

Bank of England PRA

This document accompanies PS20/25.

Please see: <https://www.bankofengland.co.uk/prudential-regulation/publication/2025/october/strong-and-simple-framework-the-simplified-capital-regime-for-sddts>.

Appendix 17: Stress impact component of the Single Capital Buffer (SCB)

As set out in policy statement (PS) 20/25 –The Strong and Simple Framework: The simplified capital regime for Small Domestic Deposit Takers (SDDTs) – near final¹ the SCB, which will be set so it is at least 3.5% of RWAs, is informed by a stress impact, RMG assessment, and supervisory judgement. The stress impact is informed by SDDT-specific stress test scenarios ('SDDT scenarios'), such that, assuming an SDDT's risk profile and balance sheet remained broadly unchanged, the SCB should not vary with the economic or financial cycle.

To support firms in understanding how the PRA intends to calibrate the SDDT scenarios at different points in the cycle, this appendix sets out how we expect stress testing framework for SDDTs to work. To complement this guidance, we are publishing two illustrative example scenarios alongside this appendix, a supply scenario and a demand scenario; see in Appendix 16 of PS20/25.²

These scenarios are shared as illustrative examples only. The actual SDDT scenarios may look different but should provide a broadly comparable severity benchmark. The illustrative scenarios **not** to be used for the basis of any ICAAP. Until the SCB is implemented on 1 January 2027, SDDTs should continue to use the published ICAAP scenarios for banks and building societies not part of concurrent stress testing for the basis of any ICAAP.

The PRA will annually publish two SDDT scenarios, commencing in mid-2026, to serve as a guide for SDDTs when designing their own scenarios in the context of the ICAAP stress tests. The PRA encourages an SDDT to consider the type, characteristics, and severity of stress that its business model is vulnerable to.

¹ October 2025: <https://www.bankofengland.co.uk/prudential-regulation/publication/2025/october/strong-and-simple-framework-the-simplified-capital-regime-for-sddts>.

² See Appendix 16 of PS20/25: <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2025/october/ps2025app16.xlsx>.

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SDDT scenarios calibration

The SDDT scenarios will be calibrated using the same framework for shocks as the Bank Capital Stress Test (BCST) for the major UK banks and the ICAAP scenarios for banks and building societies not part of concurrent stress testing ('ICAAP scenarios'). The shocks in the SDDT scenarios will be designed so the impact will be relatively constant over time. The aim is to ensure that as the UK moves through economic and financial cycles, the SCB calculated for an SDDT would remain at a relatively constant level if the SDDT's risk profile and balance sheet remained broadly unchanged. In contrast, the BCST and ICAAP scenarios are countercyclical by design.

This means that under normal economic conditions any given published SDDT scenario will likely look very similar to the BCST and to the ICAAP scenarios. However, if there are signs that the UK economy is weakening or asset prices falling, this may mean the BCST and ICAAP scenarios are less severe than the SDDT scenarios. And, vice versa, if there are signs that the economy is overheating or assets prices are becoming overvalued, the BCST and ICAAP scenarios may become more severe than the SDDT scenarios.

To ensure a relatively constant buffer, there may be times when we will need to adjust the severity of shocks as the economy and financial system evolve. For example, if unemployment were to increase materially in the real world, further shocks to unemployment in a stress scenario might have a non-linear impact on losses and buffer setting. In this situation, while avoiding making the scenario countercyclical, we would consider adjustments to the size of the unemployment shock to target a relatively constant buffer through the cycle.

Differences between the illustrative SDDT scenarios and the BCST 2025 and the ICAAP scenarios 2025

The illustrative example SDDT scenarios (in Appendix 16 of PS20/25) are set out and operate on a similar basis to the published BCST 2025 and the published ICAAP scenarios 2025 for firms not taking part in the concurrent stress test ('ICAAP scenario 2025'),³ as the same variables and information is supplied over a multiyear horizon.

³ <https://www.bankofengland.co.uk/stress-testing>

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To help explain the difference between the illustrative SDDT scenarios and the BCST 2025 and ICAAP scenarios 2025, it may be helpful to note the following:

- The real GDP shock and house price shocks in the illustrative SDDT scenarios are the same as those in BCST 2025 and ICAAP scenarios 2025. The real GDP shock and house price shocks are calibrated with reference to the 1st percentile of the historical distribution. This approach is the same as that used to calibrate the BCST 2025⁴ and ICAAP scenarios 2025.
- The unemployment and CRE prices shocks in the illustrative SDDT scenarios are also calibrated with reference to the 1st percentile of the historical distribution. However, these are slightly larger than the shocks in the BCST 2025 and ICAAP scenarios 2025. This is because some countercyclical adjustments were layered on the BCST 2025 and ICAAP scenarios 2025 based on recent movements in the observed data.

Variable	Shock size (Illustrative SDDT scenarios 2025)	Shock size (BCST 2025 & ICAAP scenarios 2025)
Unemployment	+4.5pp	+4.1pp
Real GDP	-5%	-5%
House Prices	-28%	-28%
CRE Prices	-45%	-35%

⁴ <https://www.bankofengland.co.uk/stress-testing/2025/key-elements-bank-capital>