Bank of England PRA

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Dear [Chief Executive Officer]

UK Deposit Takers Supervision: 2025 priorities

We are writing to outline the Prudential Regulation Authority's (PRA) 2025 priorities for UK deposit takers (together 'firms'). We supervise a large and diverse population of firms and this letter is not exhaustive. These thematic priorities complement our core assurance work and the firm-specific feedback you will have received following your most recent Periodic Summary Meeting (PSM).

Our priorities are set to ensure we can deliver our primary objective to promote the safety and soundness of the banking sector and ensure continuing resilience, as efficiently as possible. We will also work with firms to further embed our secondary competition, growth and competitiveness objectives through our priorities, including our approaches to mid-tiers and mutuals. Our supervisors will continue to engage with firms in an open and constructive manner, and reflect the feedback they receive from firms into the policy process.

The common theme across our key priorities over the past few years and for 2025 remains the need for robust governance, risk management and controls at firms, supported by accurate information, to enable firms to proactively identify and analyse and mitigate risks in a dynamic, competitive and challenging environment.

Risk management, governance and controls

We observe firms' risk management, governance and controls being tested by the global interest rate environment, geo-political events and technological changes, including the increasing use of Artificial Intelligence. Our supervisory assessments find that firms vary in their ability to proactively identify, monitor and risk manage emerging or novel risks, especially the increasingly complex interactions between risks. In response to these demands, firms' senior management and Boards need to ensure that their organisations have robust governance, risk management and controls frameworks in place that are adaptive and resilient, leveraging stress and scenario analyses to inform risk management, strategy and business planning. We expect firms to have these frameworks in place across businesses, risk and internal audit functions, commensurate with the firm's business model. Boards should also consider where risk culture may be the root cause of material weaknesses in their firm's control environment.

The current combination of credit risk factors affecting firms' credit portfolios could be different to those that credit risk models were built on.[1] Firms' credit risk management and measurement practices need to be robust and adapt to changing conditions that may require investment. Longer-term risks, including climate change impacts, should be given appropriate consideration. Counterparty credit risk will continue to be a focus area, in particular exposures to non-bank financial institutions.

Our assessment of firms will review how credit risk management practices have evolved particularly focusing on strategic growth areas (e.g. funds lending, specialised lending), vulnerable and higher-risk portfolios (e.g. buy-to-let, unsecured retail, SME and mid-corporates, leveraged lending, commercial real estate), as well as key international portfolios.

Firms should continue to implement and embed changes to model risk management (MRM) to align with the principles in the PRA's supervisory statement 1/23.[2] Where shortcomings have been identified, firms should prioritise remediation as part of broader risk management improvements. The PRA will continue to engage with the accountable Senior Manager Functions at firms to assess and monitor implementation. We expect firms to develop and maintain high quality models that adequately capture risks and provide robust outputs. The quality of regulatory model submission will be an

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1 Thematic feedback on accounting for IFRS 9 ECL and climate risk. Available at: **www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/letter/2024/thematic-feedback-on-accounting-for-ifrs-9-ecl-and-climate-risk.pdf**.

2 Available at: **www.bankofengland.co.uk/prudential-regulation/publication/2023/may/model-risk-management-principles-for-banks-ss**.

important test of improvements to firms' MRM and the PRA will maintain its engagement with firms on individual applications. Firms' Boards also have a role in assessing the overall approach to MRM and the quality of decision making based on model outputs.

Data risk

We have observed that poor data are a root cause in a number of risks requiring remediation within firms. Firms need to continue to improve their ability to aggregate data to ensure that they have the information necessary to support holistic risk management, robust board decision making, and accurate regulatory calculations. Moreover, continued technological developments including increased use of artificial intelligence places heightened importance on the quality and accuracy of the data underpinning these tools. While not all firms are in scope of the Basel Committee on Banking Supervision's principles for effective risk data aggregation and reporting,[3] these principles provide a good base for firms to think about in their management of data risk.

We expect to place increasing reliance on data tools and analytics as part of our drive for efficient supervision and we will work collaboratively with firms to deliver this goal. As part of this, firms need to ensure they are submitting complete, timely and accurate regulatory returns. We will continue to assess data accuracy through 2025 utilising a full range of supervisory tools.

Funding and liquidity

Liquidity events in recent years have highlighted the importance of liquidity resilience and firms' preparedness for unexpected shocks. Additionally, the funding and liquidity landscape for UK banks will see significant changes in the next few years both in terms of normalisation of the Bank of England's balance sheet and changing market dynamics. Firms' Boards should seek assurance from their treasury and risk management functions about the effectiveness of balance sheet management; and how these changes will affect profitability, resilience, contingency funding options, and underlying business models.

The Bank has published a discussion paper (DP) setting out its intention to transition to a demand-driven framework for supplying reserves through repo operations.[4] As

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3 Principles for effective risk data aggregation and risk reporting. Available at: **www.bis.org/publ/bcbs239.pdf**.

4 Transitioning to a repo-led operating framework discussion paper. Available at: **www.bankofengland.co.uk/paper/2024/dp/transitioning-to-a-repo-led-operating-framework**.

quantitative tightening and Term Funding Scheme with additional incentives for SMEs (TFSME) repayments continue to reduce the level of central bank reserves available in the system, firms will increasingly need to source their stock of sterling reserves directly from the Bank through its Sterling Monetary Framework (SMF) facilities, in particular the Short-Term Repo (STR) facility and re-calibrated Indexed Long-Term Repo (ILTR) facility. The PRA's statement confirms its view that usage of the ILTR is seen as routine participation in sterling markets.[5] Firms need to ensure that they are prepared for this change, consider how they source and manage liquidity, and ensure they are operationally ready to access reserves through SMF facilities regularly and at scale. Firms are encouraged to engage with the Bank's DP published on 9 December 2024 by January 2025.

With significant TFSME maturities due in 2025, it is important that firms continue to plan well in advance for repaying and refinancing their maturing TFSME drawings. Refinancing plans should take into consideration the potential for increased competition for deposits and any challenges wholesale issuance may present. As TFSME repayments result in a release of previously encumbered collateral, firms will need to balance the use of this collateral for market-based funding with maintaining a sufficient amount of pre-positioned collateral at the Bank to access SMF facilities, in normal times and in stress. The PRA expects firms to factor all of these elements, including how they interact, into their medium to long-term business planning. We will be increasing our engagement with firms on these issues and future policy changes, including, where necessary, additional information requests and engaging with Markets and Banking on firms' operational readiness to use SMF facilities.

Operational resilience

By March 2025, firms must be able to show they can remain within impact tolerances for all their important business services (IBS) throughout severe but plausible disruptions. We expect firms to have made significant progress already to strengthen their response and recovery capabilities to address cyber threats, remediate vulnerabilities exposed by legacy infrastructure and develop contingency procedures when material third party services are disrupted.

Operational resilience should be a key point of consideration for boards and executives when planning major change programmes, making strategic business decisions, or engaging in new third, or in some case fourth-party relationships. New investments in

5 PRA statement on Indexed Long-Term Repo (ILTR) facility. Available at: **www.bankofengland.co.uk/prudential-regulation/publication/2024/december/pra-statement-on-iltr-facility**.

IT infrastructure, software applications and third-party arrangements should be resilient by design.

Throughout the last year, we have continued to observe incidents within firms' third-party arrangements that have resulted in disruptions to the delivery of firms' IBSs. Learning from the operational incidents faced by firms and their third parties, we expect firms to maintain robust oversight of their major outsourcing and third-party risk management providers, including intra-group providers where relevant. Firms should also be mindful of the financial health of their suppliers and their data security.

The cyber threat landscape facing the UK's financial system continues to evolve rapidly, and we view the ability of firms to detect, respond to, and in particular recover from cyber-attacks to be a cornerstone of the financial system's resilience. We encourage all firms to use our CBEST thematic reports to enhance their cyber resilience capabilities and to be mindful of the thematic findings from the latest Cyber Stress Test that will be published later this year. To further enhance the sector's cyber resilience capabilities, the PRA and FCA intend to start consulting in the second half of 2025 on policy relating to the management of Information and Communication Technology (ICT) and cyber risks. This includes risks arising from transformations of ICT infrastructure, and the sector's ability to detect, withstand and recover from disruptions in the event of ICT and cyber incidents.

Basel 3.1 delay and Strong and Simple

On 17 January, the PRA, in consultation with HMT, announced[6] a delay to the implementation of Basel 3.1 in the UK by 12 months from 1 January 2026 to 1 January 2027. This allows more time for greater clarity to emerge about plans for its implementation in the United States. While we are delaying implementation of Basel 3.1, the transitional periods in the rules will be reduced to ensure the date of full implementation remains unchanged at 1 January 2030, as set out in the original proposals.[7]

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6 Available at: **www.bankofengland.co.uk/news/2025/january/the-pra-announces-a-delay-to-the-implementation-of-basel-3-1**.

7 PS17/23 – Implementation of the Basel 3.1 standards near-final part 1 (available at: **www.bankofengland.co.uk/prudential-regulation/publication/2023/december/implementation-of-the-basel-3-1-standards-near-final-policy-statement-part-1**) and PS9/24 – Implementation of the Basel 3.1 standards near-final part 2 (available at: **www.bankofengland.co.uk/prudential-regulation/publication/2024/september/implementation-of-the-basel-3-1-standards-near-final-policy-statement-part-2**).

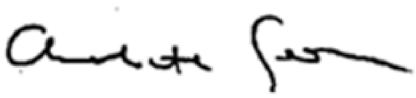
Any immediate deadlines associated with the implementation of Basel 3.1 (such as data submissions) have been paused while we work through the implications of the delay. The PRA will communicate further on these in due course. However, firms should ensure that they continue to work through the potential impact and implications of the Basel 3.1 policy package with their Board.

The proposed Strong and Simple capital framework will maintain the resilience and risk sensitivity of the prudential regime for small domestic deposit takers (SDDTs) while also reducing their costs by making the capital regime simpler to understand and implement. We are considering the impact of the delay to Basel 3.1 on the timeframe for implementing the Strong and Simple framework. However, we still expect SDDT eligible firms and their boards to consider the implications and possible capital impacts of the proposals in CP7/24[8], and to consider whether the SDDT regime or the Basel 3.1 regime is the appropriate prudential regime for them.

Please consider this letter alongside your PSM letter and where relevant discuss our supervisory priorities with your Board.

We look forward to working with you over the coming year.

Yours sincerely,



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8 Available at: www.bankofengland.co.uk/prudential-regulation/publication/2024/september/strong-and-simple-framework-the-simplified-capital-regime-for-sddts-cp.

ANNEX: Summary of 2025 PRA-led cross-firm priority work

Risk management and controls	Impacted sector
The PRA will be looking to consult on changes to the senior manager regime.	All firms
Focus on outcomes from a 2024 cross-firm review of the disclosure standards applied by banks to non-bank financial institution clients. Conduct a cross-firm review of illiquid/structured significant risk transfer financing.	In scope firms
Credit	**Impacted Sector**
Forbearance thematic review Unsecured lending thematic review Further cross-firm work for 2025-26 to be confirmed.	In scope firms
Financial resilience	**Impacted sector**
Bank Capital Stress Test 2025	In-scope firms
The PRA welcomes feedback on the Bank's DP 'Transitioning to a repo-led operating framework'	All firms
Data risk	**Impacted sector**
The PRA will continue its assessments of data accuracy utilising a full range of supervisory tools eg skilled person reviews.	Firms in scope of review
Operational resilience	**Impacted sector**
Feedback to be published from 2024 Cyber Stress Test. The PRA and FCA intend to consult in the second half of 2025 on policy relating to the management of Information and Communication Technology (ICT) and cyber risks.	All firms
Star FS (Simulated Targeted Attack & Response assessments for Financial Services) threat led penetration testing assessment roll-out for some of the largest non-systemic firms on a risk-based basis.	In-scope firms