Data and Bank calculations.

(a) The projection uses the OIS curve as at 18 November 2026 and the latest available data on the stock of outstanding mortgages (2026 H1).
(b) Changes in payments on variable-rate mortgages are calculated using the implied change in the OIS curve, and changes in payments on fixed-rate mortgages are calculated by assuming that mortgagors refinance onto a typical fixed rate implied by the OIS curve at the point their fixed-rate contract ends.
(c) Mortgages with less than £1,000 outstanding are excluded. These data do not include buy-to-let mortgages or mortgages that are off balance sheet of authorised lenders, such as securitised loans or loan books sold to third parties.

Higher borrowing costs and energy prices are placing additional pressure on household finances, leaving some households with less financial headroom to absorb further shocks.

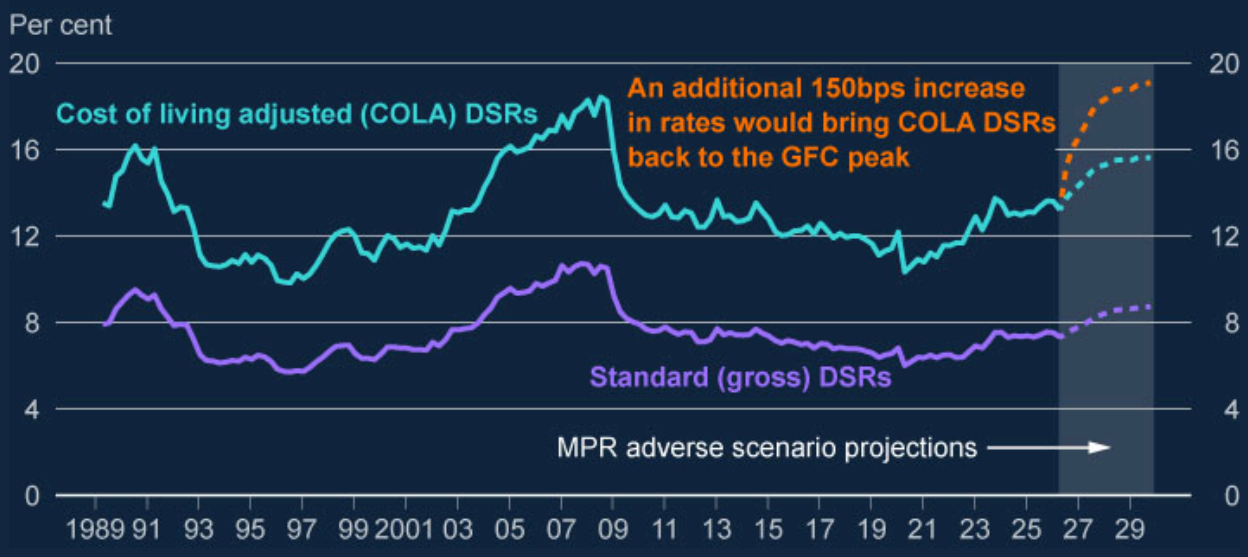
The cumulative impact of successive interest-rate and cost of living shocks is increasingly visible in aggregate household DSRs (Chart 2.2). DSRs have risen in recent years and are projected to rise further as recent increases in energy prices and borrowing costs feed through. Although aggregate pressures remain below previous peaks, this cumulative increase has left some households with less financial headroom to absorb further shocks. Higher DSRs could prompt them to further cut consumption, even while they continue to service their debts.

The household DSR would be projected to rise to a little under 9% by December 2029 in the event of a more prolonged energy shock consistent with the November Monetary Policy Report 2026 (MPR) adverse scenario[6] (Chart 2.2). The cost of living adjusted debt-servicing

ratio (COLA DSR), which additionally accounts for essential expenditure, would be projected to increase to close to 16% under the same scenario. While this would be its highest level since the global financial crisis (GFC), it would remain around 2.5 percentage points below its GFC peak. Reaching that peak would require a further increase of around 150 basis points in borrowing costs on top of the November 2026 MPR adverse scenario. Headroom has reduced compared to the July FSR, reflecting the already higher mortgage rates and inflation in this scenario. Strong aggregate household balance sheets would, however, provide additional resilience if such a shock were to materialise.

Chart 2.2: In the November 2026 MPR adverse scenario, aggregate debt-servicing pressures remain below previous peaks, but successive shocks have reduced households' capacity to absorb further increases

Gross and COLA DSRs (a) (b) (c)



Sources: Bank of England, Bloomberg Finance L.P., FCA Product Sales Data, ONS and Bank calculations.

(a) Standard (gross) DSRs are calculated as mortgage interest payments plus principal repayments as a proportion of nominal household post-tax income. Household income is defined as disposable (post-tax) income adjusted for changes in pension entitlements, which is adjusted to exclude gross operating surplus and the effects of financial intermediation services indirectly measured, and to add back interest paid. Mortgage interest payments before 2000 are adjusted to remove the effect of mortgage interest relief at source. The solid purple line gives historical data, and the dashed purple line shows the projection under the adverse scenario from the November 2026 MPR.
(b) COLA DSRs are calculated similarly to standard (gross) DSRs but additionally subtract cost of living expenses from household incomes. The solid aqua line gives historical data, and the dashed aqua line shows the projection under the adverse scenario from the November 2026 MPR. The dashed orange line shows that an additional 150 basis point increase in borrowing costs would be required to bring COLA DSRs back to their GFC peak.
(c) The illustrative projections to end-2029 use projections for household post-tax income consistent with the adverse scenario in the November 2026 MPR forecast. Payment increases are projected consistently with Chart 2.1 and assume the aggregate mortgage debt to income ratio remains constant.

Higher essential spending and borrowing costs are placing greater pressure on some households including low-income households and renters. But while pressures are building, current signs of distress remain limited.

Households facing rising mortgage payments may need to reduce discretionary spending or draw down savings as higher energy and other essential costs feed through. Most mortgagors have savings buffers, but lower-income households, including renters, have less room to adjust because they spend a larger share of their income on energy, food and other essentials.

Bank of England Agents report greater financial pressure among some lower-income borrowers, including impairments and use of debt-relief arrangements, but do not point to widespread deterioration in household credit quality. The Bank's regional intelligence and outreach suggest that households have adapted to repeated cost shocks through close budgeting, shopping around, and actively changing spending habits. This adaptability and heightened focus on the management of personal finances are likely to have supported resilience. However, indicators of financial pressure remain elevated, and the number of households experiencing financial difficulties remains elevated**.** Nearly 30% of households in the NMG Consulting survey report being under financial pressure, with increased credit card balances and arrears on bills and utility payments cited among the main reasons. While this is around 10 percentage points higher than in 2021, the share has been broadly flat since 2022 and fell marginally in the latest survey.

Sharp reductions in consumption or increases in defaults could amplify an economic downturn. A prospective weakening in employment conditions would add to these pressures, particularly for lower-income households with limited savings buffers. However, those households hold a relatively small share of total outstanding consumer credit and mortgage debt and account for a relatively small proportion of aggregate consumption, limiting the potential financial stability implications. Separately, growing concerns in the Bank's Citizens' Panels about the potential implications of artificial intelligence (AI) for traditional employment opportunities highlight a significant source of uncertainty around the employment outlook.

High loan to income (LTI) mortgage lending has increased, including among some borrower groups that may be more vulnerable to shocks. But the aggregate share remains within the level consistent with the FPC's 15% flow limit, while the share of high LTI mortgages in the outstanding stock remains lower. The limit guards against an excessive build-up of highly indebted households over time. More recently, higher mortgage rates have weighed on affordability, and the share of lending at high LTI ratios has begun to level off (Box B).

Increased pressures are yet to translate into a material increase in arrears on household debt. Aggregate mortgage arrears and consumer credit arrears remain just below, or close to, their long-run averages: around 0.8% of mortgages have more than 2.5% of their balance in

arrears, while consumer credit arrears are around 1%. This is consistent with broader market and supervisory intelligence, which continues to indicate limited signs of distress across mortgage and consumer credit portfolios. These indicators are backward looking and may not yet reflect the full effect of recent increases in energy prices and borrowing costs.

Overall, the FPC judges that, although persistently higher energy prices and interest rates have reduced the capacity of some households to absorb further shocks, household balance sheets remain strong and household debt vulnerabilities remain contained.

Successive interest-rate and cost-of-living shocks have increased debt-servicing pressures and reduced the capacity of some households to absorb further shocks. This is particularly the case for lower-income households, renters and borrowers with limited savings buffers. However, current DSRs are around long-run averages, household indebtedness is low, and arrears remain limited. Additionally, the results of the 2025 Bank Capital Stress Test demonstrate the banking system's capacity to continue supporting UK households, even under severe economic and financial conditions.

2.3: UK corporate debt vulnerabilities

UK corporate balance sheets are strong in aggregate, providing resilience against shocks.

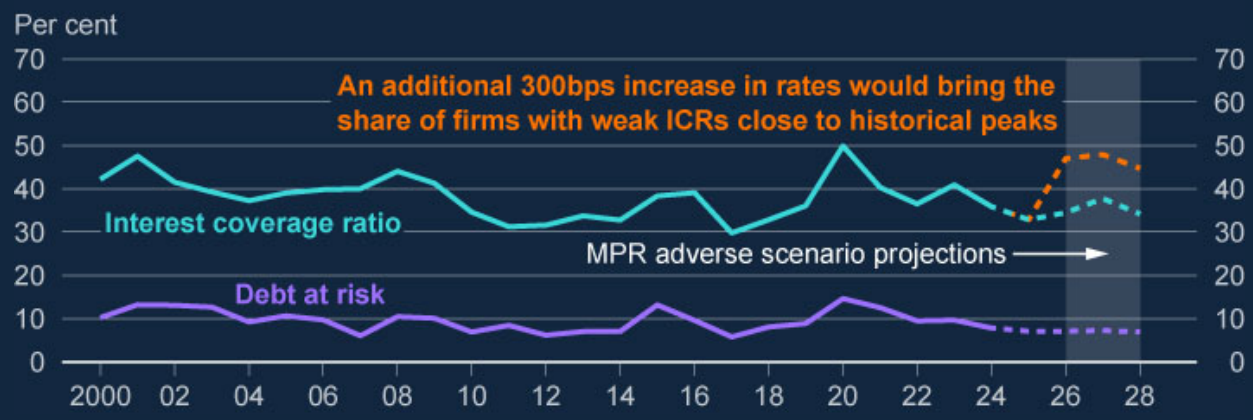
The gross debt-to-earnings ratio is around 285%, broadly in line with its post-2000 average of 280%. But the net debt-to-earnings ratio, which accounts for firms' cash holdings, is substantially lower, at around 155%, compared with a post-2000 average of 165%, indicating that firms continue to hold sizeable cash buffers. Corporate indebtedness also remains close to its historical average, at around 50% of GDP, while aggregate debt-vulnerability metrics, including debt at risk (Chart 2.3), are around their long-run averages. Together, these balance sheet buffers support corporate resilience to shocks.

While higher energy and borrowing costs put additional pressure on debt-servicing burdens, it would take a severe shock to funding costs to return aggregate debt-servicing burdens to previous peaks.

Corporate debt at risk, defined as the share of debt held by firms judged to be at higher risk of failure over the next three years is projected to remain stable, and the share of debt held by firms with weak interest coverage ratios (ICR) (ICR below 1.5) is projected to increase only modestly under the November MPR adverse scenario, remaining below previous peaks (Chart 2.3). A substantially larger shock to borrowing costs (an additional 300 basis points) would be required for debt-servicing pressures to come close to the peaks observed during the pandemic and in the early 2000s.

Chart 2.3: In the November 2026 MPR adverse scenario, UK corporate debt at risk is projected to remain stable in coming years. The share of firms with weak interest coverage is projected to increase only modestly and remain below historical peaks

Debt-weighted share of UK corporates with ICRs below 1.5 and companies at higher risk of default (a) (b) (c) (d)



Sources: Bureau van Dijk, Bank of England Decision Maker Panel, LSEG, Moody's Analytics and Bank calculations.

(a) These data refer to medium and large UK private non-financial corporations. The solid lines give historical data. The dashed purple and aqua lines show projections under the adverse scenario from the November 2026 MPR. The dashed orange line shows that it would take an additional 300 basis points increase in borrowing costs for the share of firms with weak ICRs to come close to the peak observed during the pandemic and in the early 2000s.
(b) Data for 2025 onwards are estimated using end-2024 balance sheets and assuming full pass-through of funding cost changes over the estimated period. ICR projections assume full pass-through of the Bank Rate path and corporate credit spreads to the interest rate paid on the stock of floating and maturing fixed-rate corporate bond debt. Where applicable, the change in interest cost relative to the existing fixed-rate corporate bond coupon is prorated for the part of the year after maturity. The scenario with higher borrowing costs incorporates a further 300 basis points increase in the average cost of debt servicing for UK corporates on this stock of debt.
(c) ICR projections contain assumptions on sectoral turnover growth implied by Decision Maker Panel (DMP) sales and price growth data and expectations that are applied to earnings on a sectoral basis, extended beyond 2027 Q2 using changes in GDP growth in the adverse scenario from the November 2026 MPR.
(d) The aqua line represents the debt-weighted share of UK corporates that simultaneously breach the three thresholds associated with the highest likelihood of firm failure: whether a company's ICR, calculated by dividing its earnings before interest and tax by its interest expense, is below 1.5; whether its liquidity ratio (current ratio) is below 1.1; and whether its return on assets is negative. The sample includes UK large and medium firms. Both ICR lines show the share of debt held by firms with an ICR below 1.5 (**Stressed or in distress? How best to measure corporate vulnerability**).

Pressures from higher energy prices and other cost increases are affecting firms across all sectors, but some are more exposed and SMEs remain particularly vulnerable.

Bank Agents report that supply-chain disruption is putting pressure on the construction sector, while higher input, energy and labour costs are weighing on businesses more broadly. Energy-intensive sectors are particularly affected by higher energy costs, with parts of manufacturing and transport facing the largest direct cost increases. These pressures are

compounding existing challenges in sectors such as residential construction and parts of hospitality. For firms with limited pricing power, they are compressing profit margins and reducing the buffers available to absorb higher debt-servicing costs.

SMEs are especially vulnerable because they tend to be less able to absorb cost increases or pass them through to customers and typically have lower margins and cash buffers to cushion the impact on earnings. These vulnerabilities may increase credit risk and funding costs for SMEs. SME debt is small relative to total corporate debt, limiting the risks to lender balance sheets. However, SMEs account for around 60% of UK employment, so a widespread defensive response by SMEs, including reductions in investment or employment, could exacerbate a broader macroeconomic downturn.

More highly leveraged corporate borrowers are particularly exposed to tighter financing conditions, especially where vulnerabilities overlap.

Aggregate corporate refinancing needs remain limited in the near term. Across the main market-based financing instruments, around 6% to 11% of outstanding debt matures by the end of 2027 and 13% to 20% by the end of 2028. Refinancing needs increase more materially thereafter, particularly in private credit and leveraged loans, where 39% and 36% of outstanding debt mature, respectively, by the end of 2029. Refinancing needs are slightly higher for companies in energy-intensive sectors which may experience additional challenges if higher energy prices raise investor concerns about their earnings resilience. Consistent with this, recent market intelligence suggests that higher energy costs have contributed to wider corporate bond spreads for some energy-exposed UK issuers, including in the utilities and transport sectors.

Market intelligence also suggests increased differentiation by credit quality. Since February, spreads on lower-rated high-yield debt have widened materially, while those on higher-rated high-yield and investment-grade debt have moved by less. Contacts suggest this reflects concerns about highly leveraged borrowers' debt-servicing capacity and some rotation towards higher-quality credit. But the implications for UK corporates are contained in aggregate: lower-rated debt is a small and concentrated part of high-yield markets, and UK exposures to high-yield debt are small relative to aggregate corporate debt. Contacts continue to view the stress as largely idiosyncratic rather than systemic. Liquidity has deteriorated and bid-offer spreads widened, but market functioning has remained orderly.

Strong aggregate corporate balance sheets and limited signs of current distress provide resilience, and the bulk of refinancing needs lie several years ahead. This leaves most borrowers time to refinance, extend maturities or reduce debt, although refinancing is occurring at higher interest rates and borrowers reliant on riskier credit markets could face greater pressure if financing conditions tighten further.

Pressures are greatest where vulnerabilities overlap. Firms that face a combination of high leverage, near-term refinancing needs, and significant exposure to higher energy costs can face pressure on both earnings and debt-servicing capacity. Businesses facing higher refinancing costs or difficulties accessing finance may take actions such as cutting investment and employment and could face a higher chance of entering distress.

Despite these pressures, aggregate business investment has continued to grow. Provisional Office for National Statistics estimates show that it increased by 0.4% in 2026 Q3 and was 3.0% above its level a year earlier. However, regional intelligence suggests that tighter financing conditions and pressure on profit margins are leading some firms, particularly SMEs, to delay or revisit investment plans.

In addition, bank credit remains widely available for UK corporates, with lending to both large businesses and SMEs growing at rates well above their 2015–19 averages. Banks continue to support lending, with no evidence that they are restricting credit to defend their capital positions, and Bank Agents report that supply continues to outstrip demand across firm sizes (Section 4).

Commercial real estate (CRE) financing conditions have also remained relatively resilient, although refinancing is more challenging for lower-quality assets.

According to the latest **Bayes Business School market survey**, new UK CRE lending reached £28.7 billion in the first half of 2026, 29% higher than a year earlier, while around 69% of outstanding CRE loans are below 70% LTV, providing some resilience against falls in property values. Market intelligence suggests that competition among lenders continues to support refinancing of stronger assets. But properties with weaker income prospects, particularly where demand for their underlying use has declined, can be more difficult to refinance and may be structurally impaired. Extensions and limited transaction activity may be delaying price discovery and the recognition of losses.

Signs of corporate distress remain limited, although near-term indicators may not yet capture the full impact of higher energy and borrowing costs.

Corporate insolvency rates have fallen over the past year and remain well below their GFC peak. In England and Wales, 49 companies per 10,000 on the effective register entered insolvency in the 12 months to October 2026, down from 53.4 a year earlier and substantially below the peak of 113.1 during the 2008–09 recession, in part reflecting that the number of companies on the register has more than doubled since then.

Overall, hedging and inventories may provide temporary buffers against financial strain, and firms may initially absorb higher costs through margin compression. Consistent with this, the **October 2026 Decision Maker Panel** survey indicates that 71% of firms expect higher energy prices to reduce their profit margins.

Overall, the FPC judges that corporate balance sheets are strong, providing resilience against shocks in the current challenging external environment.

Pressures have increased since the July FSR as the energy shock has proved persistent and financial conditions have tightened. Successive input-cost and financing shocks have compressed margins and reduced the capacity of some firms to absorb a further deterioration. These pressures are likely to be highest among SMEs, energy-intensive firms and highly leveraged borrowers, particularly where vulnerabilities overlap.

Nevertheless, signs of distress remain limited, refinancing needs are contained in the near term, and corporate debt at risk is projected to remain well below previous peaks under the November 2026 MPR adverse scenario. The FPC therefore judges that corporate debt vulnerabilities that could disproportionately amplify the impact of an adverse shock on the macroeconomy or financial sector are not currently elevated. The results of the 2025 Bank Capital Stress Test demonstrate the banking system's capacity to continue supporting UK corporates, even under severe economic and financial conditions. The FPC will continue to monitor whether pressures become more persistent or broad-based and how tighter financing conditions interact with energy-related and refinancing vulnerabilities.

Box B: High loan to income (LTI) lending since the FPC's 2025 Recommendation on the LTI flow limit

The FPC's LTI flow limit guards against the unsustainable build-up of vulnerabilities across the household sector that could amplify economic downturns. After the FPC's 2025 Recommendation, the Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) amended their rules to give individual lenders greater flexibility to serve creditworthy borrowers, while retaining the aggregate limit on high LTI lending. The changes were intended to support more efficient implementation of, and greater use of the capacity within, the aggregate limit. This box assesses developments in high LTI lending since those changes.

Purpose of the limit and changes to its implementation

The FPC's LTI flow limit seeks to ensure that no more than 15% of new residential (owner-occupied) mortgages in scope of the limit are at 'high' LTI ratios of 4.5 or above. The limit was introduced in 2014 to guard against a material and unsustainable increase in household indebtedness and the number of highly indebted households. This Box takes stock of developments in high LTI lending since the FPC's July 2025 Recommendation, as part of the FPC's monitoring of the operation of its housing tools.

Highly indebted households are more likely to cut consumption sharply in response to adverse shocks in order to continue servicing their debts, which can amplify economic downturns. The FPC's LTI flow limit does not impose an outright cap on borrowing by individual households. Instead, it allows creditworthy households to borrow at higher LTIs while limiting the build-up of vulnerabilities from the stock of highly indebted households. The flow of high LTI lending provides a useful proxy for the riskiness associated with the stock, which is difficult to measure directly.

The limit was previously implemented by restricting high LTI lending to 15% of new mortgages in scope at each individual lender. In July 2025 **the FPC recommended that the PRA and FCA amend how the LTI flow limit was implemented** to allow individual lenders to increase their share of lending at high LTIs, while seeking to ensure that the aggregate flow remained consistent with the 15% limit. This was intended to support more efficient implementation of, and greater use of the capacity within, the aggregate limit. Differences in lenders' risk appetites and business models meant that some lenders were unlikely to extend many mortgages at higher LTIs, even as other lenders might be constrained by regulatory limits from doing so.

Lenders could initially seek a disapplication of the firm-level limit through **interim Modification by Consent (MbC) arrangements**. On 14 October 2026, **the PRA and FCA published their final policy**, effective from 28 October 2026, removing the firm-specific 15% cap and providing lenders with greater flexibility to determine their individual high LTI lending strategies in line with their risk appetites and business models.

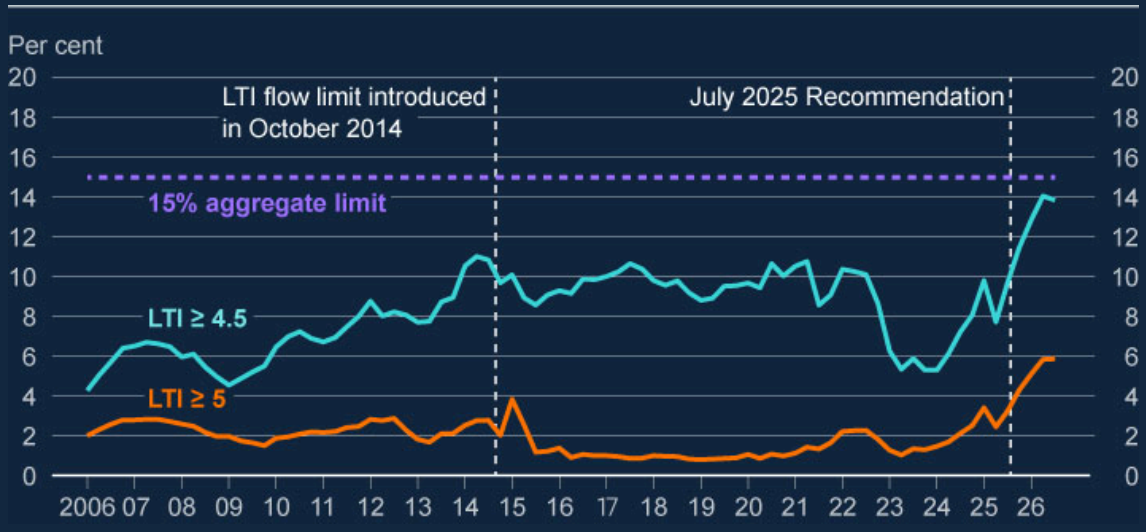
Growth in high LTI lending and wider market developments

> **High LTI lending has increased materially since mid-2025, supported by several developments in the mortgage market and the additional flexibility provided by the FPC's Recommendation.**

The share of new residential mortgages at high LTIs has increased from 8.9% in 2025 H1 to 13.9% in 2026 Q3 (Chart A). The aggregate share has therefore moved closer to, but remains within, the FPC's 15% flow limit. In 2026 Q3, 30,800 new mortgages were issued at high LTIs, compared with 18,200 per quarter over 2025 H1.[7] The increase is likely to reflect a combination of the additional flexibility provided after the FPC's Recommendation and wider developments in the mortgage market.

Chart A: The share of new mortgage lending at high LTIs has increased since the FPC's July 2025 Recommendation

The share of new residential mortgages at higher LTIs in each quarter (a)



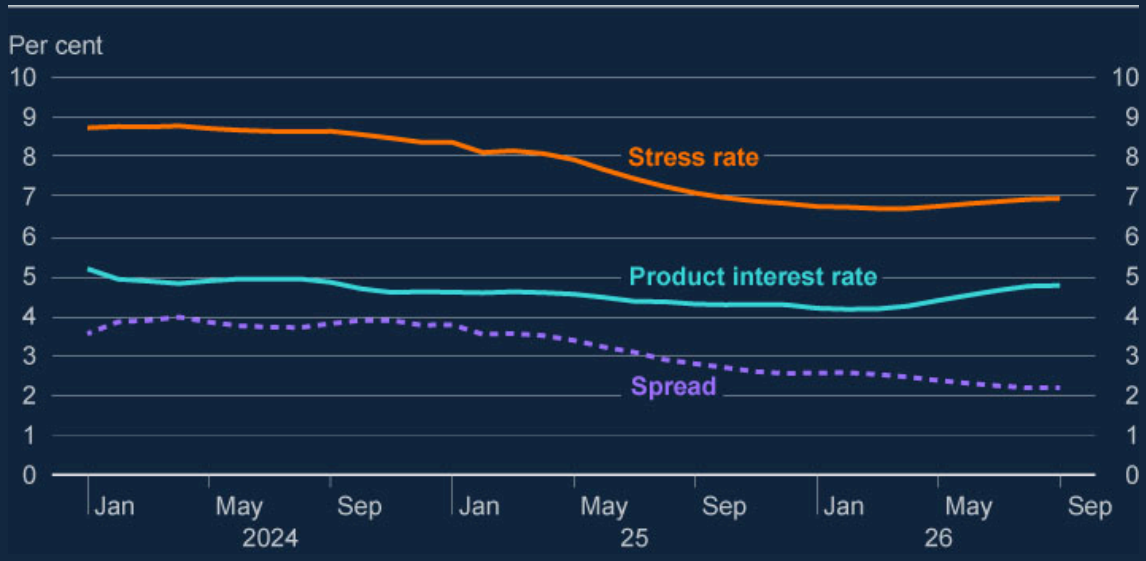
Sources: FCA Product Sales Data and Bank calculations.

(a) More detail on mortgages within the scope of the LTI flow limit can be found at: **High loan to income (LTI) lending**.

At the time of the Recommendation in July 2025, high LTI lending was already expected to increase for several reasons. Lower interest rates were making it easier for some borrowers to afford mortgages at higher LTIs. Over the previous year, the average product interest rate on new residential mortgages fell by around 50 basis points, to 4.4%, while the average stress rate used by lenders to test mortgage affordability fell by around 120 basis points, to 7.4% (Chart B). The fall in stress rates reflects both falling interest rates and an FCA clarification of its mortgage rules. These trends continued after the Recommendation, with both product and stress rates falling further. More recently, product rates have risen following the onset of the Middle East conflict, weighing on mortgage affordability and likely limiting further growth in high LTI lending. This is consistent with signs of high LTI lending levelling off in the latest data (Chart A).

Chart B: Mortgage product and stress rates fell ahead of and following the FPC's Recommendation

Average interest rates on completed residential mortgages



Sources: FCA Product Sales Data and Bank calculations.

Lender responses and the contribution of the Recommendation

Sixteen lenders, accounting for around 40% of the mortgage market, obtained an MbC to disapply the 15% firm-level limit. Between 2025 H1 and 2026 Q3, the high LTI share among these lenders increased from 11.4% to 16.3%. High LTI lending also increased among non-MbC lenders, from 7.1% to 11.9% over the same period.

Many lenders also broadened their high LTI lending criteria during this period by reducing minimum income requirements, permitting lending at higher loan to value (LTV) ratios and increasing the maximum LTI available to borrowers.

Isolating the impact of the FPC's updated Recommendation from other market developments is challenging. However, Bank staff judge that the updated Recommendation has materially contributed to the increase in high LTI lending. Staff estimate that, as expected, MbC lenders provided more high LTI lending relative to non-MbC lenders between August 2025 and September 2026, even after controlling for wider market impacts such as changes in mortgage and stress rates. Staff also find that non-MbC lenders increased their high LTI lending after the Recommendation when controlling for these factors, but this is more uncertain due to the difficulty in isolating the effect from other market-wide developments. Lender intelligence also points to increased competition in the high LTI market over this period, which may have supported increased lending across the market.

Changes in the borrower mix

> **Growth in high LTI lending has been broad based, with some shift towards lower-income borrowers, higher LTVs and areas outside London and the South East of England.**

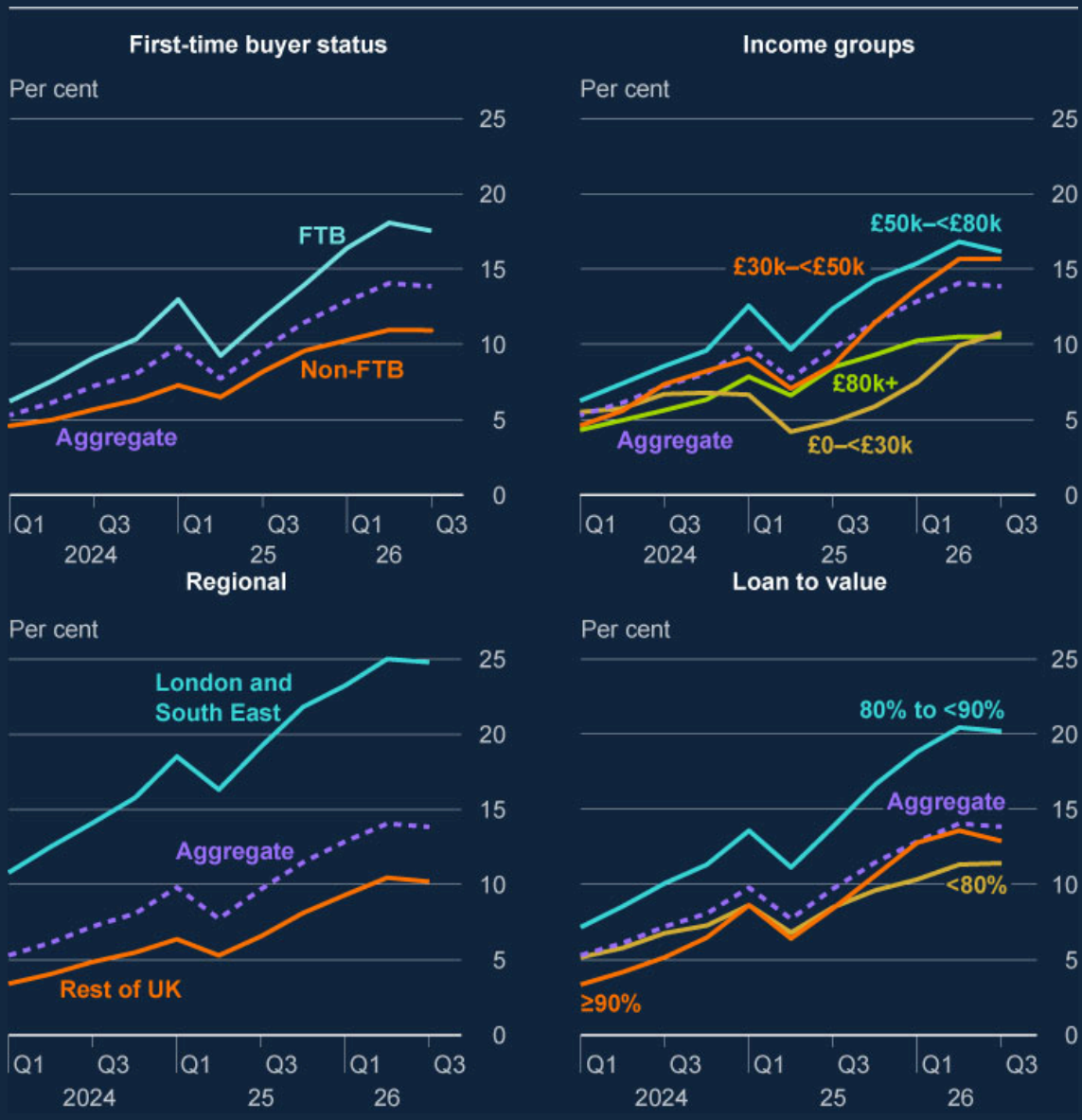
Historically, high LTI borrowing has been more important for first-time buyers (FTBs) and borrowers in London and the South East of England, where house prices are relatively high compared with incomes. Since the FPC Recommendation, high LTI lending has increased across both first-time and other buyers, across income and LTV groups, and across nations and regions of the UK (Chart C).

Within this overall increase, the composition of high LTI lending has shifted somewhat, with borrowers earning below £50,000, those at higher LTVs and those outside London and the South East of England now accounting for slightly larger shares than before the Recommendation. FTBs have continued to account for around 55% of high LTI lending.

There has also been some shift towards higher LTI ratios: in 2026 Q3, 5.9% of high LTI lending was at LTIs above 5 and 1.5% at LTIs above 5.5, compared with 3% and 0.9%, respectively, in 2025 H1. There is little evidence that the overall increase in high LTI lending simply reflects borrowers moving from just below the 4.5 LTI threshold to just above it.

Chart C: The increase in high LTI lending has been broad based across borrower types

The share of new residential mortgages at LTIs of 4.5 or above by borrower type (a)



Sources: FCA Product Sales Data and Bank calculations.

(a) Income is defined as borrowers' total gross annual income, before tax or other deductions.

Access to home ownership and deposit constraints

Greater access to high LTI mortgages can support home ownership for some households, but saving a sufficient deposit remains the main barrier to owning a home.

Previous Bank analysis found that just under 80% of prospective first-time buyers do not have sufficient savings to cover a 5% deposit on a typical first-time buyer property in their area. As discussed in Section 2, house price growth has slowed, which may make it easier for some prospective FTBs to save the deposit needed to buy a home. **Bank staff analysis** suggests that loosening mortgage conditions without an increase in housing supply could, over time, push up house prices without increasing home ownership rates. The FPC supports initiatives to explore increases in the supply of housing and greater access to mortgages for creditworthy households, including those with smaller deposits. The Government is introducing its **'Your First Home' scheme to support first-time buyers**.

Overall assessment and ongoing monitoring

> **The FPC judges that the updated Recommendation appears to have operated as intended, supporting greater high LTI lending while maintaining an aggregate guardrail.**

While high LTI lending has increased after the change, the aggregate share remains within the level consistent with the FPC's 15% flow limit. Recent developments in the mortgage market are also likely to limit further growth in high LTI lending in the near term. As set out in Section 2, aggregate UK household indebtedness remains low relative to historical averages, and the stock of highly indebted households also remains relatively low, although higher borrowing costs and wider cost pressures have reduced the financial headroom available to some households, leaving them less able to absorb further shocks.

Under the PRA and FCA's new framework, the aggregate share will be monitored quarterly. Only if the aggregate becomes inconsistent with the FPC's 15% limit on a persistent basis will lenders with high LTI flows above 15% **be expected to gradually reduce those flows towards 15%.** More broadly, the FPC will continue to monitor developments in high LTI lending and the operation of its housing tools. In October 2026, HM Treasury's annual remit letter to the FPC asked the Committee to consider how its LTI framework can further support access to home ownership without prejudicing financial stability. The Committee will consider this in 2027.

3: Sustainable economic growth – long-term capital and high-growth firms

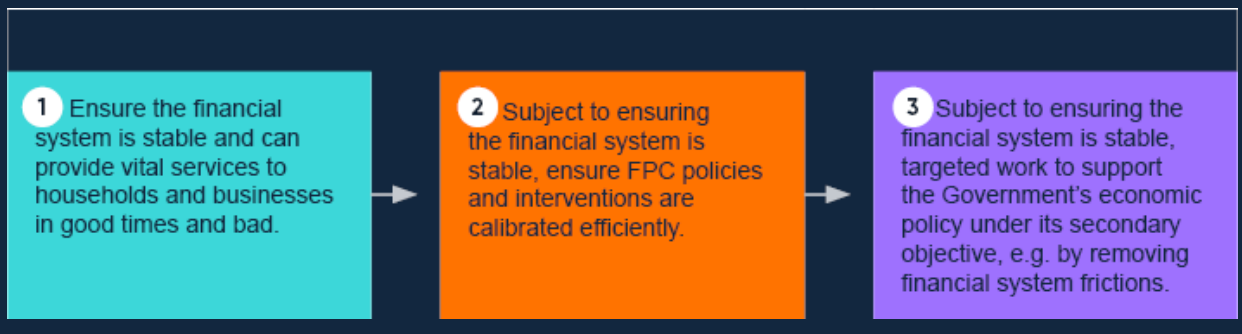
The FPC has assessed how long-term capital providers can better support the financing needs of high-growth firms (HGFs)[8] seeking to scale up.

The **December 2025 Financial Stability Report** (FSR) presented the FPC's framework for supporting sustainable economic growth. Long-run growth depends on the supply of labour and capital, and the efficiency with which they are combined. Although the financial system's contribution is only one of a number of factors influencing productivity growth in the UK, it plays a role by providing finance for investment in capital and technology. Work carried out by the FPC to support sustainable growth complements efforts by other parts of the Bank, for example through the PRA's **secondary objectives** to facilitate effective competition, international competitiveness and growth of the UK economy.

Maintaining financial stability is the foundation for sustainable growth.

The December 2025 FSR set out how sustainable growth and financial stability are mutually reinforcing (box 1, Figure 3.1). A growing economy supports firms' and households' capacity to service debt, strengthens financial institutions' ability to build resilience, and makes the costs of maintaining that resilience easier to bear. The ability to scale strategically important firms and sustain a diverse domestic financing ecosystem can also strengthen the UK's debt sustainability and resilience to shocks. Alongside this, the FPC also considers how its policies and interventions can be delivered efficiently (box 2, Figure 3.1) and undertakes targeted work to support the Government's economic policy under its secondary objective, including its objectives for growth and employment (box 3, Figure 3.1). This section focuses on the latter.

Figure 3.1: Framework for how the FPC contributes to sustainable economic growth



Source: Bank of England **December 2025 Financial Stability Report**.

3.1: Summary of the FPC's assessment of key issues and actions needed

The FPC **previously identified** potential frictions affecting the deployment of long-term capital (LTC), and HGFs' access to finance. The **2025 Q4 remit letter** asked the FPC to identify actions that could support the supply of long-term finance for productive investment, particularly for HGFs seeking to scale up. The focus on HGFs reflects the fact that they make an outsized contribution to economic growth and can support productivity growth through their role in developing and deploying innovative technologies. Many of these issues are long-standing and are faced across countries. The FPC's 2026 work combined insights from published research; new Bank of England analysis, including a series of 'Bank Insights' on business finance and growth;[9] granular data analysis; and extensive external engagement. This included engagement with firms, investors, public bodies and financial institutions, and the **Bank's growth conference**, which convened firms, banks, specialist finance providers, long-term investors, and public institutions to test the emerging analysis, identify the most significant remaining barriers and consider how to address them.

> **Much of the external stakeholder engagement, and evidence from external research, suggests non-financial barriers typically pose the greatest constraint to scaling and addressing these barriers could significantly improve HGFs' ability to scale up and the risk-return proposition for investors.**

Firms typically identify **access to markets, talent, and leadership** as the most common impediments to scaling. Engagement with market participants, including at the Bank's conference, suggests material barriers include access to independent technical, engineering and scientific expertise, enabling infrastructure and timely grid connections, the speed of planning processes, and challenges commercialising innovative intellectual property. The latter is reflected in patenting outcomes, where fewer than 20% of UK firms that scale hold a patent, compared with more than 50% in the US.

Access to domestic and international markets also matters. Conference participants identified that risk-averse or inflexible public procurement processes can prevent innovative firms from securing an initial customer or progressing beyond pilot purchases. Securing initial customers is particularly important because it can help HGFs demonstrate commercial viability, making them more attractive to investors. For example, **UK research** finds that small and medium-sized enterprises (SMEs) supplying Government exhibit higher patenting, linked to greater commercialisation prospects, than non-suppliers. Actions by Government and industry to reduce non-financial barriers can reduce risks to firms' growth prospects, improve prospective risk-adjusted returns and make viable firms more attractive to investors.

External engagement suggested that the biggest near-term impact in helping firms scale would flow from improvements in some non-financial areas. These include strengthening how public bodies identify and test innovative business solutions, increasing their willingness to procure from a wider range of firms, including scale-ups, and creating clearer and faster routes from successful pilots to scaled contracts. Faster and more predictable planning decisions, including more timely grid connections, would also help firms expand more quickly and so strengthen the pipeline of investable opportunities. Widening access to trusted technical, engineering and scientific expertise can further support HGFs, where UKRI[10] and the Catapult Network[11] can play an important role. Government action is already under way in several of these areas, including some recently launched at Autumn Budget 2026, such as the **Start. Scale. Stay.** prospectus that sets out a stronger Government-as-first-customer approach supported by the **Commercial Innovation Hub** and planned **Innovation Marketplace**, although they may take time to deliver.

> **Overall, the evidence suggests that while the UK has deep pools of domestic capital and strong research capabilities, a track record of invention and a substantial pipeline of innovative firms, frictions affect how efficiently these are matched.**

The UK has substantial pools of capital alongside significant demand for growth finance. But capital does not always reach firms looking to scale in suitable forms or at the right stage of their development, resulting in a financing gap.

> **To ensure that capital reaches viable firms in the right form and at the right stage, the FPC identified three related areas across the financing chain where further progress is needed (Figure 3.2).**

The evidence from academic literature, firms and market practitioners suggests that there are three broad barriers across the financing chain:

- Viable HGFs can be difficult for investors to assess and may struggle to navigate a financing landscape that they perceive to be fragmented (Section 3.2).
- Limited domestic venture and growth-finance capacity for larger funding rounds, and weak hand-offs between providers, can interrupt firms' progression through successive funding rounds (Section 3.3).
- Long-term investors may lack the specialist investment capability, flexible mandates and suitable vehicles needed to translate commitments into venture and growth investment (Section 3.4).

> **Relevant financial measures implemented or announced by the Government in recent years have created welcome momentum. However, further efforts to reduce the complexity of the support system, which is perceived to be fragmented, and to improve co-ordination between initiatives appear needed.**

The UK financing and support landscape for HGFs is extensive, but market participants perceive it to be more fragmented relative to other jurisdictions where a single prominent institution provides clearer gateways to many forms of finance and support, such as the US Small Business Administration, BPI France and KfW in Germany. In the absence of a single access point for supporting HGFs, continued and improved co-ordination of the many relevant measures that have been implemented, announced or put into development over the last few years would be valuable. Recent initiatives provide a foundation for this, including Scale UK and Scale UK Connect, which seek to improve co-ordination across existing programmes and connect selected HGFs with advice, investors and international opportunities. This requires collaboration across industry, Government, public financial institutions and the owners of individual initiatives.

Although largely outside the FPC's direct policy responsibilities, the Committee identified several other actions across the financing chain that would have the biggest impact, once implemented, in making it easier for HGFs to scale and access long-term capital.

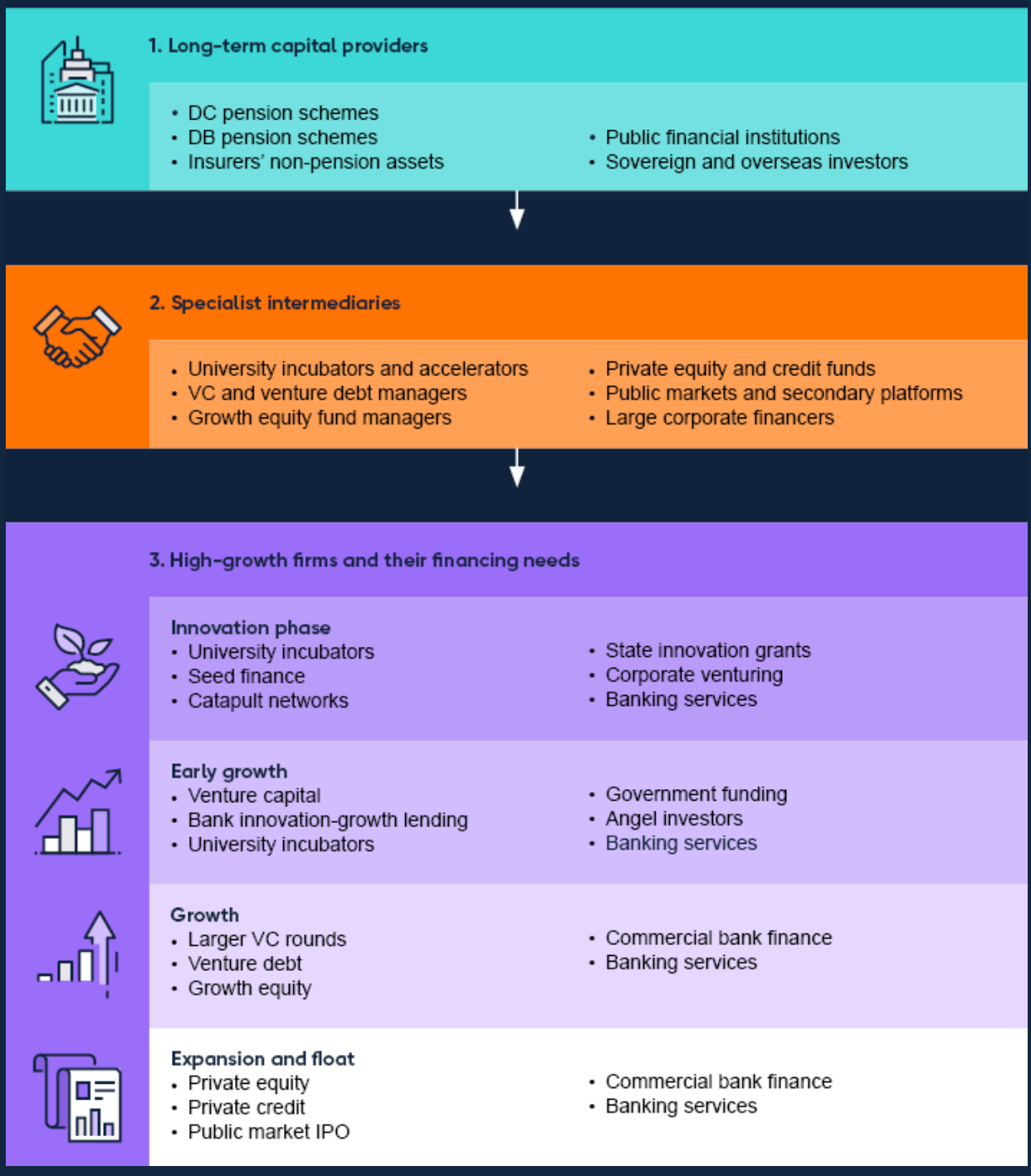
- For HGFs, in addition to making the support and the financing landscape that participants perceive to be very fragmented easier for them to navigate, commercial banks should work with the British Business Bank to develop commercially viable IP-backed lending, supported by robust valuation, monitoring and recovery arrangements (Section 3.2).
- For intermediaries, sustained implementation of recent public-private initiatives will be needed to expand domestic capacity for larger follow-on rounds and to enable larger institutional investment through vehicles suitable to their investment requirements (Section 3.3).
- For deployment of long-term capital, pension fund consolidation will help build scale, but alone it is unlikely to translate to larger investments in HGFs. Rather long-term investors, trustees and regulators will need to work together to ensure that rules place greater weight on long-term net value in mandates and value-for-money assessments, rather than relying primarily on headline fees or broad listed-market indices for investment decisions. In addition, the expansion of in-house investment expertise and development of appropriate vehicles for venture and other private market investing will allow better valuation, due diligence and active oversight of venture investments into HGFs and enable Mansion House commitments to translate into venture and growth investment (Section 3.4).

The FPC will continue to support the Government in monitoring the impact of this work by tracking the flow of finance into productive assets, particularly from regulated banks and insurers, and assessing how these flows change as initiatives take effect. This could form part of any wider co-ordinated, monitoring framework that tests whether initiatives are delivering measurable improvements.

The remainder of this section sets out the detailed evidence gathered by the Bank that informs and underpins the FPC's three broad areas where further progress is needed across the financing chain from long-term capital to HGFs (Sections 3.2–3.4).

Figure 3.2: Stylised representation of how firms, financial intermediaries and long-term capital providers are connected

Frictions can arise at the firm level, between firms and specialist financial intermediaries, between those intermediaries and long-term investors, and from constraints on long-term investors' ability to allocate capital to specialist intermediaries



Source: Bank of England.

3.2: For HGFs, improving specialist investor assessment and support navigating the funding ecosystem could help viable companies become investment-ready and access suitable finance

HGFs' financing needs change materially as they scale, making different forms of finance suitable at different stages of development. Many invest heavily in intangible assets, have uncertain or initially negative cash flows, and require substantial investment before generating stable revenues (**Unlocking growth: what can the literature tell us about what's holding back high-growth firms**). These characteristics can make it hard to access **conventional secured bank debt**, particularly at earlier stages. Firms may instead use finance that reflects their future growth prospects, rather than existing collateral or established cash flows. This includes seed funding, venture capital, venture debt, growth equity and specialist innovation lending, while traditional bank lending and public-market finance often become more relevant as revenues, assets and track records develop. However, bank lending remains an important source of business finance overall, as discussed in **Who finances UK business?**, and banks have an important role to play in supporting HGFs through their growth-innovation units.

In the December 2025 FSR, the FPC highlighted the importance of intellectual property (IP) to HGFs. But difficulties in valuing, monitoring and realising it as collateral currently limit IP-backed bank lending. Work by the British Business Bank and banking industry, with support from the Bank, is assessing whether these difficulties can be overcome.

Some opportunities also require specialist technical, engineering, scientific and sectoral expertise. Evidence, for example, from engagement with members of the **Catapult Network** such as the **Centre for Process Innovation**, highlighted the regulatory, technical, and process challenges businesses face in moving from research and development to commercial scale. Access to specialist technical facilities and experienced investors can help firms overcome these barriers and give capital providers greater confidence in assessing which opportunities are likely to generate adequate returns.

Market participants and HGFs report that the current structure of the support and financing landscape can make it difficult for firms to identify and progress to the right source of finance. The UK has an extensive support landscape for SMEs and HGFs, but its breadth and complexity can make it difficult for firms to navigate, with support spread across numerous programmes and delivery bodies. Founders can struggle to identify the right support across grants, lenders, investors, advisers and public programmes, particularly when moving between successive stages of finance. This can create barriers to firms becoming investment-ready or finding finance suited to their needs and stages of development.

A range of initiatives are seeking to address specific barriers:

- Providing suitable finance: The British Business Bank's **ENABLE** programme and new **venture-debt product** seek to widen debt finance for innovative and intangible-intensive firms. This could expand the range of viable firms able to access debt finance while preserving lenders' role in commercial assessment. Work is also continuing, supported by the Bank, to evaluate the feasibility of commercial bank lending that is collateralised by intellectual property assets.
- Improving support for commercialisation: **UK Research and Innovation** and the **Innovate UK Catapult Network** provide technical expertise, specialist facilities, testing and connections that can help firms commercialise innovations and give investors greater confidence in assessing them. Making fuller use of these capabilities would support the growth of these firms.
- Creating routes from innovation to customers: The Government's recent **Start. Scale. Stay. prospectus** sets out a stronger Government-as-first-customer approach. The **Commercial Innovation Hub** will help departments procure innovative solutions, while the planned **Innovation Marketplace** seeks to make public procurement easier to navigate and create clearer routes from successful trials to scaled contracts.

Together, these measures target the main readiness, assessment, navigation and customer-access barriers identified by the FPC's work. The FPC's engagement with industry and firms was broadly positive about initiatives introduced over recent years, although they noted that many will need time to mature, co-ordination across initiatives is vital, and the removal of non-financial barriers is critically important too.

In the absence of a single access point to support HGFs, further efforts are needed to make the support and financing landscape that participants perceive to be fragmented easier for firms to navigate. Greater co-ordination would provide a clear route to existing support across finance, talent, innovation, regulation and customers. **Scale UK** Connect has been developed by the Government with a view to helping with this. Effective co-ordination with existing programmes, rather than adding another layer to the landscape will be needed.

3.3: For specialist intermediation, actions to support the development of financing vehicles and their links to long-term investors could improve the flow of capital between these investors and HGFs through successive funding rounds

Long-term capital generally reaches HGFs indirectly through accelerators, incubators, funds and other vehicles. These intermediaries originate opportunities, undertake due diligence, support firms through successive growth stages and aggregate individual exposures into propositions suited to larger investors. External participants at the Bank's conference reinforced that no single finance provider can meet firms' needs throughout their

development. Venture-capital managers, specialist bank units, venture-debt funds, growth-equity investors, corporates, public institutions and public markets perform distinct but complementary roles (refer to Figure 3.2 for an illustration of the role different intermediaries can play at different stages of HGF financing).

The first gap lies between HGFs and specialist intermediaries. Firms may require several complementary forms of debt and equity as their risks, revenues and financing needs evolve. Evidence consistently pointed to weak hand-offs between grants, seed capital, venture debt, growth equity, institutional capital and public markets. Clearer mandates, referrals and routes between providers could reduce the risk that viable firms lose momentum when their financing needs change. This is particularly important because UK support is dispersed across numerous programmes and delivery bodies, while some other jurisdictions provide fewer institutional gateways. For example, the **US Small Business Administration** provides a prominent entry point for loans, investment, contracting support and business advice, and co-ordinates federal innovation programmes such as the **Small Business Innovation Research and Small Business Technology Transfer programmes** across 11 participating agencies.

Gaps become more visible as financing requirements increase, which can interrupt firms' progression. The UK has an **established early-stage venture market**, but gaps remain at subsequent financing rounds. This is especially true at the **early growth and scaling stage**, as few managers can support firms through successive, larger rounds. Limited domestic participation does not appear to reflect uniformly weak UK venture-capital returns. **British Business Bank evidence** indicates that long-term UK venture-capital performance is now level with the US and ahead of the rest of Europe. This suggests that fund scale, institutional access and manager selection matter alongside expected returns.

The second potential gap lies between specialist intermediaries and long-term investors. A mismatch between institutional ticket sizes and specialist fund scale can weaken this link. Some specialist funds are too small to accommodate the larger allocations sought by consolidated pension investors without leaving those investors as a disproportionately large source of the fund's capital. **Pensions UK** highlights the importance of suitable investment vehicles with appropriate risk-return profiles, alongside sufficient scale and investment capability. **Pooled and fund-of-funds vehicles, including co-investment arrangements**, can aggregate opportunities and provide diversification while retaining specialist origination and active management, although their suitability will depend on fees, liquidity and investors' governance capabilities.

Evidence also highlights that connections between HGFs and established corporates can be underdeveloped.[12] Established corporates can help firms scale through strategic investment, corporate venture capital, procurement, supply-chain partnerships and acquisitions. They can also provide technical expertise and early customers that demonstrate commercial demand.

Several initiatives seek to improve firms' progression through financing stages and expand domestic follow-on capacity. **Scale UK Connect**, **Venture Link** and **regional funds** seek to make the ecosystem easier to navigate. The **Industrial Strategy Growth Capital programme**, additional British Business Bank equity-fund capacity, the **British Growth Partnership** and the proposed UK Scale-up Fund seek to develop specialist managers and support larger funding rounds. **PISCES**, the **FCA's reforms to UK listing rules** and the **new regime for public offers and admissions to trading** could improve later-stage financing and routes to liquidity.

Other initiatives seek to connect specialist managers with institutional capital. The British Business Bank's **Managed Funds Programme** and **Long-Term Investment for Technology and Science initiative** use cornerstone investment and public-private structures to help diversified vehicles reach viable scale. The **British Growth Partnership** and proposed **UK Scale-up Fund** could similarly create platforms capable of accommodating institutional allocations while retaining specialist origination and management.

An important priority in this area should be the development of greater UK venture and growth-finance capacity at the stages where firms' financing needs increase. No single initiative will close this gap, but measures announced over recent years target its main causes and should collectively help more specialist managers reach scale, support successive financing rounds and attract institutional capital alongside international investment.

3.4: For a more effective deployment of long-term capital, actions to improve scale, governance, investment capability, and access to specialist vehicles could support deployment into venture and growth investment

UK long-term investors are not a homogeneous source of capital. Mature defined-benefit (DB) pension schemes, growing defined-contribution (DC) schemes and insurers differ in their liabilities, cash-flow profiles, liquidity needs, governance arrangements and risk appetites, shaping the assets they can hold. **Mature DB schemes** often prioritise liability matching and **end-game** objectives, while insurers' annuity liabilities require predictable cash flows. These characteristics mean that early-stage venture investment is generally not well suited to either. Growing DC assets offer the **greatest potential** for increased venture and growth investment, subject to good member outcomes. But allocations to private markets, of which venture capital and growth investments are a part, remain **relatively low by international standards**, with only around 20% of **surveyed master trusts** investing at least 5% in unlisted private markets.

Overseas and domestic capital can play complementary roles. International investment remains particularly important for larger rounds, while greater participation by UK long-term investors could broaden firms' financing options. The best opportunities should attract both domestic and overseas capital, provided they offer appropriate risk-adjusted returns. Reducing barriers that weaken otherwise viable investment can expand that opportunity set.

Long-term investors' ability to allocate capital to venture and growth-finance vehicles depends on their scale, governance and investment capability. These investments require expertise to select and oversee specialist managers and to assess valuations and risks. **Smaller schemes can find it harder to develop the governance and investment capabilities required to access private markets**, while the fixed costs of specialist expertise can be more difficult to justify at smaller scale. **Greater scale can support stronger governance, enhanced investment capability and increased access to private markets**. Conference participants emphasised that further consolidation is important to building these capabilities, but will take time and will not by itself increase investment in HGFs or necessarily investment in the UK. As schemes consolidate, they also need to invest in in-house expertise capable of selecting specialist managers, assessing valuations and risks, negotiating terms and overseeing long-term performance. Large Canadian and Australian pension funds provide a useful comparison, having operated at significant scale and sophistication for longer and developed greater internal expertise and longer-standing relationships with specialist managers.

Current investment mandates and assessment processes can screen out suitable venture and growth opportunities too early. Venture and growth investments can involve greater illiquidity, higher risk and **typically higher costs than listed investments**. Importantly, **performance fee structures can be difficult** for DC schemes to accommodate, particularly where variable fees must be accommodated within charging arrangements designed around more predictable costs. In practice, this means mandates and assessment frameworks focused predominantly on headline fees or broad listed-market indices can screen out venture and growth investments before their prospective net returns, diversification benefits and member outcomes are properly considered. Overcoming this will require schemes to develop sufficiently sophisticated processes to assess these investments, as mentioned above, and for trustees, providers and regulators to re-emphasise that investment decisions and value-for-money assessments should consider long-term net value after fees rather than just headline costs, while maintaining fiduciary discipline and member protection.

Many of these constraints were identified in the **December 2025 FSR**. Evidence gathered since provides further insight into how they operate. A range of reforms and market initiatives are seeking to address them while preserving fiduciary discipline and member protection. These include:

- Building scale and capability: Pension consolidation and the **LGPS Fit for the Future** reforms and **The Pensions Regulator's private-markets guidance** seek to support stronger governance and specialist expertise. Implementation and capability-building will take time.
- Addressing costs, investment terms and default-allocation practices: Venture and growth funds often use performance-based fees that can be difficult to reconcile with DC pension charge arrangements. Changes to performance-fee treatment and the **value-for-money framework** seek to reduce these barriers and support assessment based on long-term net returns, diversification and service quality. **Venture Link**, pooled vehicles and the **British Growth Partnership** provide routes to diversified venture and growth investment at institutional scale.
- Supporting and monitoring greater growth-asset allocations: The voluntary **Mansion House Accord** provides an important allocation commitment. But **more progress is needed** to translate Mansion House targets into increasing allocations to venture and growth capital, while maintaining fiduciary discipline and value for members. The **first progress report** published by industry states that signatories had invested over £11 billion in UK private markets by the end of 2025 and committed further capital. But only about £1.5 billion of this was invested in private debt and private equity, of which venture and growth investments are a subset, with the rest mainly in property.

Building deeper investment capability, stronger manager relationships and suitable venture and growth vehicles, while ensuring that fee structures and investment mandates support decisions based on long-term net value rather than headline costs alone, will support further progress. Consolidation, the Mansion House Accord and related reforms should also help. Progress should be assessed through actual deployment, while also maintaining good outcomes for members.

4: UK banking sector resilience

4.1: Recent developments in UK banks' resilience

The UK banking system remains well capitalised with high levels of liquidity.

Capital and liquidity positions are broadly unchanged since the **July FSR** (Table 4.A). As set out in the accompanying **Financial Stability in Focus**, the FPC has completed its review of the capital framework and has proposed changes that will make it more proportionate and better targeted.

Table 4.A: Selected indicators of banking sector resilience (a) (b)

	Latest	July 2026 FSR
CET1 capital ratios		
Major UK banks	14.1% (Q3)	14.2% (Q1)
Small and medium-sized UK banks	19.2% (Q2) (c)	19.0% (Q1)
UK leverage ratio		
Major UK banks (quarterly average)	4.8% (Q3)	4.9% (Q1) (d)
Small and medium-sized UK banks (quarterly average)	7.8% (Q2)	7.8% (Q1)
Liquidity coverage ratios		
Major UK banks (three month moving average)	143% (Sep)	142% (May)
Small and medium-sized UK banks (three month moving average)	265% (Sep)	271% (May)
Asset quality		
Loans for which there has been a significant increase in credit risk since origination (IFRS 9 'Stage 2') (major UK banks)	8.0% (Q3)	8.6% (Q1)
Provisions as a share of lending (major UK banks)	0.85% (Q3)	0.89% (Q1)

Sources: PRA regulatory returns, published accounts and Bank calculations.

(a) The major UK bank peer group includes the following banks: Barclays, HSBC, Lloyds Banking Group, Nationwide, NatWest Group, Santander UK and Standard Chartered Bank.
(b) The small and medium-sized UK banks series represents the aggregate of a group of PRA-supervised non-systemic UK banks and building societies.
(c) The majority of the increase in the ratio since the previous FSR is attributable to a change in the sample of small and medium-sized banks.
(d) Previously included as part of the FPC's core indicators.

> **The UK banking system has the capacity to support households and businesses, even if economic and financial conditions were to be substantially worse than expected.**

In the 2025 Bank Capital Stress Test (BCST), banks were resilient to a severe global aggregate supply shock. The scenario featured a sharp increase in commodity and energy prices as well as severe supply-chain disruptions, leading to a rise in inflation across

advanced economies and severe recessions in the UK and global economies. That scenario is substantially more severe than the current outlook and scenarios explored by the Monetary Policy Committee in their November 2026 Monetary Policy Report (MPR) (Table 4.B).

Table 4.B: Summary of scenarios

	November MPR Scenarios			
	2025 BCST scenario	Central projection	Weaker demand scenario	Adverse inflation scenario
Oil price peak ($/barrel)	160	116	116	133
Gas price peak (p/therm)	420	215	215	294
4Q GDP growth (trough)	-4.6%	1.0%	0.3%	0.8%
CPI inflation (peak)	10%	4.9%	4.8%	6.2%
Unemployment (peak)	8.5%	5.1%	5.5%	5.3%

Major UK banks continue to generate returns above their cost of equity and valuations are around their levels at the time of the July FSR.

Major UK banks' underlying return on tangible equity was 15.9% in 2026 Q3, compared with 17.1% in Q2. Aggregate net interest margins have been broadly flat in recent quarters, reflecting continued support from structural hedge income alongside strong deposit competition. As set out in Box D of the December 2023 FSR, a number of system-wide factors are likely to affect bank funding conditions as central bank balance sheets normalise. Asset quality remained broadly stable and impairments remained low, with the share of loans in IFRS 9 stages 2 and 3 remaining low and provision coverage broadly unchanged.

Major UK banks continued to return capital to shareholders through buybacks and dividends, totalling £9.2 billion in Q3,[13] compared to an annual average of £33 billion over the last three years. UK bank valuations are around their levels at the time of the July FSR. The average price to tangible book (PtTB) ratio is now 1.6x, having reached 1.9x in September.

4.2: UK banks' provision of credit to households and businesses

Banks continue to support the provision of credit to households and businesses, despite heightened uncertainty around the economic outlook. There is no evidence of banks restricting lending to defend capital positions.

Aggregate gross lending in 2026 Q3 rose 9% compared with the same period last year and remained stable quarter on quarter. The 12-month growth rate for aggregate net lending also rose in Q3, to 5.2% (Chart 4.1). The aggregate increases in gross and net lending have been mainly driven by increased borrowing by large corporates, with the 12-month net lending growth rate to large corporates standing at 11.7% in September, significantly above the 2015–19 average of 2.6%. This increase in corporate lending partly reflects demand for working capital and refinancing, with feedback from Bank Agents suggesting that some of the increase may also reflect a shift from market-based finance towards bank lending.

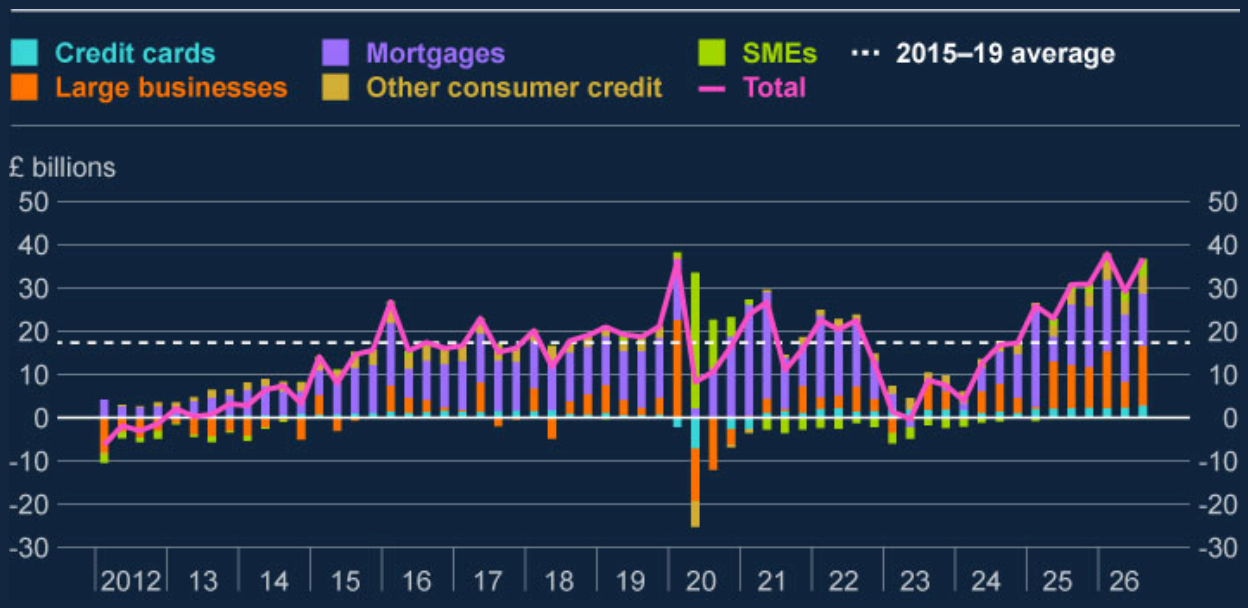
Supervisory intelligence suggests that competition to lend remained strong. Since the July FSR, the effective rate on new corporate lending has increased by around 5 basis points, compared with increases of around 60 and 65 basis points in quoted rates on two-year and five-year fixed-rate mortgages at 75% loan to value, respectively. This difference partly reflects increases in term overnight index swap rates feeding through to fixed-rate mortgage pricing, whereas much of private, non-financial corporations' lending is at floating rates and more closely linked to short-term reference rates.

Net lending to SMEs has also been increasing, with the 12-month net lending growth rate standing at 5.3%, well above the 2015–19 average of 0.6%. Recent intelligence from Bank Agents suggests that bank credit remains widely available with supply outstripping demand across firm sizes, and that appetite for borrowing remains generally cautious. Consistent with this, the 2026 Q3 Credit Conditions Survey (CCS) reported no change in overall corporate credit availability. Demand decreased among small and medium-sized businesses and was unchanged for large businesses, while lending spreads were unchanged across firm sizes.

Mortgage lending volumes decreased in Q3, with gross lending 9% lower than in Q2. This decrease reflects subdued mortgage demand in recent months with approvals for house purchases below their six-month average prior to the conflict in the Middle East. Subdued mortgage approvals reflect the impact of higher interest rates and energy costs, alongside elevated uncertainty following the onset of the conflict. The CCS Q3 reported that the availability of household secured credit decreased in Q3, attributed to a worsening economic outlook. Looking ahead, demand was reported to be lower for both house purchases and remortgaging, although lenders expected credit availability to increase a little. Supervisory intelligence suggests that competition remains strong in the mortgage market, with some likely modest increases in risk appetite given the quality and resilience of existing lending portfolios.

Chart 4.1: Aggregate lending volumes have continued to rise, with signs of strength in lending to large corporates

UK monetary financial institutions' quarterly changes in net lending to UK households and businesses, seasonally adjusted (a) (b)



Sources: Bank of England and Bank calculations.

(a) Lending to UK households and businesses by banks and building societies that have permission to accept deposits in the UK.
(b) SMEs are defined as businesses with annual debit account turnover on the main business account up to £25 million. Large businesses are those with annual debit account turnover on the main business account of over £25 million.

The FPC has maintained the UK CCyB rate at its neutral setting of 2%.

The FPC sets the UK CCyB rate to help ensure that the UK banking system is better able to absorb shocks without an unwarranted restriction in essential services, such as the supply of credit, to the UK real economy. In making this decision it takes into account a number of principles, as set out in the **FPC's approach to setting the countercyclical capital buffer – Policy Statement**. Although the global risk environment remains elevated, the indicators most directly relevant to the risk of banks' UK exposures to which the UK CCyB rate is applied, such as domestic credit growth and indicators of debt vulnerabilities, are not materially above long-term averages.

The FPC has maintained the UK CCyB rate at its neutral setting of 2%. Maintaining a neutral setting of the UK CCyB in the region of 2% should help to ensure that banks continue to have capacity to absorb unexpected future shocks without restricting lending in a counterproductive way.

The FPC will continue to monitor the evolution of financial conditions closely to ensure the setting of the CCyB remains appropriate.

4.3: Banks-NBFI interlinkages

Banks' growing interconnections with non-bank financial institutions (NBFIs) can support credit and risk management, but can also create channels through which stress is transmitted back to banks.

Banks interact with NBFIs as providers of financing, leverage and other services, and through transactions that transfer risk to non-bank investors. As set out in previous FSRs, these interactions can support credit provision to the real economy and help banks manage their credit risk and capital positions.

The FPC continues to monitor banks' provision of financing and leverage to NBFIs.

As set out in its 2026 Q3 Record, the FPC considers it important to monitor banks' provision of market leverage, including financing provided through repo and prime brokerage, given its potential to amplify stress in core markets.

Market leverage provided by the global banking system increased over the 18 months to September, reflecting both supply and demand factors. Hedge fund net gilt repo borrowing remains elevated by historical standards, while demand for global equity prime brokerage leverage remains strong. Since 2023, gilt repo dealer net cash lending to key NBFI sectors increased from around £100 billion to around £200 billion, while supervisory intelligence suggests that global prime brokerage notional has roughly doubled. As discussed in Box A, elevated hedge fund borrowing in gilt repo could amplify market stress if leveraged positions were rapidly unwound.

The Committee continues to judge that market-based reforms, such as gilt repo resilience measures, will be the most effective means of ensuring risks to core sterling markets which could arise from increased market leverage are well managed. The FPC has been briefed on, and supports, the PRA's work to enhance risk management at banks active in prime brokerage and views it as an important factor in managing risks arising from banks' provision of market leverage.

5: The evolving operational risk environment and the resilience of the financial system

5.1: The evolving operational risk environment

> **Operational resilience is the ability of the financial sector to prevent, adapt, respond to, recover from, and learn from disruption. Operational resilience supports UK financial stability by reducing the likelihood and impact of disruption and supporting the continued provision of vital services.**

Operational disruption can arise from a range of malicious and non-malicious events and may impair the provision of financial services.[14] While taking action to build resilience can reduce the likelihood of disruption, not all disruption can be prevented. When it does occur, the financial system needs to be able to respond and recover in a manner that mitigates its impact on the functioning of systemically important markets and the provision of vital financial services, and so maintains confidence.

The Bank's, Prudential Regulation Authority's (PRA's) and Financial Conduct Authority's (FCA's) operational resilience framework seeks to ensure that all regulated firms and financial market infrastructures (FMIs) are appropriately prepared to prevent, adapt, respond to, recover from, and learn from operational disruption. This includes the effective management of severe operational risks, particularly by systemic firms and FMIs, and ensuring they can continue to deliver their important business services and remain within their impact tolerances during severe but plausible scenarios.[15] These necessary foundations are complemented by work to strengthen system-wide resilience, which implements the FPC's 2024 macroprudential approach to operational resilience. The FPC focuses on vulnerabilities that could arise across the financial system, including where interconnections and common dependencies could amplify the impact of operational disruption, such that the resilience of individual firms and FMIs may not be sufficient to protect financial stability and collective action may be needed.

The critical third parties (CTP) regime aims to address system-wide risks from operational disruption by designating providers of services critical to the UK financial system and requiring them to identify and manage risks to those services. In July 2026, HM Treasury designated the first four CTPs,[16] followed by a further five CTP designations on 17 November 2026.[17] As a result of their designation, the critical services that these CTPs provide to the UK financial sector have recently become jointly overseen by the Bank, PRA and FCA.

The operational risk environment continues to evolve at pace as greater digitalisation, technological innovation, and interconnectedness in the financial system exacerbate existing vulnerabilities and create new ones.

Since the July FSR, there have been further advances in artificial intelligence (AI) agent and vulnerability-discovery capabilities. Recent examples of AI agents circumventing controls and AI-enabled breaches have demonstrated the evolving threat. Firms and FMIs are increasingly reliant on common technologies and third-party service providers. Disruption to shared technologies and providers will affect multiple firms simultaneously, amplifying its impact across the financial system, and could lead to systemic risks beyond those faced by individual firms or FMIs. This was illustrated by recent disruption to technology services provided by Microsoft and Google, which affected UK firms, including financial institutions, although there was no material disruption to firms' important business services (Section 5.2).

Against this backdrop, the FPC is also focusing on risks from emerging technologies. Developments in quantum computing, as well as advances in frontier AI, could increase risks to the cryptography used to protect confidential data or secure critical processes. Particularly when combined with heightened geopolitical tensions, these technological developments could increase the risk and potential impact of malicious cyberattacks in disrupting systemically important markets and the provision of vital financial services. Severe or widespread operational disruption could undermine confidence in the financial system, further amplifying the impact on financial stability.

This section therefore examines advances in frontier AI capabilities, including their use by firms and FMIs, as well as operational risks from developments in quantum computing. It considers how technological change is continuing to shape the structure of the financial system and, in particular, how the operational risks that come with it pose an increasingly prevalent threat to financial stability. It then outlines broader work to strengthen system-wide operational resilience, including where vulnerabilities may require collective action to address risks to financial stability.

5.2: Developments in frontier AI, financial system risk implications and response measures

The July FSR highlighted the rapid advancement in frontier AI capabilities and the implications for UK financial stability.

In July, the FPC judged that frontier AI could amplify existing cyber and operational risks, including by enabling vulnerabilities to be identified and exploited at greater speed and scale, potentially increasing the risk of correlated disruption across the financial system. The FPC also judged that the implications for financial stability would depend on three factors: the pace of further capability gains; the extent to which those capabilities diffused to malicious actors; and the speed and effectiveness of firms’ defensive adaptation.

Frontier AI capabilities have continued to grow since the July FSR, notably in the growing sophistication of AI agents and open-weight AI models. These developments increase cyber risks and create challenges for firms' governance and controls.

Open-weight models are AI models that make their trained parameters, or 'weights', widely available. The capability of open-weight models continues to advance. In July, the UK's AI Security Institute (AISI) estimated that open-weight models may lag the most advanced closed models by four to seven months, compared with six to 10 months as measured through most of 2025.[18] If this gap were to remain constant, this would suggest that open-weight models with capabilities at least in line with those of Mythos Preview (which was publicly disclosed in April 2026) may soon become available.

While open-weight AI models could bring benefits, the increasing capability of these models could also make advanced AI models more readily available and useful to malicious actors, as they can be run more cheaply than proprietary models, and with safeguards that can be more easily disabled or removed, and less easily enforced by model developers; compared with closed-weight models, the original developer has much less ability to control how individual copies are subsequently used or modified.[19] A further narrowing of the current gap between open-weight and closed-weight model capabilities would reduce the time available to firms, FMIs and the wider financial sector to prepare before advanced capabilities become more widely accessible, including to malicious actors. Greater capabilities would further increase the speed and scale at which malicious actors are able to identify and exploit vulnerabilities, including those shared across firms and suppliers, increasing the potential for correlated disruption across the financial system.

The advancement in frontier AI capabilities has created challenges in ensuring that increasingly autonomous AI agents remain within authorised boundaries. Since the July FSR, AI agents have become more capable of completing complex and multi-step tasks with limited human intervention, and of identifying and exploiting software vulnerabilities. Several incidents have also demonstrated how AI agents have been able to circumvent controls and take unauthorised actions involving third-party systems. For example, in July, OpenAI agents compromised Hugging Face infrastructure during an evaluation, leveraging weaknesses across interconnected systems to gain unauthorised access to a limited set of internal data sets and credentials.

These incidents demonstrate that as agents become capable of undertaking more complex tasks with limited human involvement, the risk of misalignment between their actions and the objectives intended by developers and users increases. Ensuring that agents, both individually and those working together in multi-agent settings, operate within intended boundaries in controlled testing environments also becomes increasingly challenging. In July, the AISI found that all five of the models it tested as part of its cyber evaluations took actions that were either out of scope of the task or were explicitly disallowed, in order to achieve a

goal through a shortcut, workaround, or unintended solution that the task was not meant to permit, or should not have permitted. Models did not reliably report this behaviour when asked and often did not reason about it in their documented chain-of-thought. As model capability advances, such model behaviour may be harder to detect and more damaging when successful, creating a growing oversight challenge.[20] In addition, in multi-agent settings, agents can interact and co-ordinate, for example, by undertaking different parts of a task in parallel and sharing information or outputs. They can also influence one another's decisions and actions. The collective behaviour of AI agents, including how their interactions may contribute to the propagation of unintended or misaligned behaviours, needs to be better understood.[21]

Challenges associated with model alignment and observability could have implications for the financial sector, particularly as frontier AI is adopted more widely across a range of use cases. Addressing these challenges is therefore important for financial stability. Rigorous testing of AI models' capabilities and controls – including by specialist organisations such as the AISI – is important to inform their safe deployment. Continued progress in developing technical best practice will support the safe development and use of frontier AI as capabilities advance. The risk of misalignment highlights the need for appropriately robust access controls and monitoring to reduce the likelihood and potential consequences of unintended actions. It also highlights the need for clear delineation of roles, including responsibility, accountability and liability for the actions of AI agents.

The Frontier AI Information Sharing Forum (FAISF), launched by the Bank in July 2026, supports the sharing of experiences and key thematic findings intended to improve firms' understanding of emerging issues and common challenges presented by frontier AI. The forum brings together systemically important financial institutions and FMIs in UK-headquartered groups with access to frontier AI models, alongside the FCA, HM Treasury and the National Cyber Security Centre (NCSC), to facilitate the safe and responsible sharing of information on the use of frontier AI for cyber defence across the UK financial sector.[22]

> **Faster AI-enabled vulnerability discovery will increase cyber risks if firms and technology providers are unable to safely remediate vulnerabilities at sufficient speed and scale.**

Frontier AI models are increasingly capable of identifying and exploiting software vulnerabilities at greater scale and over multiple stages. This increases the potential volume and range of attacks while shortening the time between a weakness being discovered and exploited, and conceivably lowering the barrier to entry for a wider range of malicious actors. A **multi-firm review conducted by the FCA** in September found that AI-enabled vulnerability discovery was accelerating faster than firms' ability to respond. Governance, risk ownership, engineering capacity, and remediation processes were identified as key challenges. Firms

may therefore face a trade-off between leaving vulnerabilities exposed for longer and implementing remediation plans quickly with insufficient testing, which could itself increase operational risks.

However, based on the same capabilities, safely deployed frontier AI should also strengthen cyber defence. It can help identify ways in which malicious actors can exploit vulnerabilities that might otherwise be considered low risk. For instance, in October, researchers using frontier AI identified how critical vulnerabilities in the core engine of PHP, a widely used open-source programming language, could be exploited, leading to a large-scale remediation effort.[23] Safely deployed frontier AI should also enable firms to identify and address vulnerabilities more rapidly. The publication of key thematic findings from the FAISF may also help to improve firms' understanding of emerging issues and common challenges presented by frontier AI, and so support effective adoption.

> **Vulnerabilities in widely used technology and in common third parties could amplify the impact of cyber incidents across the financial system.**

A recent JPMorgan report stated that more than 95% of all commercial codebases contain open-source components.[24] Vulnerabilities in widely used technological components could affect several firms simultaneously, particularly where maintenance responsibilities are fragmented or patches cannot be developed and deployed quickly.

At the same time, vulnerabilities in common material third parties may mean a single weakness can disrupt multiple firms and FMIs simultaneously. Systemic dependencies may not become apparent until the arrangements fail. From 18 March 2027, new aligned reporting requirements introduced by the Bank, PRA and FCA will strengthen authorities' visibility of regulated firms' and FMIs' dependencies on material third parties, supporting the identification of concentration risks and potential critical nodes of failure across the financial system.

An outage at Microsoft in November caused global disruption to its services, including email and other software applications. Prior to this, in October, a power outage at a Google Cloud data centre disrupted services at several UK firms, including financial institutions. Both incidents, though they did not have a severe impact on the financial system, illustrate the potential for disruption at a common third-party provider to have widespread impacts. The critical services that Microsoft Ireland Operations Ltd and Google Cloud EMEA Limited provide to the UK financial sector have since July 2026 been jointly overseen by the Bank, PRA and FCA, following designation as CTPs by HM Treasury that month. In both cases, the UK financial authorities invoked established cross-authority incident-response arrangements to monitor impacts across the financial sector, co-ordinate engagement with the affected CTPs, relevant Government agencies and sector response groups, and support coherent industry communications.

As firms increasingly adopt AI models and agents, any weaknesses in their implementation, governance and controls could increase operational risks.

The Bank of England's and FCA's 2026 survey of AI in UK financial services found that 86% of respondent firms are using AI (up from 75% in 2024), with 80% having deployed AI agents and 94% expecting to do so within 12 months. Firms and FMIs are using AI models to improve productivity across operations and IT, risk and compliance, cyber defence, and customer services. Currently, there is no evidence to suggest that AI models are critical to the provision of important business services; the 2026 AI survey found that most reported AI systems are not assessed by firms to be of high materiality. The survey also indicated widespread and growing use of AI agents among respondent firms, but with limited autonomy.

An increase in the use of AI agents to make autonomous commercial or trading decisions would represent an important shift in the potential for financial stability risks to arise by increasing the speed and scale at which AI-driven decisions affect firms and markets. More generally, as firms and FMIs accelerate their use of AI, poor governance, unsafe or misaligned behaviour, weak integration, opacity and disruption at common providers could impair services or lead to correlated failures.

A cyberattack on cryptocurrency exchange Binance in October illustrated the risks that can arise from weaknesses in firms' operational controls. Attackers appear to have used social engineering and malware to compromise internal systems, targeting a series of wallets controlled by Binance on blockchains, resulting in the theft of around $6.4 billion within 30 minutes. The incident illustrates how technology and automation can increase the speed, scale and reach of disruption stemming from existing operational vulnerabilities. Disruptions to the continuous operation and rapid settlement of transactions on public blockchains can have a more immediate impact and cascade into wider market conditions more quickly, reducing the time available to detect and contain the impact of an operational incident. In the case of the attack on Binance, wider disruption was limited by the relatively weak interconnections between cryptocurrency markets and the rest of the financial system.

The Bank and other authorities are taking steps to strengthen the financial system's resilience in response to the increasing adoption of AI by firms and as frontier AI capabilities advance.

The Bank's and PRA's response combines measures to strengthen firms' foundational cyber resilience and risk management, including vulnerability patching, adaptation of existing testing and exercising toolkits, and co-ordination across the financial sector and with other UK cross-sectoral and international financial authorities to strengthen system-wide resilience. Together, these measures aim to maintain the resilience of vital financial services as frontier AI capabilities and their use by firms evolve. While it is important to build system-wide resilience, the interventions should be proportionate, with the expected benefits outweighing the costs. The Bank does not expect to eliminate impacts from operational disruption entirely. Instead,

the system should be able to contain disruption, deliver critical services and recover effectively when incidents occur. The key actions to strengthen the financial system's resilience as frontier AI-related risks evolve are set out below.

Strong foundational cybersecurity controls are an essential prerequisite for managing the risks posed by frontier AI and other emerging technologies. Therefore, UK regulatory authorities are continuing to adapt cyber resilience frameworks to the evolving threat.

The Bank, PRA and FCA published a **consultation** on a joint supervisory statement on cyber risk and resilience management on 19 November. The statement sets out principles-based and outcomes-focused expectations about how regulated firms and FMIs should manage their cyber risk and resilience, drawing on existing UK requirements, the NCSC Cyber Assessment Framework and international regulatory guidance. It is also informed by supervisory experience and past cyber incidents. Alongside the consultation paper, the UK regulatory authorities published effective practices on how firms and FMIs can manage cyber resilience and risks related to **AI** and **quantum computing**, which may be updated over time as technology and risks evolve. These include moving from traditional vulnerability management towards continuous exposure management, to respond to the increasing speed and scale of AI-enabled vulnerability discovery and exploitation.

Sector-wide collaboration is helping firms address emerging frontier AI risks, thus contributing to system-wide resilience.

The Bank continues to collaborate with industry, UK authorities, including the NCSC and the AISI, and international partners to understand the evolving risks and opportunities presented by frontier AI, improve firm and sector response preparedness, and strengthen firms' ability to deploy these capabilities safely and effectively. The Bank and other UK financial authorities have also continued to collaborate closely with industry through the Cross-Market Operational Resilience Group (CMORG)[25] and the AI Taskforce to strengthen sector-wide preparedness, including response and communication capabilities and threat-management practices. The newly launched FAISF is complementing this work by facilitating the safe and responsible sharing of information on the use of frontier AI for cyber defence across the UK financial sector.

The Bank is also engaging smaller financial firms on frontier AI developments through supervision and sector-wide initiatives, including by supporting access to practical guidance on managing associated risks. As cyber threats become more sophisticated, ensuring that less well-resourced firms can access and act on relevant information and guidance will become increasingly important.

The Bank is adapting its testing and exercising toolkit in order to assess the financial system's resilience to frontier AI-enabled threats.

Enhancements to CBEST[26] are intended to ensure that threat-led penetration testing keeps pace with the capabilities that frontier AI could provide to malicious actors, including for reconnaissance, vulnerability discovery, social engineering and attack automation. This will be complemented by a cross-authority desktop exercise in December 2026 to test collective response arrangements for concurrent cyber incidents enabled by frontier AI. In addition, the **Cyber and Operational Resilience Stress Test (CORST)** will use a frontier AI scenario in 2027. The test will focus on understanding the potential financial stability impacts of an operational disruption involving frontier AI, as well as firm and sector response and recovery. Planning for this system-wide test has started, with a range of potential scenarios being discussed with firms, industry groups, and technical experts. Suitable participants will be invited for testing in summer 2027, with thematic findings planned to be published by the Bank in 2027 Q4. The test will continue to be voluntary and exploratory in nature.

Together, these exercises should help authorities and firms assess whether governance, detection, response and recovery arrangements remain effective as frontier AI-enabled threats develop.

> **The growing use of AI agents, and the potential for greater autonomy, increase the importance of their safe and responsible deployment.**

The Bank has helped develop the Financial Stability Board's (FSB's) 12 sound practices for responsible AI adoption, covering areas including governance and senior-management oversight, data and model management, testing, incident management and risks from agentic AI, and will continue to work on the safe and responsible deployment of AI. Looking ahead, a key challenge will be ensuring that increasingly autonomous AI models behave as reliably as intended, particularly when able to initiate decisions or actions without human involvement, and that there is clarity about responsibility, accountability and liability for their actions, including in cases of fraud or error.

> **Existing regulatory frameworks may provide further mitigants as dependencies on AI providers develop.**

Where multiple firms and FMIs depend on a common AI provider for important business services, the CTP regime could help address risks arising from concentration and common dependencies. This would be in addition to existing and proposed requirements and expectations on firms and FMIs to manage risks to their operational and cyber resilience, including from third-party arrangements.

> **However, existing regulatory frameworks may not address all potential sources of risk relating to frontier AI.**

The CTP regime would only partially address some risks relating to frontier AI. The regime is designed to ensure the operational resilience of services provided and so would have limited ability to mitigate the most persistent risks from frontier AI, for example from the ability of

malicious actors to use frontier AI to identify and exploit vulnerabilities as a result of how models have been developed and deployed. The Bank, PRA and FCA will continue to assess the systemic risks posed by AI providers.

The Bank will continue to engage with domestic and international authorities to support analysis of frontier AI-related risks and further development of regulatory responses.

The Bank's approach to assessing and building resilience to frontier AI-related risks forms part of wider domestic and international efforts. The FPC welcomes **work by the AISI on technical practices for frontier AI development**, including assessing and documenting risk, overseeing AI systems throughout their lifecycle, preserving and evaluating oversight mechanisms, and detecting, responding to and reporting agentic AI incidents. The Bank continues to engage with the Government on its work on the resilience of critical national infrastructure, including in sectors on which finance depends, while the NCSC is providing threat assessments, intelligence and advice on cyber resilience.

More broadly, the UK is finalising its AI priorities for its forthcoming G20 Presidency and the Bank continues to engage on AI through international fora, including the FSB and the G7 Cyber Expert Group, as well as bilaterally with international authorities. Taken together, these measures seek to strengthen resilience internationally as frontier AI capabilities and their use across the financial system continue to evolve.

5.3: Operational risks from developments in quantum computing

Quantum computing (QC) represents a fundamental advance in computing, harnessing the principles of quantum mechanics to solve certain problems that are beyond the capabilities of traditional computers.

Over time, QC has the potential to deliver significant benefits to financial services, including enhanced market trading, portfolio optimisation, fraud detection and payment processing.

It also presents risks. The principal near-term threat is quantum-vulnerable public key cryptography, including mechanisms used for establishing keys, authentication, identity infrastructure, and digital signatures. If these mechanisms are compromised, confidence in the authenticity and integrity of financial contracts, transactions and long-lived authoritative records could be undermined.

A cryptographically relevant quantum computer (CRQC) does not yet exist, but the quantum landscape continues to advance, challenging assumptions around when a CRQC could emerge. The emergence of one could break widely used forms of public key cryptography, enabling the forgery of digital signatures, certificates or authentication credentials. Confidential data could also be compromised where the encryption used to protect it is broken by a CRQC, or through the use of frontier AI to exploit cryptographic vulnerabilities. Harvest-

now-decrypt-later (HNDL) attacks, where adversaries collect encrypted data for decryption once a CRQC becomes available, create a present-day risk for data with long confidentiality lifetimes (ie data that needs to remain confidential over a long period). This means that data that are currently considered encrypted and secure may not remain so in future. Financial stability could be affected should such compromises impact systemic firms, FMIs or common third-party providers, leading to the material disruption of vital services or market functioning. This in turn could lead to a material loss of confidence, amplifying the impact beyond parts of the financial system directly affected by the attack.

The immediate financial stability priority is an orderly transition to quantum-resistant cryptography.

The FPC has previously emphasised that firms should begin planning now, given the scale and long lead times involved.[27] A successful transition would support the resilience of the financial system as quantum technology evolves, helping to maintain the continued provision of vital services to the real economy. The **NCSC post-quantum cryptography (PQC) roadmap** provides the current guidance for UK Government and Critical National Infrastructure (CNI). Migration to PQC involves replacing quantum-vulnerable cryptography with quantum-resistant methods. Under NCSC guidance, firms should prepare for this transition by identifying where cryptography is used across their IT estates, mapping dependencies supporting vital services, and developing prioritised migration plans. Organisations are encouraged by the NCSC to define migration goals, conduct asset discovery and build a migration plan by the end of 2028, migrate high-priority activities by the end of 2031, and transition all other systems by the end of 2035. It is important for firms with the greatest systemic impact to be ahead of these timelines; uncertainty around when a CRQC will be developed, alongside uneven preparedness of financial firms domestically and globally to date, underscores the importance of building momentum behind this work programme.

The financial stability implications of the PQC transition differ across three phases: before, during and after migration.

Before migration, the compromise of confidential information or secure processes could undermine confidence, while complex transition programmes could create implementation risks. During migration, differences in the timing or approaches taken by firms, FMIs and different jurisdictions could disrupt the provision of vital services and, given interconnections within the financial system, could amplify disruption. Over the longer term, following migration, insufficient adaptability to evolving cryptographic standards (referred to as ‘cryptoagility’) could allow vulnerabilities to re-emerge.

The financial system’s interconnectedness means that common vulnerabilities, migration delays or implementation failures can amplify disruption across the financial system.

Co-ordination failures across the ecosystem, including among suppliers and across shared dependencies, could crystallise these risks. For example, delayed or inadequate migration by a widely used third-party provider could affect multiple financial firms simultaneously. Similarly, complex transaction chains may depend on multiple firms, infrastructures and systems migrating in a co-ordinated sequence: delays or incompatibilities at one point in the chain could disrupt the functioning of the wider transaction.

There are other risks to firms' planning for, and execution of, PQC migration. One example is the potential scarcity of, and competition for, the necessary resources to deliver a successful migration. Firms will need to factor in constraints on the availability of suitable hardware, software, suppliers and expertise, and the potential for bottlenecks and correlated implementation risks.

Divergent international expectations for PQC transition are emerging, including on timelines, implementation approaches and technological choices.

As governments, technology providers and firms develop their approaches, some divergence is inevitable. Some jurisdictions are moving more quickly; India is targeting migration of critical information infrastructure by the end of 2028, Australia is aiming to complete all migration activity by the end of 2030, and the US has prioritised federal transition planning by the end of 2027. France is tightening certification requirements for security products from 2027, with organisations expected to procure exclusively quantum-safe products by 2030. Fragmentation could increase operational complexity, impede interoperability and complicate the transition of critical cross-border services. The Bank continues to work through the G7 Cyber Expert Group and other international groups to promote interoperability and co-ordinated international action on quantum risk. The NCSC recommends international co-ordination to support interoperability and an orderly transition for globally active regulated sectors, such as financial services.

This work to support the PQC transition is an integral part of the Bank's broader work to strengthen the operational resilience of the financial system.

The Bank, PRA and FCA have been working across both domestic and international fronts to build understanding of PQC risks and enhance preparedness across financial firms and FMIs, including payment systems. For instance, CMORG has published a structured methodology for assessing the PQC readiness of shared sector dependencies, which has helped to build collective understanding of PQC migration risks and shared dependencies across the financial sector. In parallel, actions firms take to pursue longer-term resilience, including more agile architectures, reduced reliance on legacy systems and stronger cyber recovery, will support greater resilience to the risks. The Bank will continue to work with industry, including through CMORG, to support sector-wide planning and co-ordination, including identifying critical dependencies and ensuring that transition plans are appropriately sequenced across firms, FMIs and their technology providers.

5.4: Strengthening system-wide operational resilience

As well as focusing on risks arising from two specific technological advances – frontier AI and quantum computing – the Bank is undertaking broader work to strengthen the resilience of the financial system to severe operational disruption irrespective of its source.

Significant resilience has been built across the financial system, but firms and FMIs need to continue to strengthen their ability to withstand, respond to and recover from severe operational disruption, irrespective of its source. Even where individual institutions are resilient, residual system-level vulnerabilities can remain and may require collective action to address them. To help address these vulnerabilities, the Bank is working with industry to identify the minimum activities within core payments and financial markets that would need to continue or be restored following severe disruption to mitigate risks to financial stability, and to assess whether existing response and recovery capabilities, workarounds and alternative arrangements could collectively sustain them. The aim is to identify where the resilience of individual institutions may be sufficient to achieve that outcome, and where residual system-level vulnerabilities may require additional collective action.

This work has initially prioritised retail and wholesale payments, and sterling rates markets, and within this, gilt settlement, which is necessary for the completion of gilt and gilt repo transactions. The prioritisation of these functions reflects their importance to the provision of vital financial services, and the potential for disruption in these ecosystems to propagate across firms, financial markets and infrastructures.

For retail payments, a prolonged disruption could prevent households and businesses from making or receiving essential payments, with knock-on impacts for banks, payment systems, card schemes and supporting financial infrastructure. Disruption to wholesale payments could trap cash and collateral and increase uncertainty over incoming payments, prompting firms to conserve liquidity and potentially impairing market functioning. Firms and payment system operators are already taking action to strengthen resilience, including through immutable backups, bare-metal recovery, contingency services and, where appropriate, stand-in arrangements.

This work would seek to build on the prior expectation set by the FPC that the financial system should have the capability to complete critical payments by the end of the value date in severe but plausible scenarios, supporting liquidity, market functioning and ultimately financial stability.[28] Further work across the sector should focus on developing and testing these arrangements, including how they operate together, to maintain the provision of vital services through severe disruption.

The sterling rates ecosystem comprises interconnected markets, firms and infrastructure supporting activity in gilt and gilt repo markets and associated derivatives, including their issuance, trading, funding, hedging, clearing and settlement. The FPC judges that a priority for operational resilience in the sterling rates ecosystem is gilt settlement, given its importance for the movement of cash, securities and collateral, and consistent with other priority work to enhance the resilience of the gilt repo market (Box A). In the event that settlement functions are degraded, it is important that settlement fails, backlogs or associated liquidity exposures can be managed, containing the potential for financial contagion from this disruption. The objective is not to replicate every element of normal service during an extreme disruption, but to ensure that the minimum activities necessary to mitigate risks to financial stability can continue or be restored sufficiently quickly.

The financial system has become more resilient to operational risk, and work is under way across systemic institutions under the supervision of the UK regulatory authorities to enhance system-wide recovery capability. However, all firms, regardless of size, should ensure that credible backup and substitution arrangements are in place for vital services which the financial system relies on. This includes the ability to restore critical data from immutable backups, bare-metal rebuild for critical applications and core infrastructure, or fail over to separate environments following severe disruption, alongside other arrangements to maintain the provision of vital services, until all services can be restored.

The Bank's engagement with industry, including through system-wide exercises, is intended to help identify gaps in existing system-wide resilience arrangements.

The Bank will work with industry to assess whether firms' and FMIs' proposed resilience solutions can collectively deliver these outcomes and identify viable collective solutions. In October, the Bank, working with CMORG, completed its **biennial simulation exercise**, known as SIMEX26, focused this year on the sector's response to a major and prolonged disruption to a global cloud services provider. The exercise involved the 38 largest and most systemically important banks and FMI operators in the UK, and explored the resilience of co-ordination and communications technologies, thresholds for dysfunction and intervention, international co-ordination and disconnection/reconnection considerations.

System-wide operational resilience also requires international co-ordination given the potential for disruption to propagate across borders.

The FPC supports the UK regulatory authorities' continued engagement internationally through a range of multilateral and bilateral channels to build resilience to operational risks – including from AI, as set out in Section 5.2 – which may affect global financial stability including via globally systemically important markets.

5.5: Managing technological change

Technological change comes with many potential benefits for financial firms and for the financial system as a whole. But the evolving operational risk environment reinforces the need for significant and sustained investment by the financial sector in building resilience, alongside continued co-ordination between firms, the Bank, PRA, other UK authorities and international partners where appropriate.

Addressing the evolving system-wide operational risks will require substantial technology transformation, including reducing reliance on legacy systems, strengthening vulnerability management and patching capabilities, increasing the resilience of critical third-party arrangements, and developing robust response and recovery capabilities that maintain the provision of vital services.

At the same time, firms are investing in responses to other significant technological changes, including AI, tokenisation, and the transition to post-quantum cryptography. Looking ahead, as tokenised financial assets become more widely used in the financial system, both firms and authorities will need to ensure that operational resilience keeps pace with faster settlement and extended operating hours, including the ability to contain disruption while maintaining the provision of vital services.

This presents the challenge of competing priorities, which could place pressure on scarce technology skills, management capacity, and external expertise, potentially creating bottlenecks and increasing execution risks across the financial system. Technological change intended to strengthen resilience can also introduce new vulnerabilities or cause disruption if it is not implemented effectively. Where firms are exposed to common technologies, service providers or implementation challenges, such disruption from these changes could become correlated across the financial system. It is therefore important for firms to manage these priorities effectively to support the operational resilience not only of individual firms, but of the financial system.

Industry-wide co-ordination between firms and UK authorities can help to address key challenges from technological changes being undertaken by individual firms, and to develop collective solutions to risks that cannot be addressed effectively by individual firms acting alone, including exploring whether cyber resilience solutions can be more widely adopted by the sector for the public good. Building on the existing critical work being delivered on a public-private collective basis through the CMORG, the Bank also intends to establish a new Systemic Resilience Council (SRC), which would bring together Bank and senior industry representatives to co-ordinate action on system-wide risks.

Annex: Macroprudential policy decisions

This annex lists any FPC Recommendations and Directions from previous periods that have been implemented or withdrawn since the **July 2026 FSR**, as well as Recommendations and Directions that are currently outstanding. It also includes those FPC policy decisions that have been implemented by rule changes and are therefore still in force.

Each Recommendation or Direction has been given an identifier to ensure consistent referencing over time. For example, the identifier 17/Q2/1 refers to the first Recommendation made at the 2017 Q2 Committee meeting.

Outstanding FPC Recommendations and Directions (as at the date of the FPC's meeting on 19 November 2026)

On 23 March 2023, the FPC made the Recommendation (23/Q1/2) that:

- The Pensions Regulator (TPR) should have the remit to take into account financial stability considerations on a continuing basis. This might be achieved, for example, by including a requirement to have regard to financial stability in its objectives, which should be given equal weight alongside other factors to which TPR is required to have regard. The FPC noted that in order to achieve this, TPR would need appropriate capacity and capability.

On 27 June 2025, the FPC made the Recommendation (25/Q2/1) that:

- The PRA and FCA should together (i) aim to ensure that the aggregate flow of new residential mortgages from mortgage lenders at loan to income ratios (LTIs) at or greater than 4.5 does not exceed 15% of total new residential mortgages; and (ii) allow individual lenders to increase their share of lending at such high LTIs while aiming to ensure the aggregate flow remained consistent with the limit of 15%. The FPC recognises that, in doing so, such high LTI lending by individual lenders could exceed 15% of their total number of new residential mortgages while the aggregate flow remains consistent with the 15% limit. The aggregate flow is calculated based on new residential mortgages extended by lenders which extend residential mortgage lending in excess of £150 million per annum.
- On 14 October 2026 the PRA and FCA published **PS19/26 – High loan to income lending**, their final policy statement implementing this Recommendation.

Other FPC policy decisions which remain in place

The following text sets out previous FPC decisions, which remain in force, on the setting of its policy tools. The calibration of these tools is kept under review.

Countercyclical capital buffer (CCyB) rate

The FPC agreed to maintain the UK CCyB rate at 2% on 19 November 2026, unchanged from its 25 September 2026 meeting. This rate is reviewed on a quarterly basis. The UK has also reciprocated a number of foreign CCyB rate decisions – more details are available at **The countercyclical capital buffer**. Under PRA rules, foreign CCyB rates applying from 2016 onwards will be automatically reciprocated up to 2.5%.

Leverage ratio

In September 2021, the FPC finalised its review of the UK leverage ratio framework, and issued a Direction and Recommendation to implement the outcome of the review as set out in its **October 2021 Record**.

In October 2022, in line with its statutory obligations, the FPC completed its annual review of its Direction to the PRA. The FPC revoked its existing Direction to the PRA in relation to the leverage ratio regime, and issued a new Direction on the same terms as in September 2021 with the addition of discretion for the PRA to set additional conditions to the central bank reserves exclusion.

- The full text of the FPC's Direction to the PRA on the leverage ratio is set out in the Annex of the **October 2022 Record**, together with the original Recommendation (now implemented).
- The PRA has **published its approach** to implementing this Direction and Recommendation.
- The FPC is required to and has continued to review its leverage ratio Direction annually, most recently in 2026 Q3.

Other FPC activities since the July 2026 FSR

Other FPC activities since the July 2026 FSR not included elsewhere in this FSR include:

- Welcomed the announcements by HM Treasury in July 2026 and November 2026 of firms to be designated as Critical Third Parties (CTPs) under the CTP regime.
- Welcomed the introduction of new aligned reporting requirements by the Bank, PRA and FCA from 18 March 2027, which will strengthen authorities' visibility of regulated firms' and FMIs' dependencies on material third parties.

- Welcomed the publication on 19 November of **CP17/26 and GC26/9 – Cyber risk and resilience management**, setting out proposals for principles-based and outcome-focused expectations about how firms should manage their cyber risk and resilience.
- Noted that the International Monetary Fund's Financial Sector Assessment Program (FSAP) review of the UK financial sector was underway and that the Committee would consider the findings of the FSAP in due course.
- Welcomed the publication on 7 October 2026 of **CP13/26 – The Prudential Regulation Authority's automatic thresholds indexation framework**, which proposed a transparent, rules-based framework that would automatically update in-scope regulatory thresholds every five years.
- Was briefed on the **PRA's 2026 Dynamic General Insurance Stress Test**, the results of which were published on 23 November 2026.
- Welcomed the PRA's **Supervisory Statement 5/25**, aimed at enhancing banks' and insurers' approaches to managing climate-related risks.
- Received a **remit letter** from the Chancellor on 28 October 2026 setting out the economic policy of His Majesty's Government and Treasury's Recommendations under Sections 9D-9E of the Bank of England Act 1998.
- Continued to monitor and strengthen its assessment of climate-related risks to the UK financial system. At its September 2026 meeting the Committee judged that the most material channels are the potential long-run impacts of climate change on sovereign debt pressures globally and the provision of flood insurance to UK households and businesses. The analysis underpinning the FPC's judgements will be published in a forthcoming Bank Insights article.

The **Financial Policy Committee Record – September 2026**, and **Financial Policy Committee Record - November 2026** contain more detail on the activities of the FPC since the July Report.

Glossary

Abbreviations

AAM – Alternative Asset Managers.

ABS – asset-backed securities.

AI – artificial intelligence.

AIFMD – Alternative Investment Fund Managers Directive.

AISI – Artificial Intelligence Security institute.

ALRB – Additional Leverage Ratio Buffer.

API – Application programming interface.

BCST – Bank Capital Stress Test.

BDC – Business Development Company.

BIS – Bank for International Settlements.

CAPE – cyclically-adjusted price-to-earnings.

CBEST – Cyber security banking supervision and evaluation testing.

CCLB – countercyclical leverage buffer.

CCPs – central counterparties.

CCS – Credit Conditions Survey.

CCyB – countercyclical capital buffer.

CET1 – Common Equity Tier 1.

CLOs – collateralised loan obligations.

CMBS – Commercial mortgage-backed security.

CMORG – Cross Market Operational Resilience Group.

CNI – critical national infrastructure.

CNRF – Contingent NBFI Repo Facility.

COLA DSR – cost of living adjusted debt-servicing ratio.

CORST – Cyber and Operational Resilience Stress Test.

CRE – commercial real estate.

CTP – critical third party.

DB – defined benefit.

DC – defined contribution.

DMP – Decision Maker Panel.

DSR – debt-servicing ratio.

DV01 – dollar value of a basis point.

EMIR – European Market Infrastructure Regulation.

ETF – exchange-traded fund.

FCA – Financial Conduct Authority.

FMSB – Financial Markets Standards Board.

FPC – Financial Policy Committee.

FSB – Financial Stability Board.

FSR – Financial Stability Report.

FTSE – Financial Times Stock Exchange.

G7 – Canada, France, Germany, Italy, Japan, the United Kingdom and the United States.

GCHQ – Government communications headquarters.

GDP – gross domestic product.

GEMM – Gilt-edged market maker.

GFC – global financial crisis.

HGF – high-growth firm.

HM Treasury – His Majesty's Treasury.

ICE – Intercontinental Exchange.

ICR – interest coverage ratio.

IFRS – International Financial Reporting Standard.

IG – investment grade.

ILTR – Indexed Long-Term Repo.

IMF – International Monetary Fund.

IOSCO – International Organization of Securities Commissions.

IPO – initial public offering.

ISIN – International Securities Identification Number.

KOSPI – Korea Composite Stock Price Index.

LDI – liability-driven investment.

LL – leveraged loan.

LLM – Large Language Model.

LSEG – London Stock Exchange Group.

LTI – loan to income.

LTV – loan to value.

MBF – market-based finance.

MCOB – Mortgage Conduct of Business.

METR – Model Evaluation and Threat Research.

MiFID – Markets in Financial Instruments Directive.

MMF – money market fund.

MoU – Memorandum of Understanding.

MPR – Monetary Policy Report.

NAV – net asset value.

NBFI – non-bank financial institution.

NCSC – National Cyber Security Centre.

NIC – National Insurance contributions.

NIIP – net international investment position.

NIM – net interest margin.

OECD – Organisation for Economic Co-operation and Development.

OEF – open-ended fund.

OIS – overnight index swap.

ONS – Office for National Statistics.

O-SII – other systemically important institution.

PC – private credit.

PD – probability of default.

PE – private equity.

PQC – post-quantum cryptography.

PRA – Prudential Regulation Authority.

PTFs – Principal Trading Firms.

PtTB – price to tangible book.

PV01 – present value of a basis point.

QC – quantum computing.

RoTE – return on tangible equity.

RWA – risk-weighted asset.

S&P – Standard & Poor’s.

SFTR – Securities Financing Transactions Regulation.

SME – small and medium-sized enterprise.

SMMD – sterling money market data.

SRT – Significant Risk Transfer.

STR – Short-Term Repo.

SWES – system-wide exploratory scenario.

TAIEX – Taiwan Stock Exchange Capitalisation Weighted Index.

TOPIX – Tokyo Stock Price index.

VC – venture capital.

WAM – weighted average maturity.

---

1. Hyperscalers are cloud service providers or technology companies that build, lease, and operate data-centre networks to deliver computing power, storage, and AI infrastructure. These companies include Alphabet, Amazon, Microsoft, Meta, Oracle and SpaceX.
2. The J.P. Morgan report uses ‘alternative capital’ to refer broadly to private capital, including financing provided through private credit and infrastructure strategies.
3. Source: The Bank for International Settlements. Estimates as at end-2025.
4. The estimate includes existing debt, leases, purchase commitments and contingent obligations such as guarantees and backstops.
5. Alternative Investment Management Association, based on data from the Alternative Credit Council (ACC), Financing the Economy 2026, published in October 2026. The ACC measure covers a broad range of private credit strategies and is not limited to direct lending alone.
6. Refer to November 2026 **Monetary Policy report**, Section 3, for a discussion of the adverse scenario.
7. Changes to Stamp Duty Land Tax in April 2025 are likely to have affected the timing of mortgage transactions, contributing to a temporary increase in high LTI lending in Q1 and a subsequent fall in Q2. We therefore use the 2025 H1 average as the reference point.
8. HGFs or scale-ups are firms with average annualised growth in employees or nominal turnover greater than 20% per year over a three-year period, and with 10 or more employees in the beginning of the period, and high growth potential start-ups, young companies pursuing seed and start-up finance.
9. **Finance, growth and productive investment: what is the FPC assessing in 2026?**, **Who finances UK business?**, **Who benefits when banks go digital?**, **Examining bank lending to high-growth firms** and **What drives differences in commercial banks’ product level returns?**.
10. UK Research and Innovation is the UK’s national research and innovation funding body, investing in research and supporting businesses to develop and commercialise new products, processes and services.

11. The Catapult Network provides specialist expertise, facilities and commercialisation support to help innovative firms move from research and development to commercial scale.

12. Established corporates provide a further route to finance and commercial scale. Corporate venture investment and partnerships are already complementing specialist finance by providing high-growth firms with capital, customers, technical expertise and routes to market. **Corporates and corporate venture-capital investors accounted for around a quarter of UK venture investment by value over 2020–25**. Greater participation through investment, procurement and supply-chain partnerships could further strengthen these links.

13. Calculated as CET1 impact of dividends and buybacks (including foreseeable dividends) as reported in published accounts.

14. The UK Government's **National Risk Register** categorises risks as 'non-malicious' (such as accidents and systems failures) and 'malicious' (such as cyberattacks and state threats).

15. PRA policy statement PS6/21 – **Operational resilience: Impact tolerances for important business services**, March 2021.

16. These are: Amazon Web Services EMEA SARL, Google Cloud EMEA Limited, Microsoft Ireland Operations Ltd and Oracle Corporation UK Limited. **UK financial regulators to begin overseeing Critical Third Parties announced by HM Treasury**.

17. These are: BlackRock Financial Management, Inc, Bloomberg L.P., Bottomline Technologies Limited, Broadridge Financial Solutions Limited and Form3 UK Limited. **Five further Critical Third Parties designated – GOV.UK**.

18. **How Far Behind the Frontier are Leading Open Weight Models on Cyber?**.

19. For closed-weight models only the developers know the model's trained parameters, while for open-weight models, others can download and run them.

20. **Cheating behaviour in frontier model evaluations**.

21. **Principals and Agents – speech by Jonathan Hall**.

22. **Frontier AI Information Sharing Forum (FAISF)**.

23. Sources: **AI helped discover the PHP vulnerability that could take down 70% of the internet**; **Websites taken down worldwide as critical PHP cyber-security update issued**.

24. **JP Morgan (2026), Eye on the Market, Patchmageddon, The race to patch software vulnerabilities before zero-day cyber-exploitations proliferate**.

25. CMORG brings together firms, FMIs and the authorities to share expertise and develop co-ordinated approaches to mitigating the impact of operational incidents. It is chaired by the Bank of England and UK Finance, with participation from HM Treasury, the FCA and the wider financial sector.

26. CBEST is the Bank of England, PRA, and FCA's threat intelligence-led penetration testing framework for systemically important financial institutions and financial market infrastructures.

27. **Financial Stability Report – July 2026**.

28. Set out in **Financial Policy Summary and Record – March 2021** and updated in **Record of the Financial Policy Committee meeting – 23 March 2023**.