Bank of England PRA

Supplementary stress testing guidance

Additional guidance ahead of the SDDT capital regime effective from 01 January 2027 - Differences between SDDT scenarios and the ICAAP scenarios

Within the publication of PS20/25[1], we shared Appendix 17[2] which outlined the PRA's approach to the stress impact component of the SCB (Single Capital Buffer). To complement this guidance, we published two illustrative example scenarios alongside Appendix 17, a supply scenario and a demand scenario; see in Appendix 16[3] of PS20/25.

Building on the framework set out in Appendix 17, the following considerations help to explain differences between the SDDT scenarios and the BCST and ICAAP scenarios, and between scenarios across time:

A. When comparing differences between SDDT scenarios across time, 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.

B. When comparing differences between SDDT scenarios and ICAAP (and BCST) scenarios at a given point in time, you will observe the impact of countercyclical adjustments that were applied to the BCST and ICAAP scenarios based on recent movements in the observed data that are removed from SDDT scenarios.

With reference to the below table, summarising movements in key macroeconomic variables across scenarios, it might be helpful to use some specific examples:

- The real GDP shock and house price shocks in the 2026 SDDT scenarios are the same as those in the 2026 ICAAP scenarios. The real GDP shock and house price shocks in the SDDT scenarios are calibrated with reference to the 1st percentile of the historical distribution which has not changed since the 2025 BCST and ICAAP scenarios or the illustrative 2025 SDDT scenarios.

- The unemployment and CRE prices shocks in the 2026 SDDT scenarios are also calibrated with reference to the 1st percentile of the historical distribution.

[1] PS20/25 – The Strong and Simple Framework: The simplified capital regime for Small Domestic Deposit Takers (SDDTs) | Bank of England
[2] Appendix 17: Stress impact component of the SCB
[3] Appendix 16: Illustrative SDDT scenarios

However, these shocks are larger than the those in the 2026 ICAAP scenarios. This is because some countercyclical adjustments were layered on the 2026 ICAAP scenarios which typically follow the countercyclical approach used in BCST and ICAAP scenarios. The unemployment and CRE prices shocks are unchanged from the illustrative 2025 SDDT scenarios.

Variable	*Shock size* *Illustrative SDDT Scenarios, April 2025*	*Shock size* *SDDT Scenarios, July 2026*	*Shock size* *BCST 2025 & ICAAP Scenarios, April 2025*	*Shock size* *ICAAP Scenarios, July 2026*
Unemployment	+4.5pp	+4.5pp	+4.1pp	+3.3pp
Real GDP	-5%	-5%	-5%	-5%
House Prices	-28%	-28%	-28%	-28%
CRE Prices	-45%	-45%	-35%	-35%

Changes made to the stress-testing framework for non-systemic banks and building societies

In the December 2025 Financial Stability Report (FSR), the Bank set out a number of changes relative to previous concurrent stress tests which the Bank judged to be appropriate to make alongside the earlier provisioning under the IFRS 9 accounting standard. These included an updated approach to stress-test calibration and PRA buffer setting. At the time we acknowledged that the impact of, and changes made, including to incorporate, IFRS 9 outlined in the December 2025 FSR referred to banks participating in the Bank Capital Stress Test (BCST) and that the Bank was exploring the implications of the end of IFRS 9 transitional arrangements to the population of non-systemic banks.

The changes made to the Bank's approach to stress-test calibration have been read-across to Internal Capital Adequacy Assessment Process (ICAAP) and Small Domestic Deposit Taker (SDDT) scenarios published from 2025 onwards. As outlined in the December 2025 FSR, these include (1) closer alignment of the timing and transmission of shocks to historical stresses and an (2) updated approach to setting the size of shocks in the scenarios, consistent with historical experience. To help explain these changes, see below:

(1) The Bank reviewed the timing and transmission of shocks in the stress scenario, delaying the timing of the peaks and troughs of key macroeconomic variables such as unemployment, real GDP and property prices. This has

resulted in scenarios that are more closely aligned to the average of historical advanced-economy stresses and the GFC and has led to some credit losses being recognised later in the exercise.

(2) The approach to setting the size of shocks in the scenario has been updated to incorporate additional data to ensure consistency with historical experience and to simplify the methodology. This updated methodology has resulted in the start-to-trough changes in some variables being somewhat smaller over the scenario horizon than they otherwise would have been.

All banks and building societies that are not participants in the Bank of England's concurrent stress testing exercise which use the ICAAP or SDDT scenarios published from 2025 onwards as a template and severity benchmark to support their own ICAAP stress testing scenario design processes will benchmark against this updated approach to stress-test calibration.

As set out in The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP)[4] publications, firms should develop a range of firm-wide scenarios including some based on macroeconomic and financial market shocks for the purposes of their own stress testing. These scenarios should be developed so as to be relevant to the circumstances of the firm, including its business model, and the market(s) in which it operates.

The PRA's SREP assessment of firms' stress testing includes an analysis of the severity of the stress scenario considered by firms for the purposes of calculating the PRA buffer and the reasonableness of the stressed projections of the associated economic/market indicators that are part of the firm's scenario expansion.

Change made to reflect the impact of IFRS9 in buffer setting for banks and building societies under IFRS9

In addition, for those banks and building societies under IFRS9 that are not participants in the Bank of England's concurrent stress testing exercise, we will also read-across changes announced in the December 2025 FSR to reflect the impact of IFRS9 when setting the PRA buffer. When setting this buffer, the PRA will assume a CCyB rate that reflects the FPC's judgement that it would set the neutral rate for the UK CCyB around 2%. This means that the UK CCyB Rate, considered as part of avoiding double-counting with any PRA buffer, has increased from 1% to 2%.

The PRA's Statement of Policy 'The PRA's methodologies for setting Pillar 2 capital'[5] sets out under Section II: Pillar 2B, how firms should consider overlaps with the combined buffer in their PRA buffer assessment. The PRA will continue to take the scenario used when setting the PRA buffer into account when considering the relevant CCyB for the purposes of avoiding double counting between the buffers.

[4] The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP), SS4/25 - The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP) for Small Domestic Deposit Takers (SDDTs)

[5] Statement of Policy 'The PRA's methodologies for setting Pillar 2 capital'

Firms should consider the relevance of the PRA's stress scenarios in the context of their business and specific risk drivers and use these scenarios as a starting point to build and calibrate their own scenarios. This is particularly important for specialised firms, or firms whose business models are less affected by the PRA scenario (e.g. firms with major exposures to countries other than the United Kingdom, mono-lines, and investment banks).

Given the change in the UK CCyB Rate, considered as part of avoiding double-counting with any PRA buffer, is linked to the impact of IFRS9 with reference to the BCST, ICAAP and SDDT stress testing framework, we will not read-across this change where the scenario used in your ICAAP is not set based on a scenario that resembles in shape and severity one of the published PRA ICAAP or SDDT scenarios.

Changes in the Live CCyB will generally be additive to firms' existing PRA buffer. For example, if the FPC increases the Live CCyB rate by 0.25% to reflect the risk environment, the PRA buffer does not mechanically change.

For firms under IFRS9 but on the SDDT Capital Regime, we acknowledge there will also be an impact of IFRS9 when setting the stress impact component of the Single Capital Buffer (SCB). Where appropriate, the PRA will adjust an SDDT's SCB to reflect the impact of IFRS9, setting the SCB no lower than 3.5% of RWAs.