BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Annual Report and Accounts **2015**

Prudential Regulation Authority
Annual Report and Accounts for the year ended 28 February 2015

Presented to Parliament pursuant to paragraphs 19(4) and 23(3) of Schedule 1ZB of the Financial Services and Markets Act 2000.

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HC 113

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This report is made by the Prudential Regulation Authority (PRA) under the Financial Services and Markets Act 2000 (FSMA). It is made to HM Treasury and covers the year ended 28 February 2015.

The report covers the requirements of paragraph 19 of schedule 1ZB of FSMA.

HM Treasury has issued an accounts direction; disclosures relating to this can be found on page 58.

The PRA's audited accounts for the reporting year ending 28 February 2015 are set out on pages 66 to 69. 2014/15 was the first full year of operations. The 2014 audited accounts covered an eleven-month operating period commencing 1 April 2013.

Additional material can be found on the Bank of England website at www.bankofengland.co.uk/pra

Consultation

Members of the public are invited to make representations to the PRA on the:

- *Annual Report*;
- way in which the PRA has discharged, or failed to discharge, its functions during the period to which the report relates; and
- extent to which, in their opinion, the PRA's objectives have been advanced and the PRA has considered the regulatory principles to which it must have regard when carrying out certain of its functions (contained in section 3B of FSMA), and facilitated effective competition in the markets for services provided by PRA-authorised firms in carrying on regulated activities.

Please address any comments or enquiries to:

Central Supervisory Support
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020 3461 8860

The consultation closes on 15 September 2015.


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BANK OF ENGLAND
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Abbreviations used in this report

ARCo	Audit and Risk Committee
BAME	Black, Asian and Minority Ethnic individuals
Bank	Bank of England
BCBS	Basel Committee on Banking Supervision
BCR	Basic Capital Requirement
BRRD	Bank Recovery and Resolution Directive
CEO	Chief Executive Officer
COREP	CRR's Common Reporting
Court	Bank's Court of Directors
CP	Consultation Paper
CRC	Carbon Reduction Commitment
CRD	Capital Requirements Directive
CREST	Council for Registered Ethical Security Testers
CRR	Capital Requirements Regulation
D-SIB	Domestic systemically important bank
DGSD	Deposit Guarantee Scheme Directive
EBA	European Banking Authority
ECB	European Central Bank
EEA	European Economic Area
EIOPA	European Insurance and Occupational Pensions Authority
ESAs	European Supervisory Authorities
ESRB	European Systemic Risk Board
EU	European Union
FCA	Financial Conduct Authority
FINREP	CRR's Financial Reporting
FPC	Financial Policy Committee
FSA	Financial Services Authority
FSB	Financial Stability Board
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000 (as amended)
G-SIB	Global systemically important banks
G-SII	Global systemically important insurers
GDP	Gross domestic product
HLA	Higher loss absorbency
IAIS	International Association of Insurance Supervisors
ICAAP	Internal Capital Adequacy Assessment Process
ICS	Insurance Capital Standard
IMF	International Monetary Fund
LCR	Liquidity Coverage Requirement
LTI	Loan to income
MoU	Memorandum of understanding
MPC	Monetary Policy Committee
MREL	Minimum Requirement for own funds and Eligible Liabilities
NED	Non-executive Director
NSFR	Net Stable Funding Ratio
PCBS	Parliamentary Commission on Banking Standards
PRA	Prudential Regulation Authority
SHE	Safety, Health and Environment
SIMR	Senior Insurance Managers Regime
SMR	Senior Managers Regime
TBTF	Too big to fail
TLAC	Total Loss Absorbing Capacity

Foreword by the Chair

Mark Carney
Governor,
Chair of the PRA Board

The Bank of England has made great progress towards a single, unified institution that can exploit synergies across our policy functions. The Prudential Regulation Authority is already seeing the benefits of regulating banks and insurers in concert with monetary and macroeconomic policymaking.

The One Bank plan set out an ambitious vision for an institution that could best discharge the enormous new powers and responsibilities bestowed on it following the global financial crisis, including the responsibility for prudential regulation of banks and insurers, the design and operation of macroprudential policy, and the conduct of monetary policy.

Our objective is a unified, diverse, and talented institution, that delivers excellent analysis and outstanding execution, and that is transparent, professional and accountable to the public and to Parliament.

We have achieved a lot in the last year in shaping the Bank of the future with the PRA at its heart. We are making our judgement-based approach to achieving the PRA's objectives a reality, and we are embedding the PRA's contribution to the Bank's assessment of monetary and macroprudential stability.

These achievements would not have been possible without the hard work and enthusiasm of my colleagues. The work of our supervisors, risk specialists and policy experts has been critical in reinforcing the ability of UK banks and insurers to serve the economy, and in reforming domestic, European and global prudential standards.

We have harmonised our reward, compensation and terms and conditions across the Bank; implemented a new talent strategy, and put in place a new set of performance management tools; and embedded targets for diversity in our workforce. These measures will make the Bank a more attractive place to work, and allow for greater exchange of skills and experiences to and from the PRA.

We have launched a Bank-wide effort to maximise our effectiveness on the international stage and an integrated research function that will drive cutting-edge research on issues right across our objectives, linking themes and deploying our expertise to undertake analysis that informs our policy decisions.

The PRA has made substantial progress in bedding down a judgement-based supervisory approach and has quickly built a reputation as an independent, proportionate and responsive regulator. During the year we have built out our approach to fulfilling our secondary competition objective.

While change within the Bank and PRA has been plentiful, the external and economic backdrop against which we operate has also presented a diverse range of challenges.

The PRA remains at the heart of implementing agreed financial reforms. In the last twelve months the PRA has been focused on preparations for the introduction of the single biggest change in insurance supervision for a generation, Solvency II. We have led efforts to design and implement new frameworks to hold individuals accountable for their actions through our senior managers regimes, and to align risk with reward through updated rules on compensation. We have continued our implementation of Basel III and CRD IV reforms. And we have played an integral role in setting out the policy framework supporting another policy sea-change; the structural reform of banks in the United Kingdom.

I am pleased to be able to say that the forward-looking judgements that are made daily by supervisors in the PRA increasingly draw on the diverse knowledge and expertise across the whole of the Bank of England. In turn, the knowledge gained from supervision and other parts of the PRA in turn informs and contributes to the Bank's assessment of monetary and macroprudential stability.

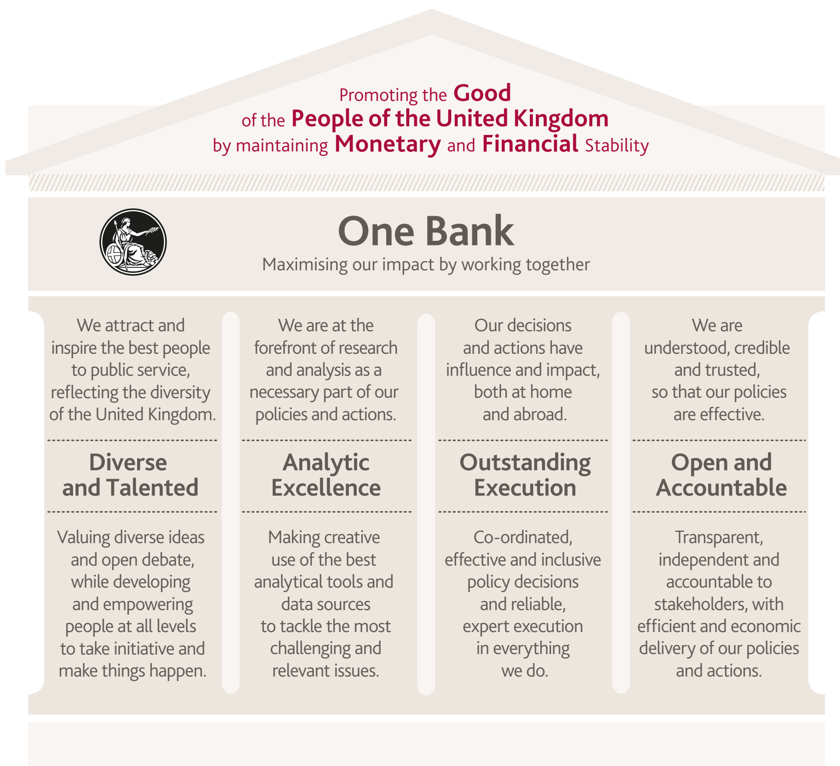
The most visible example was perhaps the first concurrent stress test of the UK banking system, which was developed and implemented jointly by the FPC and the PRA. This project combined the Bank's assessment of the main domestic risks to UK financial stability with portfolio-level assessments undertaken by PRA specialists, to deliver an assessment of the strength of our largest banks individually as well as a view of the resilience of the banking system as a whole. The results showed not only that the capitalisation of UK banks had improved further over the course of 2014, but that the banking system would have the capacity to maintain its core functions, including lending to the real economy, in a stress scenario.

The PRA will continue to work closely with the FPC regarding potential future policy actions, and with colleagues in the Bank's Resolution Directorate to plan for bank resolution and to take steps to reduce the impact of failure. Measures like the introduction of Total Loss Absorbing Capacity will demand constant co-ordination to ensure benefits are maximised.

Although much has been achieved there is still a great deal to do. We now turn our attention to continued efforts to strengthen and professionalise the Bank, to new and emerging risks, and to completing the job of reform.

2014 was a watershed year for the PRA in its own right and as part of the Bank of England. Taken together, our achievements illustrate the success of the PRA's philosophy and our desire to exploit synergies across the Bank. While the PRA is a young organisation, its achievements in 2014 belied its youth.

10 June 2015



Foreword
by the Chief Executive

Andrew Bailey
Deputy Governor,
Prudential Regulation
and Chief Executive of
the PRA

This *Annual Report* marks the completion of the PRA's second year as the prudential supervisor responsible for deposit-takers, insurers and major investment firms operating in the United Kingdom.

In a number of important respects the creation of the new prudential supervision approach in the United Kingdom continues to be work in progress. The major reason for this is that although the main design of the new policy framework has been agreed, largely in response to the global financial crisis, we are still working through the implementation phase and the detailed implications. Much, but not all, of this policy is formed in international bodies, and then implemented into national supervision. This is appropriate because our supervision covers many of the world's largest firms whose operations are inevitably global in their scope. That said, we are also implementing a number of major pieces of domestic UK legislation, in the area of so-called structural reform or ring-fencing for major UK banks, and to ensure there is appropriate personal responsibility and effective governance more broadly in all the firms we supervise.

Against this background of major policy development and implementation we are not, however, waiting to put into effect the PRA's approach as a supervisor. The last two years have seen the establishment of a clear identity and reputation for the PRA. As a summary description of our identity, I would highlight the following points:

– the PRA applies judgement in its supervision, based on a framework of rules;
– our supervision is forward looking and we prioritise prevention over after-the-event enforcement action;
– while we take a close interest in the business and operation of firms, they must be responsible and held to account for their actions;
– we recognise that our primary statutory objectives of safety and soundness and insurance policyholder protection need to be pursued consistent with the overall health of the industries whose firms we supervise. This is reflective of our secondary statutory objective which bears on the competition effects of prudential actions;
– the PRA is outward looking in the supervision of UK firms operating abroad and foreign firms operating here, and in its policymaking;
– the PRA is fully committed to maximising the benefits of conducting monetary policy, macroprudential regulation and microprudential supervision within the Bank of England; and
– we value highly the skills of our staff, and their commitment to making the PRA an institution that can exercise effective judgement in its supervision. History illustrates that this is not an easy task.

Supervision is our business and we apply judgement to the decisions we take every day. Our statutory objectives shape our judgements, and we always refer to those objectives when taking decisions. The experience and skills of our staff are essential to meeting the challenge of operating in a landscape of complex risks. That landscape also requires a clear framework of rules against which our judgements are made.

Over the last year we have worked on a broad front to develop and implement new parts of the framework. The largest single initiative for the PRA is the finalisation and implementation of the EU Solvency II Directive for insurers by the beginning of 2016. This is a major change which will introduce a going concern, forward-looking, risk-based prudential regime for insurers that is consistent across the European Union. For banks, we continue to work on the implementation of the EU Capital Requirements Directive which puts Basel III into place in Europe, on changes to our so-called Pillar 2 capital requirements, on depositor protection policy, and the new liquidity ratios (the coverage ratio and the stable funding ratio). Looking forwards, the major task is to introduce the ring-fencing arrangements for the large UK banks.

Although we prioritise forward-looking, preventative supervision, prudential supervisors need the tools to deal with crystallised risks where such things happen, and we devote a lot of time to working with the Resolution Directorate in the Bank of England to plan for and mitigate the risks of the failure of firms. Thus our approach is to avoid a 'no failures mentality', and that is consistent with the natural habitat of prudential supervisors which is early intervention to head off risks. In this respect, an important, but not the only, tool that we have developed is stress tests of the resilience of banks and insurers. Last year, we carried out our first concurrent stress tests of the major UK banks using a single adverse scenario, and we participated in EU-wide stress tests for the major UK banks and insurers, the latter using multiple scenarios.

Accountability, responsibility at a senior level, and good governance in the firms we supervise are critical elements of achieving our statutory objectives. One of the most depressing aspects of the experience of the financial crisis was the lack of a clear sense of who was responsible.

Our desire for change is not out of a wish for witch hunts, but because clear responsibility creates the incentive to manage and mitigate risks. One of my central beliefs is that all organisations must have clear arrangements to delegate work, but as a Chief Executive I do not delegate responsibility where it should stay with me, and nor do my colleagues in the PRA's senior management. There are major initiatives under way, following the work of the Parliamentary Commission on Banking Standards and the ensuing legislation; notably the introduction of the Senior Managers Regime for banks, and the Senior Insurance Managers Regime. The PRA has increased its work on governance standards, and I regard the discussions we have with boards of firms on our supervisory priorities as among the most important things that we do. But I want to be clear that it is not our intention to change the principles of good governance and we do not wish to create artificial barriers within firms, particularly between legal entities. Rather, our overriding objective is to ensure clarity on who is responsible for safety and soundness and policyholder protection, our objectives given by Parliament.

Last year, our new secondary objective, concerning the competition implications of our actions came into effect. This is a welcome development, and it does not threaten our primary objectives. The financial crisis reduced the level of competition in the UK banking market. Sadly, that was because the competition was fragile, built on unsustainable business models. Over the last year or so we have developed an approach to put our new competition objective into effect, and applied it to change the arrangements for authorising new entrants, to develop proposals to alter the setting of Pillar 2 capital for banks, and to implement Solvency II with the competition objective in mind. The overriding principle, which is a change from the pre-crisis convention, is that since the largest and most complex firms pose the greatest risks to the financial system, they should carry larger buffers of capital and liquid funds as protection and be subject to more rigorous scrutiny of their governance.

London is a major international financial centre for insurers and banks, and UK firms have large operations overseas. The PRA is therefore naturally outward looking in its supervision and its policymaking. The risks to our objectives are not confined to our shores and an example of this is the rising prominence of cyber risk.

We worked with other areas of the Bank to create CBEST, an industry-wide framework to improve sector infrastructure resilience. This means that the PRA, and the boards of the financial firms it regulates, can improve their understanding of cyber attack that could undermine financial stability in the United Kingdom; and the extent to which the UK financial sector is vulnerable to those attacks. CBEST will help regulators and firms alike in ensuring that cyber risks are effectively managed.

A major development over the last year has been the publication by the PRA of its approach to the supervision of branches of overseas banks, stating the PRA's risk appetite for branches of non-EEA banks and our approach to how and when we can place reliance upon the home state supervisor. The approval by the PRA in September 2014 of the first branch to be authorised under the new framework was another significant milestone.

The PRA is increasingly fully integrated into the Bank of England, as we push on with work begun in the transition programme that led up to our launch. As part of the central bank, the PRA is fully committed to maximising the benefits of having monetary policy, macroprudential regulation and microprudential supervision in the same institution. During the course of the year, this has involved work to assess and implement measures to limit the risk of excessively high household debt levels arising from mortgage borrowing. Further, to design a leverage ratio policy for the major UK banks, to assess the impact on smaller banks and building societies should the MPC decide on a further cut to the official Bank Rate, and to understand the impact of a prolonged low interest rate environment on the life insurance market.

Any approach to financial supervision depends heavily on the skills and commitment of our staff, and particularly an approach which puts judgement at the heart of what we do. I consider the PRA to be very fortunate to have such talented staff. During the year, our turnover rate fell from 11.6% to 10.6%. We have worked with the rest of the Bank to harmonise the terms and conditions of employment, and we have developed plans for a new Central Bank qualification which will equip the next generation of supervisory talent. Prudential supervision involves challenging areas of public policy and the financial crisis vividly illustrated the responsibility we carry. Along with the senior management team, I want the PRA to be a place where colleagues can enjoy the challenge. I believe we are making progress, for which my great thanks to fellow Board members and all the staff of the PRA.

To conclude, the crisis demonstrated the fragility not just of the banking industry but also of the system of supervision. Our job is to rebuild, and in doing so, to create a stable institutional structure of supervision, something that has been elusive in UK history. Many things will contribute to achieving that stability, but one that I believe is important is to continue to increase the transparency and public accountability of the PRA. This *Annual Report* is an important part of that process.

Andrew Bailey

10 June 2015

Board of the Prudential Regulation Authority

Members as at 1 June 2015
Top row, left to right

Mark Carney
Governor,
Chair of the PRA Board

Andrew Bailey
Deputy Governor, Prudential Regulation and Chief Executive of the PRA

Sir Jon Cunliffe
Deputy Governor,
Financial Stability

Middle row, left to right

Minouche Shafik
Deputy Governor,
Markets and Banking

David Belsham
Appointed NED
Term: 1 May 2015
– 30 April 2018

Sandy Boss
Appointed NED
Term: 1 September 2014
– 31 August 2017

Bottom row, left to right

Charles Randell
Appointed NED
Term: 20 February 2013
– 19 February 2017

Mark Yallop
Appointed NED
Term: 1 December 2014
– 30 November 2017

Martin Wheatley
Chief Executive, Financial Conduct Authority

The Prudential Regulation Authority is a subsidiary of the Bank of England (the Bank). In April 2013, it became the UK's prudential regulator for banks, building societies and credit unions (collectively known as deposit-takers), insurers and major investment firms.

The PRA's objectives are set out in statute, in FSMA. The PRA has three statutory objectives:

– a general objective to promote the safety and soundness of PRA-authorised firms;
– specifically for insurers, to contribute to the securing of an appropriate degree of protection for those who are or may become policyholders; and
– a secondary objective to, so far as is reasonably possible, act in a way which facilitates effective competition in the markets for services provided by PRA-authorised persons in carrying on regulated activities.

The PRA's most significant supervisory decisions are taken by its governing body, the PRA Board. It is chaired by the Governor of the Bank and three of its other members are Bank staff – the Deputy Governor for Prudential Regulation, the Deputy Governor for Financial Stability and the Deputy Governor for Markets and Banking. The CEO of the Financial Conduct Authority is also a member. Appointed members are chosen by the Bank's Court of Directors (Court) with HM Treasury's approval. A majority of the Board must be non-executive members.

The PRA's strategy is set by its Board, in consultation with Court. Under FSMA, the PRA is required to determine and publish its strategy in relation to how it will deliver its statutory objectives and this can be found in the *Strategic Report* section on page 15.

Organisational structure
as at 1 June 2015

Andrew Bailey
Deputy Governor, Prudential Regulation and CEO of the PRA (FPC, PRA Board)

David Rule
Exec Director
Prudential Policy*

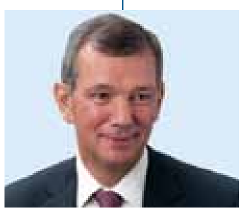
Paul Fisher
Exec Director
Supervisory Risk Specialists and Regulatory Operations

Sam Woods
Exec Director
Insurance Supervision

Vicky Saporta
Director
Financial Prudential Policy

Sasha Mills
Director
Cross-Cutting Prudential Policy

Charlotte Gerken
Acting Director
Supervisory Risk Specialists

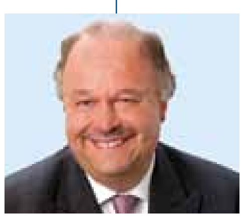


Chris Moulder
Director
General Insurance

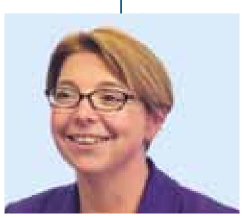
* Also reports to Deputy Governor, Financial Stability

Megan Butler
Exec Director
International Banks
Supervision

Lyndon Nelson
Exec Director
UK Deposit-takers
Supervision



Andrew Bulley
Director
Life Insurance



Sarah Breeden
Director
Major Overseas Banks

James Proudman
Director
Major UK
Deposit-takers

Martin Stewart
Director
Banks, Building
Societies and
Credit Unions

Find out more online
www.bankofengland.co.uk

PRA Strategic Report:
Overview of responsibilities and approach

The PRA's role as prudential regulator is notable in terms of both the scale of the firms it supervises and the complexity of the issues it addresses as part of its supervisory oversight.

The PRA supervises around 1,700 firms[1] and groups (see figure 1 and figure 2). This includes over 900 banks, building societies and credit unions and nearly 700 insurers of all sizes (general insurers, life insurers, friendly societies, and mutuals).

The UK banking sector is both large and international, as shown in figure 3. Comparing a sample of countries comprising the United States, Japan and the ten largest European Union (EU) countries, the United Kingdom has the largest banking sector on a residency basis, with banking assets standing at around 450% of GDP in 2013 compared to around 475% in 2006 and 100% in 1975. Meanwhile, the UK insurance sector is the largest in Europe and the third largest in the world. As a whole, the total premiums of UK-regulated insurers (including both life and non-life business) equate to approximately 7% of the total global insurance market.

The United Kingdom is a major global hub for financial services and consequently the PRA is responsible for the prudential supervision of several global financial institutions. As home state regulator the PRA is also responsible for the prudential supervision of four UK global systemically important banks (G-SIBs) and two UK global systemically important insurers (G-SIIs). In addition, the PRA acts as 'host' to several more G-SIBs and G-SIIs.

The United Kingdom is a major global hub for financial services and consequently the PRA is responsible for the prudential supervision of several global financial institutions

Figure 1: PRA supervised deposit-takers

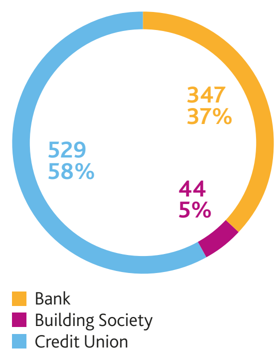


Figure 2: PRA supervised insurers

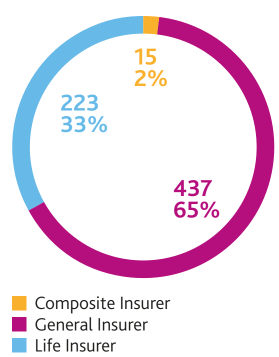
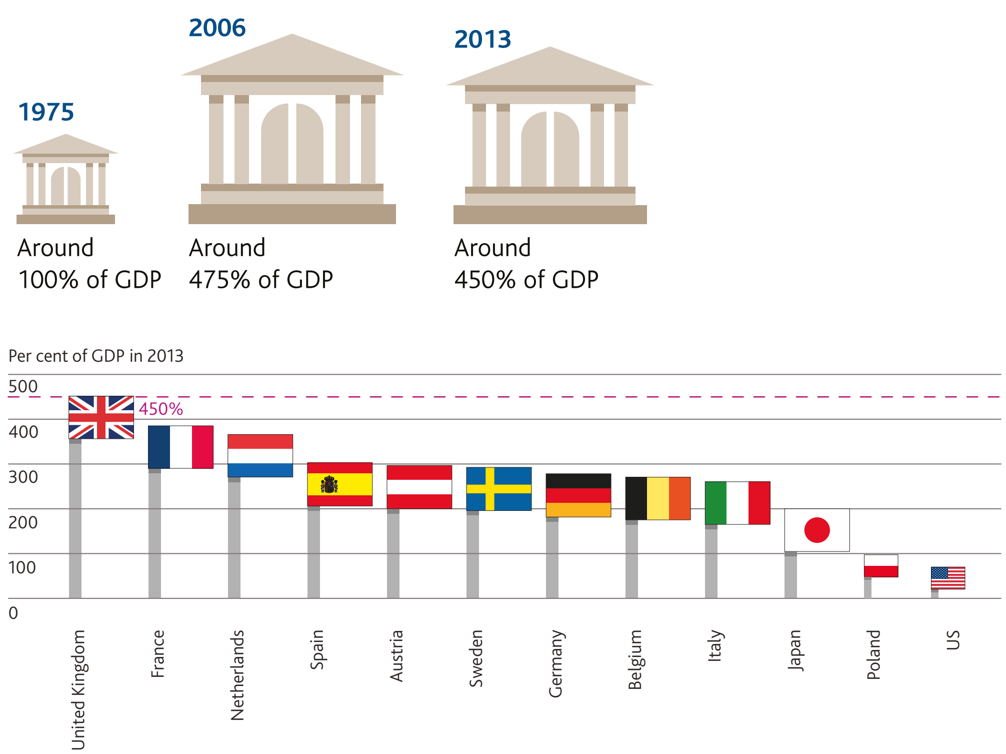


Figure 3: How big is the UK banking system?[2]



1 Over the course of the year the exact number of PRA-authorised firms and groups changes as new firms enter, other firms close or change their permissions, and entities within groups restructure. This total also includes designated investment firms.

2 www.bankofengland.co.uk/publications/Documents/annualreport/2015/pra-links.pdf

The PRA's approach to supervision

The PRA focuses primarily on the harm firms can cause to the stability of the UK financial system. A stable financial system is one in which firms continue to provide critical financial services – a precondition for a healthy and successful economy.

The PRA publishes its supervisory approach,[3] which is judgement-based and forward-looking and built on:

– the PRA's statutory objectives (see page 11);
– Threshold Conditions, which set out the minimum requirements firms must meet in order to be permitted to carry on regulated activities; and
– the Fundamental Rules which collectively act as an expression of how the PRA expects firms to behave so that its general objective of promoting the safety and soundness of regulated firms is met.

The PRA focuses on the largest firms and greatest risks posed to the stability of the United Kingdom. It categorises the firms under its supervision by their 'potential impact'[4] on the UK financial system and, for insurers, policyholders if the firm were to fail. In doing so it considers a firm's activity, size and complexity, business models and risks. Firms are then categorised from the highest impact (Category 1) to the lowest (Category 5) (see figure4).

The frequency and intensity of supervision reflects the focus on firms' relative potential impact. The largest firms that pose the greatest risks to the PRA's objectives (see figure 5) are subject to continuous assessment by dedicated teams of supervisors.

Figure 4: Distribution of potential impact categories across PRA-regulated firms, category 1 being the highest impact to financial stability (shown by numbers of firms).

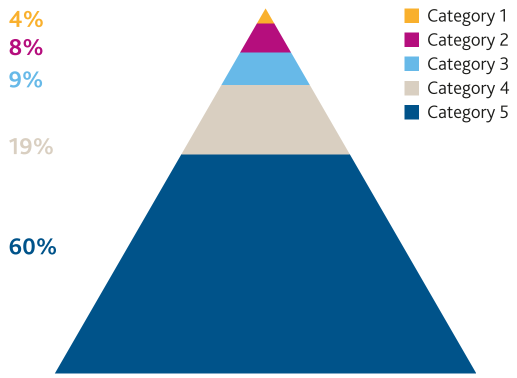
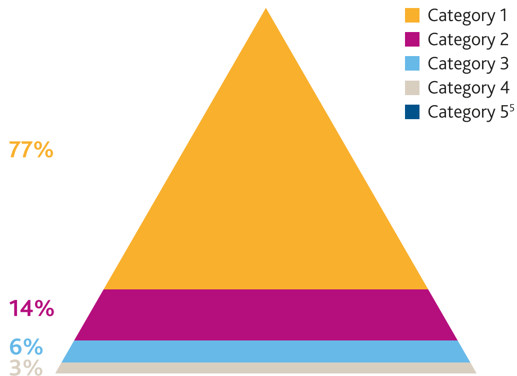


Figure 5: Total potential impact of each category of PRA-regulated firm



The PRA categorises the firms under its supervision by their potential impact on the UK financial system

3 www.bankofengland.co.uk/publications/Documents/annualreport/2015/pra-links.pdf

4 Potential impact is a quantitative measure developed and used by the PRA to assess and compare PRA-authorised firms according to the possible effect that a firm could have on financial stability or policyholders if it were to come under stress or fail.

5 0.53% of total potential impact.

For smaller regulated firms, whose failure is unlikely to create disruption to the wider financial system, the PRA undertakes a baseline level of supervisory activity to ensure they meet key prudential standards. These firms are supervised on a portfolio basis and are generally examined individually only when judged necessary; for example, if a regulatory data return triggers concerns, or if particular risks crystallise.

This approach differs for newly authorised smaller firms. Firms must demonstrate that they meet the PRA's Threshold Conditions at the point of authorisation and an ongoing basis. This means the PRA takes a firm-specific approach during the initial period of a firm's authorisation. More detail on newly authorised firms can be found on page 24.

The PRA supervises firms which operate in the United Kingdom, but it does not consider them in isolation. The overall group to which a firm belongs is also considered, and this is particularly important for complex or international groups, including those which are G-SIBs or G-SIIs. If the PRA is the lead supervisor, it undertakes consolidated supervision for such groups.

When the PRA is not the lead supervisor, such as for groups headquartered overseas, it examines the regulatory regime in relevant jurisdictions. It may take additional measures, particularly if those regimes are not broadly equivalent to the UK regulatory regime, or if there are impediments to co-operation and sharing information between the relevant authorities.

Cross-border European firms have a large presence in the UK and, where they operate as branches under the European Economic Area (EEA) Single Market passporting system, they are not authorised by the PRA or within the scope of its prudential remit. Accordingly, developing a strong co-operative relationship with other European supervisors responsible for these firms is a key objective of the PRA.

In conjunction with its general approach to supervision, the PRA works closely with the rest of the Bank of England on issues such as: market intelligence; oversight of critical financial infrastructure; resolution planning; contingency planning for difficulties that may arise in firms; the provision of liquidity support; and operational resilience. This ensures an effective and efficient sharing of expertise and best practice across the organisation.

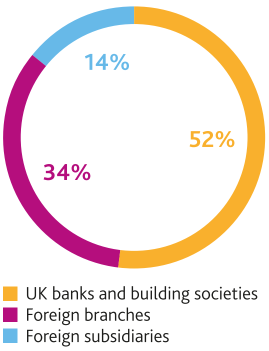
When the PRA is not the lead supervisor, it examines the regulatory regime in relevant jurisdictions

International supervisory engagement

Banking and insurance are international industries and, to a large extent, the framework for supervising banks and insurance companies is agreed beyond national borders.

As illustrated in figure 6, almost half of UK banking sector assets are in entities owned by foreign parent groups, which operate either using UK subsidiaries or as branches in the United Kingdom. There are over 50 different foreign jurisdictions that have banks operating in the United Kingdom, and many UK banks operate internationally. Therefore the PRA works closely with a range of different international regulators in supervising these firms.

Figure 6: UK resident bank system assets (December 2014): by firm authorisation type



The PRA maintains co-operation agreements including memorandums of understanding (MoU) with overseas counterparts to enable the sharing of confidential information on cross-border firms. The PRA currently has over 60 MoUs with non-EEA counterparts. It participates in supervisory colleges for firms with significant operations in the United Kingdom and organises and chairs the colleges for UK-headquartered firms. Colleges of supervisors for EEA banks, with subsidiaries or significant branches in other EEA countries, occur on a regular basis. If relevant, they include supervisors from non-EEA countries.

The PRA's approach to policy

Prudential supervision is based on policies which ensure that judgements about risks to the PRA's objectives are made within a clear and coherent framework. The PRA aims to establish and maintain published policy material that is consistent with its objectives, clear in intent, straightforward in its presentation and as concise as possible, so that it is usable by the senior management of firms.

At a global level, the PRA is actively involved in the work of the Financial Stability Board (FSB), the Basel Committee on Banking Supervision (BCBS), the International Association of Insurance Supervisors (IAIS), and the Joint Forum.[6] In Europe, the PRA and other areas of the Bank are active participants in the work of the European Banking Authority (EBA), the European Insurance and Occupational Pensions Authority (EIOPA), and the European Systemic Risk Board (ESRB).

The PRA attaches great importance to being an influential and persuasive participant in these discussions and devotes considerable resource to cross-border policymaking to advance its safety and soundness, policyholder protection and competition objectives. In particular, senior management regularly chair policy discussions, often at Deputy Governor, Executive Director and Director level. Significant numbers of staff are also involved in international policy discussions through participation in working-level groups.

The PRA devotes considerable resource to cross-border policymaking to advance its safety and soundness, policyholder protection and competition objectives

6 The Joint Forum deals with issues common to the banking, securities and insurance sectors, including the regulation of financial conglomerates.

The PRA's role in resolution

A key principle underlying the PRA's approach to supervision is that it does not seek to operate a 'zero failure' regime. Rather, the PRA, working with the Bank's Resolution Directorate, seeks to ensure any firms that fail do so in a way that avoids significant disruption to the supply of critical financial services.

In addition, the PRA has powers (including rule-making powers) to require institutions to address impediments to resolvability. The PRA's approach to banking supervision explicitly states that the PRA may require institutions to take action, including restructuring, to improve the feasibility of orderly resolution. This supports the PRA's general objective to promote the safety and soundness of PRA authorised institutions by, among other things, seeking to minimise the adverse effect that the failure of such an institution could be expected to have on the stability of the UK financial system.[7] The Bank, as the resolution authority, takes the final decision with respect to resolution plans, the definition of barriers through the resolvability assessments and the exercise of the power to direct institutions to address impediments to resolvability.

Both the PRA, as prudential regulator, and the Bank, as resolution authority, have statutory objectives that require action to be taken to ensure that institutions are resolvable and can therefore be resolved in an orderly way should they fail. Both authorities will consult each other and co-operate closely in exercising these complementary responsibilities and powers. Institutions will receive co-ordinated Bank and PRA or Financial Conduct Authority (FCA) communications on resolution matters.

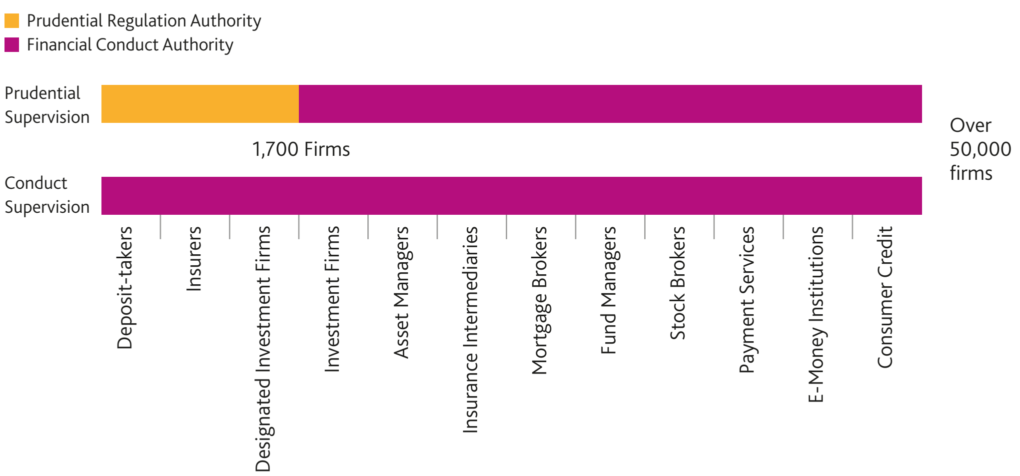
Working with the FCA

The PRA co-operates closely with the FCA, which is the conduct regulator for PRA-authorised firms and the conduct and prudential regulator for many other UK financial firms (see figure 7). As set out in the MoU between the two authorities, this co-ordination recognises their separate, independent mandates and statutory objectives.

The relationship is explained in more detail in the *Review of 2014/15* section on page 34.

A key principle underlying the PRA's approach to supervision is that it does not seek to operate a 'zero failure' regime

Figure 7: Stylised illustration of the split of regulatory responsibilities between the PRA and FCA



Note: This is not to scale of number of firms

7 See section 2B of the *Financial Services and Markets Act 2000*.

PRA Strategic Report:
The PRA Strategy

The PRA's Strategy is to deliver a resilient financial sector by seeking: an appropriate quantity and quality of capital; effective risk management; robust business models; and sound governance, including clear accountability of firms' management. This supports the PRA's pursuit of its safety and soundness, policyholder protection, and (secondary) competition statutory objectives.

The PRA does not seek to operate a zero-failure regime. When failure does occur, this should be with limited disruption to the provision of core financial services and without spillovers to the wider financial sector.

This strategy will be achieved in close co-operation with other parts of the Bank, the FCA, and European and international counterparts.

In delivering this strategy, the PRA will be judgement-based and forward-looking, proportionate in its actions, and efficient in its allocation of resources.

The PRA's statutory objectives:

a general objective to promote the safety and soundness of PRA-authorised firms;

specifically for insurers, to contribute to the securing of an appropriate degree of protection for those who are or may become policyholders; and

a secondary objective to, so far as is reasonably possible, act in a way which facilitates effective competition in the markets for services provided by PRA-authorised persons in carrying on regulated activities.

Shaping the PRA Strategy

In addition to meeting its statutory objectives, the PRA contributes to delivering the Bank of England's wider financial and monetary stability objectives and is required to implement domestic, European and International legislation. Changes in markets, developments in the economy and crystallised risks can all impact the PRA's statutory objectives and priorities. The PRA therefore requires the flexibility to respond to a changing environment and reprioritise its activities accordingly.

The PRA is publically accountable to Parliament and is funded by recovering the costs of supervision from authorised firms. Firms that could cause the greatest harm to the stability of the UK financial system are the main contributors to the PRA's funding. The PRA recognises the need to provide value for money and adheres to the principles of good regulation, including the efficient and economic use of resources.

Priorities for 2015/6

While the PRA Strategy outlines its intentions over the next three to five years, the *2015/16 Business Plan* (pages 37 to 46) sets out how the PRA will work towards achieving this strategy over the coming twelve months. The Business Plan is structured around five Business aims which cover the breadth of the PRA's activities. Within this year's Business Plan, there are a number of 'priority' activities which are key to delivering the strategy:

– strengthening the PRA's approach to supervision of insurance firms through implementation of the Solvency II regime;

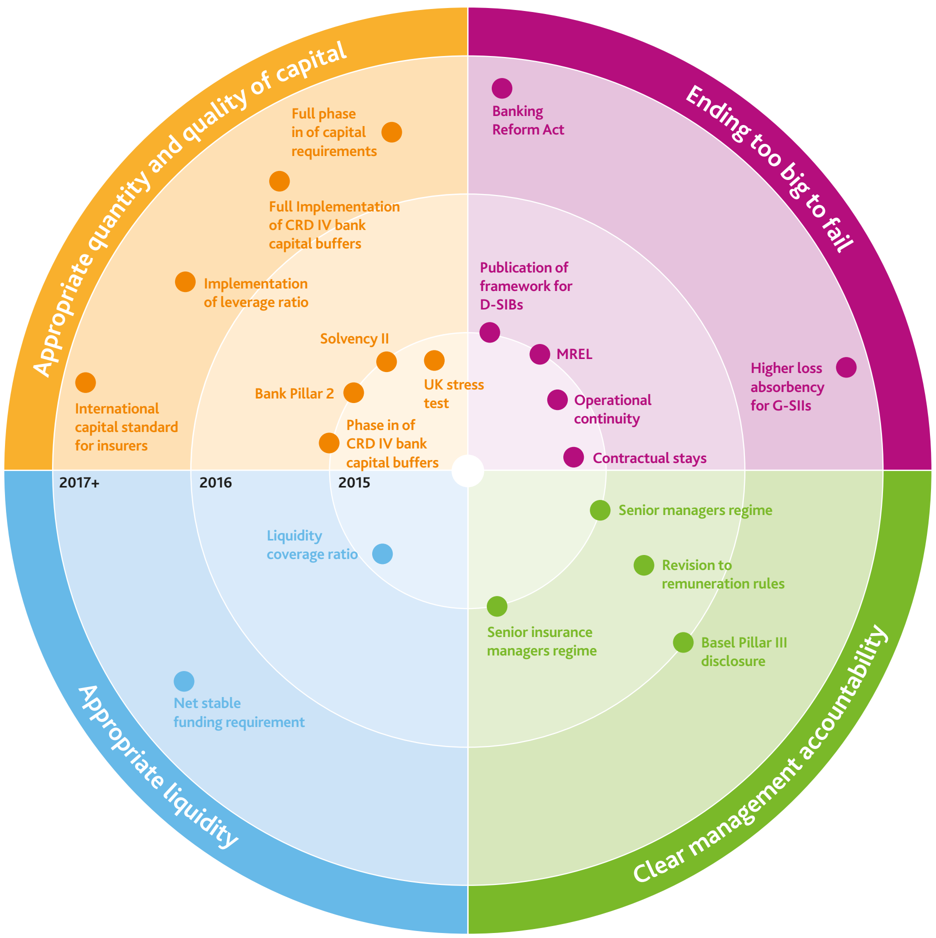
– seeking an appropriate quantity and quality of capital for banks and investment firms through implementation of the Basel III framework as implemented in European law through Capital Requirements Directive IV (CRD IV);

- promoting orderly resolution of major UK deposit-takers through structural reform, including ring-fencing, in line with the Financial Services (Banking Reform) Act 2013;
- improving accountability of firms' management through implementation of the Senior Managers and Certification Regimes for deposit-takers and investment firms, and the Senior Insurance Managers Regime for insurance firms;
- improving the tools for dealing with bank crises through implementation of the Bank Recovery and Resolution Directive (BRRD) into the PRA's supervisory approach;
- informing the PRA's judgement-based, forward-looking approach through stress testing; and
- ensuring delivery of the PRA's strategy against an evolving remit, by conducting a review of its Target Operating Model, risk appetite, oversight and mitigation.

The *Review of 2014-15* (pages 23 to 35) outlines the progress made in delivering the strategy over the last twelve months.

In delivering this strategy, the PRA will be judgement-based and forward-looking, proportionate in its actions, and efficient in its allocation of resources

Figure 8: Key Policy initiatives, by intended implementation date
This diagram highlights some of the major policy work streams that will support delivery of the PRA's strategy. It includes initiatives for which there is a publicly identified implementation date at UK or international level; however these may be subject to future revision.



PRA Strategic Report:
Review of 2014/15

The PRA's activities in 2014/15 were directed by the Bank's Strategic Plan and the PRA's Business Plan (as set out in last year's *Annual Report*).

The Bank's *Annual Report* provides more detail on the progress made in delivering the Bank's Strategic Plan. This section of the PRA's *Annual Report* outlines the work undertaken in pursuit of it's 2014 Business aims, and Box 1 provides some examples of the key deliverables. More explanation is given on pages 24 to 35.

Box 1: Some examples of how the PRA delivered against its 2014/15 Business aims

1. Continue to implement the forward-looking, judgement-based regulatory regime

- delivered the first concurrent stress test of the UK banking system with the FPC;
- published a review of the authorisation process for banks;
- participated in EIOPA's EU-wide stress test of insurers, conducted for the first time on a Solvency II basis; and
- published the PRA approach to the supervision of non-EEA bank branches.

2. Continue to implement changes to domestic, European and international regulation

- published a number of consultation papers and policy statements on the implementation of Solvency II in 2016;
- consulted and published policy for Policyholder Protection and Depositor Protection;
- consulted on the implementation of Liquidity Coverage Requirements; and
- over the year published 33 consultation papers, 11 policy statements, and 16 supervisory statements.

3. Influence, devise and implement policy to advance structural reform in banking, resolution policy, the secondary competition objective, and other elements of post-crisis standard setting

- took on new powers and responsibilities under the BRRD;
- consulted on proposed changes to the Pillar 2 framework for the banking sector;
- consulted on policy to deliver the recommendations of the Parliamentary Commission on Banking Standards (PCBS); and
- embedded consideration of the secondary competition objective within the PRA's approach to policy development and decision-making.

4. Contribute towards delivering the FPC's macroprudential objectives

- implemented measures to limit the risk of excessively high household debt levels arising from mortgage borrowing;
- assessed the impact of a prolonged low interest rate environment on the life insurance market;
- supported the FPC by monitoring banks' and building societies' compliance with the mortgage affordability test; and
- provided analysis on hedge funds and the shadow banking sector.

5. Ensure the PRA has the right people to meet its statutory objectives

- ran successful recruitment programmes with the vast majority of roles filled (by the end of February 2015 1,139 staff worked in the PRA, leaving a vacancy rate of 4%);
- strengthened the approach to performance and talent management; and
- focused on diversity and inclusion initiatives in recruitment and career advancement.

6. Ensure the right infrastructure and governance to meet the PRA's statutory objectives

- new non-executive members were appointed to the PRA Board, whose combined expertise and diverse experience help further embed a forward-looking and judgement-based approach in prudential supervision; and
- the Chief Executives of the PRA and FCA met regularly to review co-operation and co-ordination between the organisations.

Business aim 1: Continue to implement the forward-looking, judgement-based regulatory regime

Stress testing framework: informing PRA and FPC decision-making about capital resilience

Together with other parts of the Bank of England, the PRA delivered the first concurrent stress test of the UK banking system (refer also to the Bank's *Annual Report*). This covered eight major UK banks and building societies ('the banks'). In developing and analysing the stress test, the PRA assessed the integrity of each bank's starting position, carried out a detailed asset quality review, assessed both the quantity and quality of capital, and considered the feasibility of proposed management actions. The exercise delivered both an assessment of the strength of banks' capital positions, and an opportunity to consider in detail banks' risk management frameworks and stress testing capabilities.

For insurers, the PRA participated in the EIOPA EU-wide stress test, conducted for the first time on a Solvency II basis. This exercise focused on the overall impact of an adverse market scenario and a low-yield scenario. UK insurers' capital positions were most affected by the market stress scenario, while the low-yield scenario had a limited impact on UK-regulated solo insurance entities due to stronger asset and liability matching practices relative to other parts of Europe. The results were released in November 2014 and the PRA is taking forward the recommendations which apply to PRA-regulated firms.

Stress testing is not reserved only for use in the supervision of the largest banks, building societies and insurers. Across PRA supervisory activity stress testing of firms is used as a tool to assess capital adequacy and vulnerabilities in individual firms and across groups of firms.

Authorisations: progress in reducing barriers to entry in the banking sector

The PRA published a review of the authorisation process for banks in July 2014.[8] The work carried out on reducing the barriers to entry and expansion of the banking sector supports the facilitation of effective competition while ensuring that the general objective of safety and soundness is not undermined. This review looked at the progress made in a number of areas, including 'mobilisation'.

The PRA received strong interest in the mobilisation option and one bank was authorised by this route during 2014/15. Of the three entities newly authorised during the previous year (2013/14), two have successfully completed mobilisation and are now fully operational banks.

Average time to authorisation (all firms)[9]

- 31 weeks

Pre-application meetings

- 43 meetings with 25 different prospective bank applicants
- 19 meetings with eleven prospective other applicants

Insurance: focus on key issues

The persistent low-yield environment has led general and life insurance firms to consider a wide range of potential investments, including alternative asset classes. The PRA is keeping asset allocation by insurers under close review as part of its ongoing work on the impact of low interest rates in the United Kingdom and, more broadly, across the EU.

The pension reforms announced by the Government as part of the 2014 and 2015 Budgets have affected a number of insurers, particularly annuity writers. The PRA looked at the likely impact on insurance business models as well as how insurers responded to the reforms, especially in terms of new product offerings.

The work carried out on reducing the barriers to entry and expansion of the banking sector supports the facilitation of effective competition

Number of new authorisations

5
banks[10]

7
insurers[11]

3
credit unions

8 www.bankofengland.co.uk/publications/Documents/annualreport/2015/pra-links.pdf

9 www.bankofengland.co.uk/publications/Documents/annualreport/2015/pra-links.pdf

10 Either as a new application or an existing firm adding deposit-taking to its activities.

11 Including four Lloyd's managing agents.

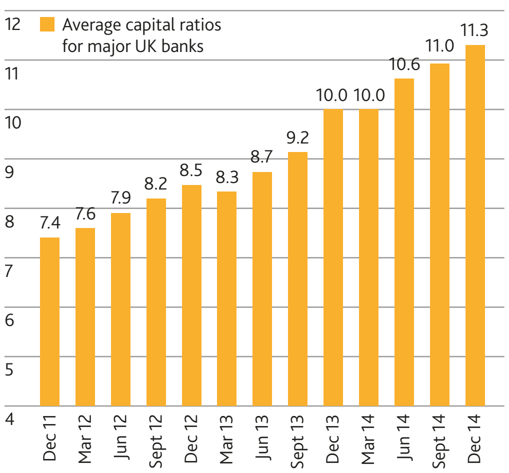
Model reviews: enhancing the supervisory approach

Over the course of the year, the PRA sought to make continuous improvements in its review of banking and insurance models. These models are the technical processes and procedures that some firms use to calculate their capital requirements and to inform decisions on how their businesses are run. The reviews, which form part of the PRA's ongoing supervisory approach, are now informed by greater focus on material issues, risk management and business model analysis. In insurance supervision, the PRA has increased its resources to deal with the review of internal model applications as part of Solvency II implementation (see *Business aim 2* on page 27).

Building banks' capital: material improvements in ratios and applying proportionality

Major UK bank capital requirements and buffers have continued to increase while small banks have seen a lesser increase (see figure 9) in capital requirements and buffers. This reflects the important emphasis on setting capital requirements in proportion to the impact of a bank's distress or failure on the wider financial system and economy.

Figure 9: average capital ratios for major UK banks[12]



The PRA consulted further on the capital framework in 2014/15 and more detail can be found under *Business aim 3* on page 29.

International bank branches: implementing the PRA's approach to supervision

Internationally headquartered banks can operate in the United Kingdom either as subsidiaries or as branches, and the PRA has a clear framework that takes into account the different legal requirements for the types of firm it supervises.

In September 2014 the PRA published its policy and supervisory statements on the PRA's approach to supervising international branches.[13] For branches of EEA banks, the PRA's approach is set out under EU law, which means that the home supervisor is fully responsible for prudential supervision, with a duty to co-operate with host supervisors.

For non-EEA branches, the PRA's approach is centred on the PRA's assessment of the home state supervisor's equivalence and on the level of assurance the PRA gains on resolution, which will be proportionate to the branch's critical economic functions and its expected impact on UK financial stability.

These factors determine how a firm sits against the PRA's risk appetite for non-EEA branches, with a clear and agreed split of prudential supervisory responsibilities with the home state supervisor.

Concurrently, in September 2014 a branch of a Chinese bank was approved as the first authorisation of a non-EEA branch under the new framework. Through pre-application meetings with the bank, their representatives and the FCA, together with open and co-ordinated engagement with the China Banking Regulatory Commission, an effective application process was delivered.

The PRA has a clear framework that takes into account the different legal requirements for the types of firm it supervises

12 Source of data: regulatory returns: FSA003+ (12/11 – 03/14) and Capital+ (06/14 – 12/14). (The data points illustrated are average CET1-capital ratios for major UK banks.)

13 www.bankofengland.co.uk/publications/Documents/annualreport/2015/pra-links.pdf

Enforcement: taking action when the safety and soundness of firms is compromised

In November 2014 the PRA imposed its first financial penalty, when it fined Royal Bank of Scotland Plc, National Westminster Bank Plc and Ulster Bank Ltd a total of £14 million for inadequate systems and controls that caused a serious IT incident in 2012. The IT incident caused widespread disruption to customers and the financial system.

The PRA's approach is forward-looking and prioritises prevention over after-the-event enforcement action. However, it is important that the PRA takes a robust approach when firms' transgressions can have consequences for the safety and soundness of PRA-regulated institutions. Properly functioning IT risk management, and systems and controls are an integral part of that objective.

In December 2014, HM Treasury published the outcome of its review of enforcement decision-making at the financial services regulators. The review made a number of recommendations to the PRA, including that it should establish a functionally independent enforcement decision-making process. The PRA is considering those recommendations and will bring forward proposals in due course

Contingency planning and event risk: strengthening the resilience of the financial sector

Across all supervisory areas a significant proportion of time and resource is devoted to contingency planning. This activity has demonstrated the value of bringing together areas from across the Bank, including prudential supervision, central bank liquidity, resolution and banknote functions. Last year the PRA was involved in cross-Bank contingency planning work in response to firm-specific event risk (including litigation and the prudential impact of crystallised conduct risks), and work ahead of the Scottish referendum. Through this work the PRA is also discovering more about the recovery and resolvability of different types of firms which can be applied to other aspects of its approach.

For so called cyber risk, the PRA is supporting the Bank to embed a new, intelligence-led testing framework. This has been devised by the UK Financial Authorities in conjunction with CREST and Digital Shadows. This framework assists the boards of financial firms and infrastructure providers, and regulators, by improving their understanding of the types of cyber attack that could undermine UK financial stability, and the extent to which the financial sector is vulnerable to those attacks.

Alongside contingency planning, in October 2014 the PRA (together with the Bank, HM Treasury and FCA) participated in a simulation exercise with US authorities focused on the resolution of UK and US G-SIBs.

Data: developing a strategy to enable more effective use of data

As part of the Bank's Strategic Plan, the PRA has contributed to the development of a data strategy to inform the collection of valid, accurate and meaningful information (the Bank's *Annual Report* provides further information). Within the PRA, a stocktake of data requirements is underway and the PRA will start to engage with firms on this during 2015.

The CRD and the accompanying directly applicable Capital Requirements Regulation (CRR), collectively CRD IV, which came into effect on 1 January 2014, have already led to major changes in the PRA's regulatory reporting regime. In line with firms who are required to report, nearly 270 institutions submitted data on their own funds (ie capital) requirements using the CRR's Common Reporting (COREP) templates. Around 30 institutions provided balance sheet and profit and loss information using the Financial Reporting (FINREP) templates. As EU requirements, COREP and FINREP will play a central role in the PRA's wider data requirements.

The PRA's approach prioritises prevention over after-the-event enforcement action

Business aim 2: Continue to implement changes to domestic, European and international regulation

The PRA continued to implement changes arising from European regulation, particularly in relation to Solvency II, CRD IV, the BRRD, and the Deposit Guarantee Scheme Directive (DGSD). This included the ongoing implementation of a number of technical standards and guidelines developed by the European Supervisory Authorities (ESAs) issued in 2014. Many of these changes to the European framework have been implemented through consultations, supervisory statements and incorporated into internal processes. The PRA also continues to engage at early stages in the further development of the EU Framework through active participation in ESA working groups and decision-making committees, as well as other EU and international forums.

Solvency II: preparation for implementation

The Solvency II Directive puts in place a prudential framework for insurers across Europe. The modernisation in prudential standards intend to provide greater protection to policyholders by reducing the probability of an insurance firm failure. They also support financial stability and fair and stable markets. Relative to its predecessor regime – the First Non-life Directive dates back to 1973 – Solvency II better aligns capital requirements to firms' risk profiles and enhances the quality of capital, providing greater resilience and protection for policyholders. It also seeks to reinforce and strengthen risk management, reporting and disclosure practices.

The PRA actively engaged with firms on Solvency II during the year. It held a conference attended by 500 delegates, representing insurers of all sizes. 'Breakfast meetings' were held with the CEOs of the 14 largest insurers, and a special briefing was provided for Non-executive Directors on internal models. In addition, there has been increased interaction with trade bodies, including the Association of British Insurers, the Association of Financial Mutuals and the Investment and Life Assurance Group.

The PRA published Solvency II rules[14] and related supervisory statements in March 2015, ahead of implementation on 1 January 2016.

The modernisation in prudential standards for insurers intend to provide greater protection to policyholders by reducing the probability of an insurance firm failure

Table 1: Policy publications that achieved over 10,000 downloads in 2014/15

Title	Publication date	Downloads
PS7/13: Strengthening capital standards: implementing CRD IV, feedback and final rules	December 2013	27,014
CP14/14: Strengthening accountability in banking: a new regulatory framework for individuals	July 2014	23,437
CP5/13: Strengthening capital standards: implementing CRD IV	August 2013	20,755
SS5/13: The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process	December 2013	16,352
CP19/14: The implementation of ring-fencing: consultation on legal structure, governance and the continuity of services and facilities	October 2014	12,913
CP13/14: Implementing the BRRD	July 2014	12,281
CP16/14: Transposition of Solvency II: Part 3	August 2014	11,387

14 www.bankofengland.co.uk/publications/Documents/annualreport/2015/pra-links.pdf

Depositor protection and policyholder protection: advancing the promotion of safety and soundness in firms

In banking, the PRA began its consultation on implementing the recast DGSD, as well as PRA-initiative proposals. This seeks to ensure that depositors protected by the Financial Services Compensation Scheme (FSCS) have continuity of access to their accounts during resolution, and makes changes to the existing Single Customer View rules on firms. These measures support orderly resolution and timely pay-outs of FSCS-covered deposits.

In insurance, the PRA simultaneously published its proposed rules for policyholder protection, with the aim of aligning the existing insurance compensation rules more closely with the PRA's statutory objectives. These proposals contribute to the future operational effectiveness of the FSCS in providing continuity of cover, payments of benefits falling due or compensation in the event of the failure of an insurance firm.

The PRA subsequently published policy statements setting out final rules on both consultations.[15,16]

Liquidity Coverage Requirements for credit institutions: the PRA's restated approach to liquidity regulation

In October 2014 the European Commission published a delegated act to supplement the EU Regulation relating to the Liquidity Coverage Requirements (LCR) for credit institutions. As the delegated act is directly applicable in the United Kingdom, the PRA must revoke existing rules where appropriate and restate its overall approach to regulating liquidity. The PRA sought views on its proposed regime, which included: transitional arrangements; the requirements placed on firms beyond meeting the LCR; and the elements of the regime not covered by EU legislation. Final policy will be issued ahead of the introduction of the LCR in October 2015.

The Single Supervisory Mechanism: ensuring co-operation with EEA counterparts

The European Central Bank (ECB) assumed supervisory responsibilities for the most significant Eurozone banks in November 2014 through the Single Supervisory Mechanism. The PRA has engaged with ECB supervisory colleagues to establish relationships and raise awareness of the PRA's approach and objectives.

Developing a strong co-operative relationship with other European supervisors responsible for these firms has been a key objective of the PRA. To date the PRA has focused on building a strong reciprocal relationship with the ECB, and ensuring the PRA's concerns are on the ECB's supervisory agenda, particularly for those Eurozone banks most significant to the UK financial system, and that the ECB's concerns are reflected for relevant firms where the PRA has prudential responsibility.

Basel III: finalising the framework for CRD IV

The PRA participates actively in the BCBS and its working groups. Developments during the last year have included: the Basel III reforms raising the quality and quantity of going concern capital; the introduction of two new liquidity measures and revision to the framework for limiting large exposures. The BCBS also introduced a requirement to disclose a leverage ratio and consulted on a fundamental review of the trading book. Finally, in October 2014, the Basel Committee published standards for the Net Stable Funding Ratio (NSFR), completing its main response to the financial crisis.

Developing a strong co-operative relationship with other European supervisors has been a key objective of the PRA

15 www.bankofengland.co.uk/publications/Documents/annualreport/2015/pra-links.pdf

16 www.bankofengland.co.uk/publications/Documents/annualreport/2015/pra-links.pdf

PRA Rulebook: applying proportionality in the way rules are applied

The PRA published its policy statement, supervisory statement and statement of policy on the changes to the PRA Handbook in June 2014. This was the first in a series of publications over two years that will reshape the Handbook inherited from the Financial Services Authority (FSA) to create a Rulebook containing PRA rules only. These rules, which apply proportionately to all firms, align more closely with the PRA's statutory objectives and are more consistent with the PRA's underlying detailed rules than the Principles for Business that were previously in place.

Insurance policy: the international agenda

The PRA took a leading role in the work of the IAIS to develop the international insurance Basic Capital Requirement (BCR), which was finalised and endorsed in October 2014. The BCR is the first worldwide measure providing a comparable basis for assessing the risk and solvency of insurance groups.

The PRA was also involved in the annual G-SII designation process, participating in the data collection and analysis to help finalise a list of G-SIIs, released in November 2014. Recovery and resolution planning for G-SIIs has been progressing within newly formed crisis management groups, bringing together the relevant supervisory authorities.

In October 2014 the FSB published the updated 'Key Attributes for Effective Resolution Regimes', which includes an annex on the resolution of insurers. Further national and EU-level discussion is needed to identify if changes to existing arrangements for managing the failure of insurers would be appropriate.

Business aim 3: Influence, devise and implement policy to advance structural reform in banking, resolution policy, the secondary competition objective, and other elements of post-crisis standard setting

Resolution: supporting resolvability and ending 'too big to fail'

The EU BRRD was implemented into UK law in January 2015 and introduced a number of important changes to the UK statutory framework. The BRRD gives new powers and responsibilities to the competent authority (PRA) and resolution authority (the Bank). In particular, the Bank as resolution authority has new responsibilities for the 'pre-resolution' stage, which includes an obligation to use its new powers to require firms to remove impediments to resolvability once identified.

Both the PRA and the Bank continue to have mandates to ensure the resolvability of firms and to end the problem of 'too big to fail' (TBTF). However, each carries out a different role in this context – the Bank must carry out the specific 'pre-resolution' functions under the BRRD, while the PRA may choose to take action to improve firm resolvability which could be based on the Bank's resolvability assessment. The PRA also continues to make rules to improve resolvability – for example, collecting resolution pack information under Regulatory Reform Programme rules, ring-fencing and making rules that set minimum standards across firms.

The Bank Recovery and Resolution Directive gives new powers and responsibilities to the PRA

Strengthening governance: supporting a change in culture at all levels in firms

Significant progress has been made on delivering changes to PRA policies on governance; in particular the proposals on the Senior Managers Regime (SMR), the Senior Insurance Managers Regime (SIMR) and remuneration.

Holding individuals to account is a key component of the PRA's role as a regulator of banks.

The combination of clearer individual responsibilities and enhanced risk management incentives will encourage individuals to take greater responsibility for their actions.

Enhancing individual accountability and improving the alignment of risk and reward is intended to have a positive impact on behaviour and culture within firms. By implementing law from the Financial Services (Banking Reform) Act 2013, following PCBS recommendations in 2013, this will create a separate offence which could result in individual senior managers being held criminally liable for reckless decisions leading to the failure of a bank.[17] It will also help to ensure that risk and reward is managed in a way that promotes the safety and soundness of individual institutions.

The SIMR, unlike SMR, is not required by UK legislation and while it is aligned with the banking regime it is not identical. Specifically, none of the potential criminal sanctions, nor the 'presumption of responsibility' in the banking regime is proposed for senior insurance managers.

The PRA, jointly with the FCA, consulted on senior management responsibility for whistleblowing in July 2014 and subsequently published rules in March 2015. These rules ensure that the independence, integrity and effectiveness of a firm's policies and procedures on whistleblowing is maintained and staff who raise concerns are protected from detrimental treatment.

Pillar 2 framework for banks: aligning the CRD IV regime and the PRA supervisory approach

In January 2015, the PRA consulted on a new Pillar 2 capital framework for banks which includes risks not adequately covered under Pillar 1. The fundamental objective underpinning this review was to make Pillar 2 capital methodologies more risk sensitive and consistent.

The framework is intended to ensure firms have adequate capital to support the relevant risks in their business and that they have appropriate processes to ensure compliance with CRD IV. It is also intended to encourage firms to develop and use better risk management techniques in monitoring and managing their risks. Pillar 2 therefore acts to further the safety and soundness of firms, in line with the PRA's objectives.

To improve transparency and clarity to align the Pillar 2 approach with the PRA's supervisory approach, the PRA has consulted on methodologies for assessing credit, concentration, operational, and pension risk.

The PRA plans to publish a policy statement with feedback, finalised rules, supervisory statement and a statement of policy in July 2015.

Whistleblowing: ensuring the effectiveness of firms' policies

Part of strengthening accountability in banking and insurance includes ensuring that all employees in PRA-regulated firms are encouraged to report suspected wrongdoing at work ('whistleblowing') if they suspect misconduct. Employees must be confident that their concerns will be considered and that there will be no personal repercussion. A consultation paper, proposing a package of measures to formalise firms' whistleblowing procedures, was published in February 2015,[18] which intends to move to a more consistent approach and build on current good practice in firms.

The combination of clearer individual responsibilities and enhanced risk management incentives will encourage individuals to take greater responsibility for their actions

17 www.bankofengland.co.uk/publications/Documents/annualreport/2015/pra-links.pdf

18 www.bankofengland.co.uk/publications/Documents/annualreport/2015/pra-links.pdf

Box 2: Competition objective: focusing on the PRA's secondary objective

The PRA's secondary competition objective came into force on 1 March 2014 and various actions have been taken to ensure it informs policy design and the PRA's supervisory approach.

At the request of the Bank of England's Court of Directors, the Bank's Independent Evaluation Office (IEO) will be monitoring the PRA's approach to this new objective. In particular, the IEO has been asked to facilitate Court oversight of the strategy adopted by the PRA.

Some examples of where the secondary competition objective has influenced the PRA's policymaking include:

Barriers to entry for banks	The PRA's work on reducing the barriers to entry and expansion for banks supports the facilitation of effective competition while ensuring the PRA's general objective of safety and soundness is not undermined.
Solvency II long-term guarantees package for insurers	The PRA consulted on transitional measures for insurance technical provisions (liabilities), as part of the introduction of the Solvency II regime. The transitional measures aim to avoid market disruption potentially associated with the move to a new regulatory regime and to limit interference with the existing availability of insurance products.
Solvency II treatment of equity release mortgages under the matching adjustment	The PRA set out its approach to the eligibility of equity release mortgage assets for the matching adjustment to the discounting of certain long-term liabilities. Two regulated markets are affected by the PRA's approach – annuities and equity release mortgages. The PRA's approach supports continued use of equity release mortgages as an asset by insurers, which constitute a significant part of the demand side of the market.
Strengthening accountability	In accordance with the PRA's competition objective, and its duty to have regard to proportionality, a distinction was made in the SMR and SIMR between firms with gross assets of £250 million or more and those with gross assets less than that amount, reflecting that smaller firms are generally less complex in nature and governance arrangements are tailored accordingly.
Pillar 2 framework for banks	The PRA expects the Pillar 2 review to result in a change of capital requirements for banks in a way that facilitates effective competition, with higher total Pillar 2A requirements for systemically important firms and lower total Pillar 2A requirements for smaller banks and new entrants.
Implementing the FPC's recommendation on loan to income (LTI) ratios in mortgage lending	The final rules were designed to take into account the different business model of private banks and their ability to compete in the mortgage market by extending the de minimis threshold for lending, exempting stand-alone smaller or niche lenders from the measures.

The PRA's secondary competition objective came into force on 1 March 2014 and various actions have been taken to ensure it informs policy design and the PRA's supervisory approach

Business aim 4: Contribute towards delivering the FPC's macroprudential objectives

The PRA Board and staff have continued to work closely with the rest of the Bank, including the FPC and the Monetary Policy Committee (MPC) to deliver joined-up policymaking to enhance the resilience of the financial system (refer also to the Bank's *Annual Report*). The PRA plays a role throughout the life cycle of FPC policymaking, from supporting analysis of current vulnerabilities and the potential behavioural impacts of different policy options, through to subsequent implementation of FPC recommendations and monitoring their effects.

One example of how the PRA has contributed in this way is by implementing the FPC's recommendation to limit the expansion of household debt. The FPC recommended that the PRA (and the FCA) take steps to ensure mortgage lenders constrain the proportion of new lending, and proposals were published in October 2014.[19] The action was designed to limit the size of any future economic downturn by limiting the excessive build-up of household debt with a high LTI ratio ahead of any downturn.

Other areas where the PRA has supported the FPC this year include:

- first concurrent stress test of the UK banking system (see page 24);
- working with other parts of the Bank, HM Treasury and the FCA to deliver a programme of work to assess the resilience of the financial sector to cyber attack (see page 26);
- monitoring banks' and building societies' compliance with the mortgage affordability test;
- providing analysis on hedge funds and the shadow banking sector;
- assessing the impact of a prolonged low interest rate environment on the life insurance market;
- working with other parts of the Bank to deliver the FPC's *review of the leverage ratio*; and
- policy statements on the leverage ratio and housing tools.

Business aim 5: Ensure the PRA has the right people to meet its statutory objectives

A key component of the 'Diverse and talented' pillar of the Bank's Strategic Plan is the attraction, development and retention of the best people into public service and building a talent base reflective of the diversity of the United Kingdom. The PRA has worked with the wider Bank to develop its people and skills, with an emphasis on ensuring PRA staff have the required knowledge and skills to deliver the judgement-based, forward-looking supervisory approach.

Staff recruitment and retention is a key operational risk and is at the forefront of the PRA *Strategy* and *Business Plan*. An example is staff turnover, which is higher than the rest of the Bank (10.6% compared to 8.7%[20]). While this is down from 11.6% last year, the effectiveness on how the PRA retains the right people and recruits replacements is being monitored closely.

Recruitment: attracting the right people

The PRA has been successful in its recruitment programmes, with the vast majority of roles filled, and at the end of the financial year 1,139 staff worked in the PRA. This left a vacancy rate of 4%.

The Bank and the PRA are committed to promoting equality and diversity. Policies covering equality, diversity and inclusion, flexible working, career development, and wellbeing are implemented across all areas of the Bank. The Bank has targets for both gender and ethnicity. Both sets of targets are regularly monitored and then reviewed annually. The targets aim to increase the diversity of its staff and this is covered in more detail in the Bank's *Annual Report*.

The PRA Board and staff work closely with the rest of the Bank of England, to deliver joined-up policymaking to enhance the resilience of the financial system

Number of PRA staff
(as at 28 February 2015)

1,015
Full time

110
Part time

14
Temporary contract

1,139
Total

19 www.bankofengland.co.uk/publications/Documents/annualreport/2015/pra-links.pdf

20 This figure is based on voluntary resignations only.

During the year, 259 PRA staff were recruited from the external market, including 108 into the banking and insurance supervision teams, helping to deliver the required skills mix and industry experience.

PRA staff: developing and retaining the right people

Ensuring the PRA can retain and develop talented individuals is essential to achieving its objectives. In 2014, emphasis was placed on talent management, including the delivery of career development for all staff, succession planning to develop a pipeline of people for future leadership roles, and greater emphasis on diversity and inclusion initiatives in recruitment and career advancement.

Internal promotions and mobility are key to the PRA's talent management. In 2014, 13% of PRA staff received a promotion, and 23% moved role within the organisation.

Creating staff mobility within the Bank and PRA is important in developing staff with a range of skills and experiences and providing career paths to retain staff. 130 staff moved from other parts of the Bank to the PRA and 173 moved from the PRA to other parts of the organisation. Twenty-one senior appointments were made,[21] of which thirteen were internal promotions and eight were external. These moves and appointments can be partially attributed to the organisational restructure that took place in June 2014.

Secondment opportunities are also a key way for the PRA to gain industry and wider experience. Over the year, 58 PRA staff were on external secondment.[22]

Performance management received particular attention with the introduction of technical competencies that identify the knowledge and skills needed for roles across the PRA. This has provided a consistent and comprehensive framework against which staff can be objectively and fairly assessed for learning and development requirements. This is supported by a modular regulatory learning framework of technical training for new entrants to the PRA.

During the year all staff in the PRA were consulted on changes to their terms and conditions to bring those on ex-FSA and legacy Bank contracts onto the same terms and conditions. The aim was to develop a scheme that attracts and retains a mix of talent at all stages of their careers which is cost effective. This builds an organisation for the future, having one culture and creating 'One Bank' (The Bank's *Annual Report* provides further information), in terms of remuneration. All employees agreed to the final terms of the Bank's offer and these terms came into effect on 1 April 2015.

The PRA, as part of the Bank, holds itself to the highest standards of ethics and conduct. Details of the Bank's corporate social responsibility, including diversity, can also be found in the Bank's *Annual Report*.

259 PRA staff were recruited from the external market, helping to deliver the required skills mix and industry experience

Diversity
(as at 28 February 2015)

42%
Female

20%
BAME

21 Senior appointments means to Head of Division and above.

22 This is staff that were out on secondment at any point during the year.

Business aim 6: Ensure the right infrastructure and governance to meet the PRA's statutory objectives[23]

Financial Conduct Authority: effective regular co-ordination

The PRA continued to work closely with the FCA across a range of supervisory and policy matters. Performance against the MoU with the FCA – agreed ahead of the creation of the FCA and PRA and setting out the expectations for co-ordination – is reported on a quarterly basis and reviewed by the Chief Executives of both organisations.

The regulators have co-ordinated effectively on policy issues such as CRD IV, structural reform (ring-fencing of banks) and remuneration, and have continued to build close working relationships at a working and management level. Co-ordination between supervisory and specialist teams in both the FCA and PRA has seen continual improvement over the reporting period and no substantive breaches of the MoU have been reported. Ongoing issues with shared IT systems are being monitored and remediation plans have been put in place, and there continues to be close co-operation on data strategy through the Joint Data Management Committee.

The FCA and PRA both recognise that with differing objectives and responsibilities, it may sometimes be appropriate to take divergent approaches.

An example can be found in the scope of the Certification Regime (CR), which is one of the new individual accountability regimes underpinning the SMR. From the outset, the PRA sought to broadly align the scope of its CR to firms' material risk taker population.[24] The FCA, on its part, went wider and included a number of additional functions, reflecting the fact that, in general, there are fewer employees capable of causing significant prudential harm to a firm than there are employees capable of causing significant harm to customers.

Communications: supporting the PRA's objectives

The PRA's delivery of its statutory objectives and supervisory approach are supported by industry-wide communications. The PRA aims to establish and maintain published policy material which is consistent with its objectives, clear in intent, straightforward in its presentation and concise.

Over the course of the year this has included publishing a number of policy documents across the range of its policy development work and making improvements to the PRA webpages to assist access and use. The PRA also published its first Regulatory Digest[25] in January 2015, a monthly summary highlighting key regulatory news and publications.

The PRA continued to work closely with the FCA across a range of supervisory and policy matters

2014/15 policy publications

33 Consultation papers

11 Policy statements

16 Supervisory statements

2 Statements of Policy

1 Discussion paper

23 For detail on the PRA's governance arrangements please see the *Director's Report* on page 52.

24 www.bankofengland.co.uk/publications/Documents/annualreport/2015/pra-links.pdf

25 www.bankofengland.co.uk/publications/Documents/annualreport/2015/pra-links.pdf

Firm feedback: measuring the effectiveness of the PRA's approach

The PRA proactively seeks input from firms on the effectiveness and quality of its supervisory framework and approach. This has been obtained through several means including: individual feedback from firms to their usual supervisory contact; industry events and forums; the PRA's consultation process; and engagement with the PRA's Practitioner Panel.

Engagement with trade bodies and overseas counterparts gives an important insight into the PRA's understanding of prevalent issues and the implications of regulatory policy and supervision. In 2014/15, over 100 speaking engagements were undertaken by PRA staff. These gave the PRA a platform to provide information and education on regulatory policy and supervision and opportunities for PRA staff to hear industry views.

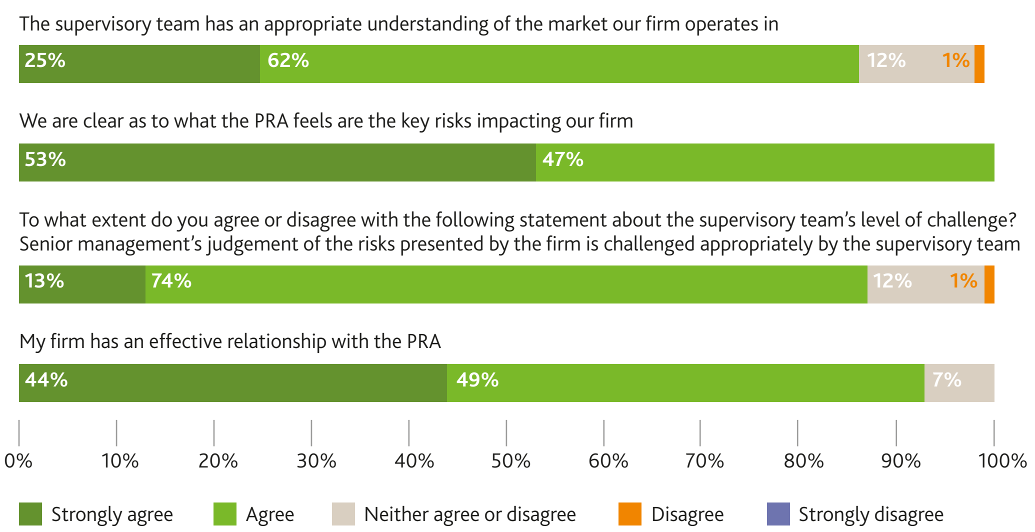
The PRA continues to engage firms collectively, with briefings held for groups of similar firms to highlight and emphasise key regulatory activity. Over the course of 2014/15 these were held for: small banks, building societies and credit unions on PRA supervisory priorities; insurers on Solvency II; and small international and overseas banks on recovery planning.

The PRA also asks firms to complete an annual feedback survey. Over the course of the year 78 firms completed the survey and 28 have had a follow-up meeting to discuss the outputs. This process is overseen by the oversight function and chaired by senior advisors so that independence is maintained. Overall, the feedback suggests that the majority of respondents have a positive view of the PRA (93% of respondents either agreed or strongly agreed that they have an effective relationship with the PRA). Where the survey results are less favourable, the PRA carries out an internal review of the relevant areas. For example, on understanding the rationale or deadline for data requests, the PRA reviewed its approach and the deadlines set.

Figure 10 shows a selection of the survey results 2014/15 reflecting the type of issues on which the PRA sought opinion. The full results are available on the PRA's website.[26]

Overall, feedback suggests that the majority of respondents have a positive view of the PRA

Figure 10: Selection of survey results 2014/15



26 www.bankofengland.co.uk/publications/Documents/annualreport/2015/pra-links.pdf

PRA Strategic Report:
Business Plan 2015/16

The PRA Strategy to deliver a resilient financial sector requires a multi-year programme of work. The 2015/16 Business Plan shows how the PRA will work towards its strategy over the coming twelve months.

The business plan is structured around five Business aims which cover the breadth of the PRA's activities.

Business aim 1: Continue to develop and implement the forward-looking judgement-based regime

The PRA will continue to develop and implement the approach to supervision that embodies the lessons of the financial crisis. Under this forward-looking, judgement-based approach, supervisory attention is focused on those firms that pose the greatest risk to the PRA's objectives.

2015 stress test focused on a global shock

The implementation of the forward-looking approach is best demonstrated through the embedding of the annual stress-testing regime for the major UK deposit-takers. Developed in conjunction with the FPC, the 2015 test will explore shocks emanating from a deterioration in global nominal growth prospects. This results in rapid deterioration in market sentiment globally and triggers latent vulnerabilities in Asia and the euro area in particular. The results will inform PRA Board and FPC decision-making about the capital resilience of individual banks and building societies and the banking system overall.

Complete a general insurance stress test

A key part of the supervisory approach for the largest insurers, as with deposit-takers, is the use of stress tests to inform FPC and PRA decision-making about the capital resilience of general insurers and the wider financial system overall. Over the coming year, the PRA will build on the 2014 insurance stress test conducted by EIOPA, and undertake a general insurance stress test exercise. This will cover a range of stresses including natural catastrophes, terrorism and cyber attack.

Continue implementation of the branch strategy for international banks

The PRA's published approach to non-EEA branch supervision[27] provides the basis for how the PRA supervises non-EEA international banks. Over the coming year the PRA will seek to ensure that the branch strategy is either implemented, or that there is a plan for implementation in key jurisdictions. Implementation will ultimately ensure that branches of all international banks operating in the United Kingdom are within the PRA's risk appetite.

The implementation of the forward-looking approach is best demonstrated through the embedding of the annual stress-testing regime

27 www.bankofengland.co.uk/publications/Documents/annualreport/2015/pra-links.pdf

Continued focus on the competition objective

Over the next year the PRA will work with other areas of the Bank to research the relationship between safety and soundness and effective competition and to formalise the framework through which it can review progress against the objective. This is part of the One Bank Research Agenda.[28]

Enhance the consistency of management and governance assessments

The PRA must ensure its approach to the supervision and assessment of different types of risk evolves with the external environment. The financial crisis demonstrated that risks to financial stability and the safety and soundness of firms often emanate from poor or inadequate management and governance. The PRA regularly considers the effectiveness of firms' management and governance, and throughout 2015 will seek to enhance the consistency of those assessments.

Closer engagement with auditors of systemically important UK deposit-takers

The PRA looks to auditors to contribute to effective supervision by directly engaging with the PRA in a proactive and constructive way. See *Complying with FSMA*, on page 48 for more detail. Through the proposed introduction of a regime of written audit reporting, the supervisory approach will include closer engagement with the external auditors of the systemically important UK deposit-takers.

Contribute to the IMF Financial Sector Assessment

The PRA continues to evolve as an organisation and it is therefore important that it draws on and contributes to international reviews of regulation in other systemically important financial centres. In 2015/16 the PRA will contribute to the International Monetary Fund (IMF) Financial Sector Assessment Programme. As part of this, the UK regulatory system will be assessed on the extent of its adherence to the Basel Core Principles for Effective Banking Supervision.

Business aim 2: Implement changes to domestic, European and international regulation

The PRA has been involved in the development and implementation of a large number of domestic, European and global policy initiatives designed to make the financial system safer. With much of the policy development complete, the PRA's focus over the coming year will be on implementation.

Complete Solvency II implementation and embed into the supervisory approach

The key focus over the coming year for insurance supervision will be the continued implementation of the Solvency II Directive. Implementation activity over 2015 will focus less on policymaking and more on bringing Solvency II into the PRA's continuous supervision programme. Many of the fundamental principles of Solvency II are consistent with the PRA's existing supervisory approach, such as proportionality and a forward-looking assessment of risks. The changes will help supervisors to identify the risks that insurance firms face and improve protection for policyholders.

The PRA will look to ensure a smooth transition to the Solvency II regime which will mean working collaboratively with firms, providing guidance and support where possible, and carrying out preparatory work. Critical to the successful implementation of Solvency II will be the completion of internal model reviews. The PRA has developed an approval process to ensure a dialogue is maintained and timely feedback is given.

Many of the fundamental principles of Solvency II are consistent with the PRA's existing supervisory approach, such as proportionality and a forward-looking assessment of risks

28 www.bankofengland.co.uk/publications/Documents/annualreport/2015/pra-links.pdf

Abbreviations used in this report
Overview
Board of the Prudential Regulation Authority
Organisational structure
PRA Strategic Report
Overview of responsibilities and approach
The PRA Strategy
Review of 2014/15
Business Plan 2015/16
Complying with FSMA
Directors' Report
Financial Review of 2014/15
Contacting the Bank of England and the PRA

Progress banking structural reform
The PRA will continue to implement structural reform in accordance with the ring-fencing provisions of the Financial Services (Banking Reform) Act 2013. These reforms will help to ensure the continuity of core financial services by promoting the resolvability and resilience of large UK deposit-takers. Over the coming year, the PRA will review and progress banks' ring-fencing plans to ensure both ring-fenced and non-ring-fenced entities have viable and sustainable business models, and banks' plans are consistent with the objectives of ring-fencing.

Improve senior management accountability in the financial sector and better align risk and reward
An important step towards ensuring senior management in firms are held to account will be the implementation of SMR and SIMR. The PRA will finalise and publish its rules on the SMR and SIMR over the course of 2015 ahead of the new regime coming into force in early 2016.

Over the course of 2015, the PRA will introduce a revised Remuneration Code which will reflect the recommendations of the PCBS following consultation on proposals in 2014. The key areas of implementation will include changes to the minimum requirements on deferral and improved standards on risk adjustment. The PRA will also formulate its approach regarding the revised remuneration guidelines, which were put out for consultation by the EBA in March 2015.

Implement the Bank Recovery and Resolution Directive
An important step towards the PRA's strategy is the implementation of the BRRD into the PRA's continuous supervisory programme. The BRRD provides a single rulebook for the resolution of banks and large investment firms, with the aim of improving the tools for dealing with bank crises. Work undertaken this year will involve the review and progressing of banks' recovery plans to ensure banks have feasible plans in place, and continued work with the Bank's Resolution Directorate on resolution planning to reduce the risk of disorderly failure.

Implement the FPC leverage ratio
In April 2015 the FPC was granted direction powers over the leverage ratio. The FPC's *review of the leverage ratio* stated that the Committee intends to implement minimum leverage ratio requirements for the major UK Banks and building societies as soon as practicable.[29]
In the second half of 2015, following direction by the FPC, the PRA expects to implement the transitional UK leverage ratio framework that the FPC set out in its recent leverage review.
In its review, the FPC proposed imposing a minimum leverage ratio requirement of 3% on major domestic UK banks and building societies, along with supplementary and countercyclical leverage ratio buffers. The PRA is working towards implementing the leverage ratio requirements by the end of the year.

The PRA will review and progress banks' ring-fencing plans to ensure both ring-fenced and non-ring-fenced entities have viable and sustainable business models

29 www.bankofengland.co.uk/publications/Documents/annualreport/2015/pra-links.pdf

Improve the liquidity management regime

The coming year will see an overhaul of the framework for regulating the resilience of the banking sector to liquidity shocks, with the introduction of the LCR. The LCR is part of the CRD IV reforms and will apply from October 2015, at which point the PRA's restated approach to regulating liquidity (as set out in CP 27/14) and associated draft supervisory statement, will also apply. Following the introduction of the LCR, a key focus for the PRA in 2016 will be to revise its overall approach to assessing liquidity risk around the new regulatory standard. The PRA is also continuing to support work to implement the NSFR agreed by the BCBS in October 2014.

Improve the resolvability of PRA-regulated firms

From 2016, the Bank, as UK resolution authority, in consultation with the PRA will need to set a 'Minimum Requirement for own funds' (MREL) for each UK Bank, building society and investment firm. MREL will be set for each firm on the basis of criteria specified in EU law. The overall objective is to ensure all firms are resolvable without public solvency support ('bail-out') should they fail. MREL for UK G-SIBs will be set in a way which is consistent with the FSB's standard on 'Total Loss Absorbing Capacity (TLAC)', which is due to be finalised this year.

Business aim 3: Continue to devise and influence the post-financial crisis policy agenda for deposit-takers

While a great deal of post-financial crisis policy has been developed and is now moving to implementation phase, there remain key areas of policy that need to be developed over the next year in order to deliver the PRA's strategy. Further elements of the policy agenda will be completed in subsequent years; these are set out in *Box 3: the policy pipeline* on page 42.

Continue to influence the international policy agenda

The PRA will continue to participate actively in the BCBS and its working groups. Over the next two years the PRA will use its influence within the BCBS as it introduces new standardised approaches for credit risk and operational risk, and a new framework for market risk and a new capital floor to replace the Basel I floor. A key aim for the PRA will be the calibration of a proposed leverage ratio, with a view to reporting a Pillar 1 leverage ratio in 2017. The BCBS will continue to consider the role of internal models in the capital framework and will be evaluating the coherence and consistency of the regulatory reforms as a whole.

The PRA will continue to engage with the BCBS's project to develop an improved capital framework for banks' trading activities. The new framework will draw on the experiences from the financial crisis on levels of liquidity in traded markets during stressed periods, and ensure that capital requirements for all types of trading activities are adequate to absorb stressed losses.

The PRA is also focusing on encouraging the development of a sustainable securitisation market by defining standard, transparent and comparable securitisation with differentiated regulatory treatments for banks and insurers. This work supports the European Commission's

The PRA will continue to engage with the Basel Committee's project to develop an improved capital framework for banks' trading activities

priority to improve financing of the EU economy through a Capital Markets Union. The Bank responded to the European Commission consultation paper on *'Building a Capital Markets Union'*.[30]

Focus on addressing 'too big to fail'

Given the extent to which foreign financial institutions operate in the UK and the scope of UK firms' operations overseas, the PRA needs to work with international counterparts to strengthen global regulatory standards. Working through the BCBS and the FSB, this has already delivered enhanced resilience for banks through Basel III, action to address the issue of TBTF, including improved cross-border co-operation on resolution, and a framework for addressing risks arising from shadow banking. In order to further address TBTF, the PRA is engaging closely with the work of the FSB and BCBS to deliver a TLAC standard for G-SIBs to facilitate orderly resolution while protecting critical economic functions and taxpayers.

The PRA is also working with the FSB and the IAIS to develop a higher loss absorbency (HLA) standard for G-SIIs in areas where this may be appropriate.

Working towards consistent implementation of international regulation

In addition to agreeing policy and reform at an international level, the PRA is committed to working with international counterparts to ensure consistent, and prompt implementation of the agreed reforms; this is essential to help maintain an open and resilient global financial system. For example, the PRA is at the forefront of work underway through the FSB to consider how to measure the impact of remuneration reforms going forward and to identify further measures to better align risk and reward for senior risk-takers in the banking sector.

Enhance capital standards for insurers

A key milestone will be the development of the global solvency standards for insurers being led by the IAIS over the coming year. The PRA is committed to enhancing co-operation among insurance regulators to mitigate the risks posed by G-SIIs. As part of the IAIS, the PRA will play a key role in the development of the global Insurance Capital Standard (ICS).

The PRA is committed to enhancing co-operation among insurance regulators to mitigate the risks posed by G-SIIs

Upcoming policy consultations 2015/16	Q1 Mar–May	Q2 Jun–Aug	Q3 Sep–Nov	Q4 Dec–Feb
Depositor protection and depositor preference regimes				
Contractual recognition of resolution stays in foreign law contracts				
Reform of the legacy Credit Union sourcebook				
8th Audit Committee Requirements of the 8th EU Directive				
Preparation, publication and audit of a separate set of accounts for the regulator				
Solvency II consequentials and application of EIOPA's Set 2 Guidelines				
PRA approach to using external auditors as part of prudential supervision				
Large Exposure Regime				
Supervising building societies' treasury and lending activities				
PRA Rulebook Consultation				

30 www.bankofengland.co.uk/publications/Documents/annualreport/2015/pra-links.pdf

Box 3: Policy Pipeline

Looking beyond this year

To achieve its strategy the PRA needs to engage effectively in international and EU policymaking. This is crucial because typically, once standards have been agreed internationally in FSB, BCBS or IAIS forums, a large part of the UK banking and insurance prudential policy framework is implemented through EU law. Key elements of the international agenda for regulation over the next few years are listed below.

For banks and insurers

FSB, IAIS and BCBS work on the development and implementation of credible resolution strategies for banks and insurers, including frameworks for gone-concern loss absorbing capacity.

For banks

The BCBS is reviewing the measurement of risk in the capital framework. Key elements of this work are:

- calibration of leverage ratio requirements alongside risk-weighted capital requirements;
- review of the role of internal models in the capital framework;
- revised standardised requirements for credit and operational risk;
- completion of the Fundamental Review of the Trading Book;
- the treatment of sovereign risk; and
- development of criteria for simple, transparent and comparable securitisation and their incorporation into the capital framework (jointly with the International Organisation of Securities Commission (IOSCO)).

For insurers

Development of the IAIS capital framework through:

- an ICS for all internationally active insurers; and
- where appropriate, HLA for G-SIIs systemically important institutions.

Other key initiatives underway in Europe include: amendments in the securitisation framework, progressed in parallel with the BCBS-IOSCO work; and the EU implementation of the NSFR. Once international and EU standards have been agreed, the PRA is also responsible for the implementation of these standards in the United Kingdom.

In addition the PRA will implement UK policy priorities. The PRA is required by the Financial Services (Banking Reform) Act 2013 to make policy to implement the ring-fencing of retail banking activities from wholesale and investment banking activities. In 2014 the PRA consulted on a number of policies designed to ensure an appropriate level of separation of ring-fenced bodies within banking groups. Further consultation will follow in 2015/16, with the final policy to be delivered in time to enable firms to implement their ring-fences by the 2019 implementation date. The PRA will also put in place rules to strengthen further the alignment between risk and reward in banks.

To achieve its strategy the PRA needs to engage effectively in international and EU policymaking

Business aim 4: Support the Bank in delivering its financial stability and monetary policy objectives

An effective regulatory framework should combine firm-specific supervision with work to enhance the resilience of the financial system as a whole. Stress testing (see *Business aim 1*) is one such example. The PRA will continue to provide analysis and support throughout all stages of FPC policymaking, as well as its knowledge and expertise in helping the FPC to meet its priorities.

Being smarter with data

The PRA will continue to work with the rest of the Bank on the Bank-wide data strategy. Requirements on firms to submit regulatory data have increased, and the PRA is committed to making the most from this information by ensuring it has a robust inventory of data. This year the PRA will continue its stocktake of data requirements, discussed in the *Review of 2014/15* section and will look to start engaging with firms later in the year.

Improve lender resilience through implementation of FPC housing tools

The FPC gained new powers of direction over housing tools in respect of loan to value and debt to income in April 2015. The PRA expects to consult in 2015 on a framework for implementing these powers. In addition, the PRA continues to monitor firms' compliance with the rules implementing the FPC's recommendation on limits on high LTI lending. This work will also contribute to the Bank's monetary policy objective.

Contribute to FPC review of capital in the banking system

During this year, the PRA will work with other parts of the Bank on the FPC's review of the overall calibration of the capital framework for major UK banks. This follows progress made on the international agenda and takes into account the measures to end TBTF.

Business aim 5: Ensure the PRA has the right people, infrastructure and governance to deliver its strategy

The PRA is committed to ensuring it has the right staff in place to deliver its strategy of a more resilient financial sector. Over the coming year the PRA will build on the progress made in 2014/15 in this area which is outlined on page 32. Regulatory activities need to be supported by effective processes, tools and systems.

Ensure robust IT infrastructure

The PRA will continue to ensure it has robust IT infrastructure and data systems, as part of the Bank's overall architecture. Over the coming year the PRA will review its use of FSA legacy systems, which the PRA and FCA share. This will provide a view to develop a strategy which ensures the PRA has systems which meet its needs over the medium to long term and provide value for money for fee-payers.

Launch a Bank of England qualification

As part of its ongoing commitment to invest in its staff, the Bank will launch a qualification in Central Banking supported and awarded by a major UK university. This will be offered to all new graduate entrants to develop an improved common knowledge and skills base.

Develop the control and assurance framework

In 2015 the PRA will further develop its front-line control framework and assurance framework. This will support and enhance the PRA's ability to deliver a judgement-led supervisory approach, and provide increased consistency where required.

As part of its on-going commitment to invest in its staff, the Bank will launch a qualification in Central Banking supported and awarded by a major UK university

Review of the PRA's target operating model

As the PRA and the wider regulatory environment evolve, and the PRA improves aspects of its approach, it is imperative that the PRA has the right operating model to deliver its strategy within its chosen risk appetite. In order to continue its commitment to provide value for money the PRA needs to ensure its people, processes and systems are as effective and efficient as possible. This year the PRA will conduct a formal review of its target operating model, risk appetite, risk oversight and mitigation processes.

Risks to delivering the Business Plan

There are of course risks to the delivery of the *Business Plan*. These risks are monitored, actively mitigated against (where possible), managed, and reported to the PRA Board and Executive Committee on a regular basis.

Unforeseen events

The nature of the PRA's environment means it deals with unforeseen events that may arise internationally and domestically and which require a swift regulatory response. An example of this is the PRA response to the Greek economic situation which required the successful collaboration and experience of a number of staff across the Bank. Depending on the scale and nature of these events, they can lead to significant re-prioritisation of Business Plan deliverables.

The crystallisation of risks within firms can place additional constraints on delivery of day-to-day supervisory activity, possibly impacting on the safety and soundness of firms, and may lead to re-prioritisation of deliverables.

Any adverse change in the economic environment, or other changes within or outside the UK, may impact the safety or soundness of firms. While recovery and resolution planning and stress testing will reduce the impact of firm failure on financial stability, a large and wide-ranging shock that impacts financial stability remains a clear risk. The Bank's *Financial Stability Report* provides the FPC and wider Bank view of the current stability of the UK financial system and areas of risk.

Execution risk

The PRA will be managing an extensive landscape of regulatory and legislative change over the next five years and this will place additional constraint on resources which may compromise its ability to carry out its obligations as planned. Key changes that may affect frontline activity include structural reform, PCBS initiatives (notably SMR), stress testing, Solvency II, CRD IV and BRRD, and the PRA's competition objective.

Dependencies

The PRA is reliant on the FCA for the provision of certain IT systems and any degradation of service will impact on the PRA's ability to deliver its obligations. The FCA provides upgrades and fixes to ensure a maintained service and any delay would also have an impact on the PRA.

PRA policymaking is often dependent on overseas authorities who lead on timings and requirements for delivery of legislative and regulatory change. For example, the PRA is dependent on the EBA to deliver CRD IV taxonomies. The outcome of international policy negotiation could also differ from current PRA and Bank objectives which, in certain circumstances, could weaken the PRA's current approach. Maintaining external policy relationships is key in ensuring that new policy requirements are in the best interest of providing safety, soundness and financial stability to the United Kingdom and ultimately meet the PRA's statutory objectives.

The PRA is still an institution in development. The volume of change to implement is significant and there exists material delivery risk in embedding and enhancing its approach

Internal factors

Insufficient resources in terms of both skills and experience, and capacity may lead to staff stretch, a failure to deliver the *Business Plan* to the required standard or a need to re-prioritise planned deliverables.

The PRA needs to be able to recruit high-quality people in a range of disciplines and with the right technical expertise; this is critical to the delivery of work streams such as Solvency II and stress testing where expert technical knowledge is required. Furthermore, an increase in demand for specialist staff across a range of disciplines, from resolution experts to IT specialists, places stretch on these staff and a risk that some activities are deprioritised or delayed if there is not the specialist resource available to deliver them.

The PRA needs to be able to retain staff through terms and conditions, training, and development opportunities. The PRA has faced an increase in market demand for expertise, and consequently retention of staff remains challenging. In areas of the PRA where there has been an influx of new staff this reduces the overall experience of the area and can place additional pressure on more experienced staff.

The PRA is still an institution in development. The volume of change to implement is significant and there exists material delivery risk in embedding and enhancing its approach as well as establishing the organisation. In addition, in planning for the creation of the PRA prior to legal cut over, a number of assumptions were made that have subsequently been revised. These have implications for the PRA's operating and resourcing model during 2015 and beyond. Examples include needing more legal resource than anticipated and IT systems risks in firms.

Measuring progress

The PRA monitors the progress of its delivery against the statutory objectives and *Business Plan* on an ongoing basis. Performance against the PRA's statutory objectives is difficult to quantify: 'safety and soundness' of firms or 'protection of policyholders' are not concepts which are easy to measure. Furthermore, the PRA's successes in relation to these objectives are generally market sensitive, and not public. Nevertheless, it is important that the PRA works around these challenges and draws on a variety of information to monitor the progress of its delivery against the statutory objectives, *Strategy* and *Business Plan*.

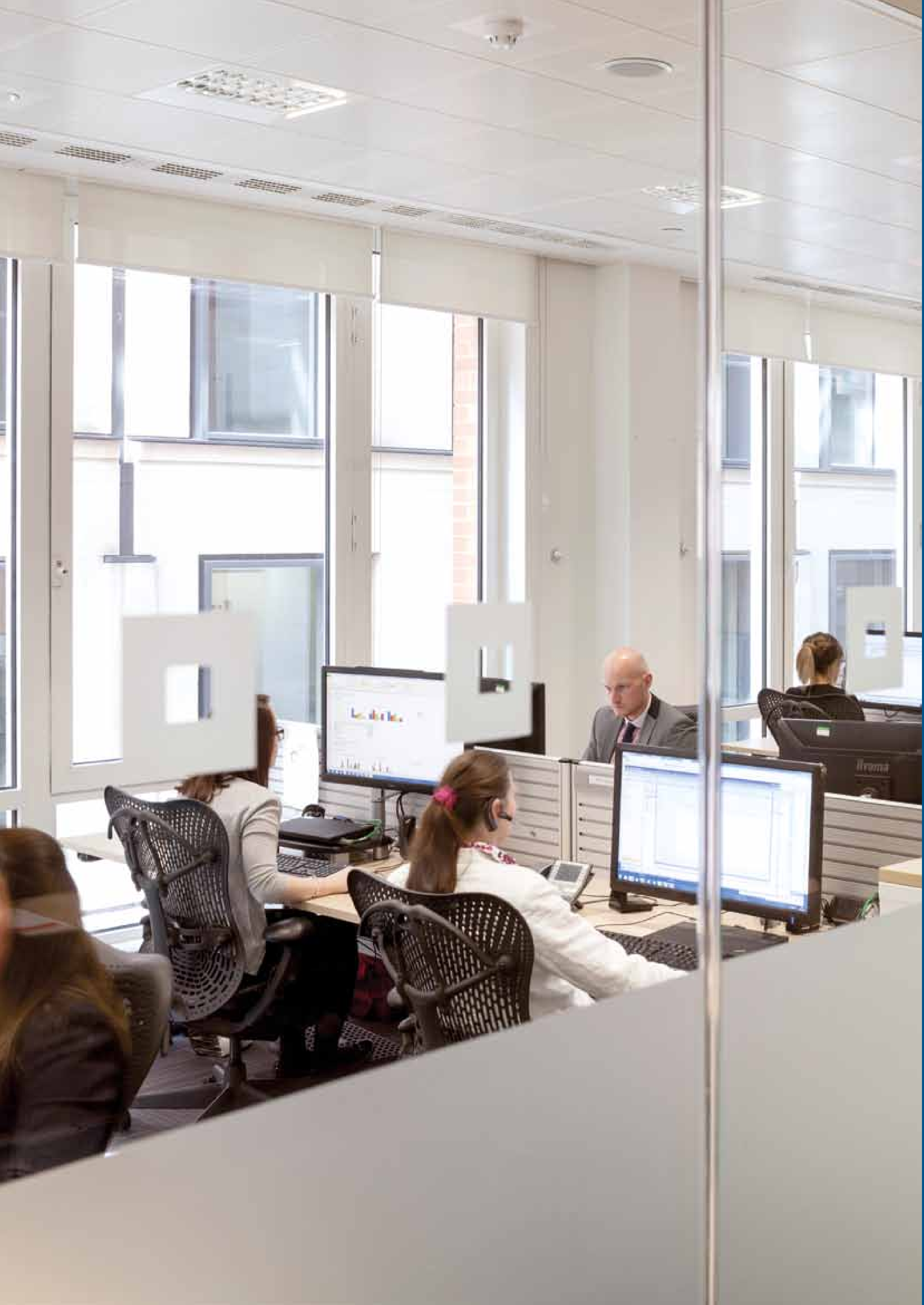
The PRA Board and the Executive Committee receive regular reports comprising quantitative, qualitative and assurance information, to enable assessment of delivery against the *Business Plan* and the quality of PRA outputs.

A sample of measures and indicators can be found in table 2 on page 46.

The PRA monitors the progress of its delivery against the statutory objectives and Business Plan on an ongoing basis

Table 2: Sample of measures and indicators used to monitor the PRA's performance against its statutory objectives, Strategy and Business Plan

Objective to be assessed	Sources of assurance
Financial stability and protection of policyholders (the statutory objectives)	– the quantity and quality of capital and liquidity held by PRA-regulated firms; – the strength of firms' arrangements for effective management and governance as reflected in supervisory assessments; – the ability of insurance firms to meet claims from and material obligations to policyholders; and – the quality of the PRA's supervisory tools as measured by, for example, the quality of supervisory outputs and internal audit reviews.
The success of the PRA's judgement-based, forward-looking supervisory model	– self and peer reviews – this entails staff assessing their own performance and receiving independent challenge at regular intervals, as well as reviews carried out by other bodies (such as the IMF); – regular review of how firm-specific risks are being managed – these measures cover both the core supervisory judgements (for example, business model analysis, and key risks), the approval of the supervision strategy and execution (that is assurance the supervision strategy is 'on track'); – assessment of the capability of staff to make the right judgement about the course of action to reduce the probability of risks to the statutory objectives through a supervisory competence framework; and – firm feedback and external reviews (for example, IMF's Financial Sector Assessment Programme).
The effectiveness of prudential policy initiatives	– the outcomes from negotiation of European and international policy; – macroprudential policy outcomes; and – feedback on influence in key committees and with overseas regulators and central banks.
Operational performance	– people-related indicators such as length of service of staff, staff turnover and diversity; – quality and performance of information technology systems; and – quarterly review of breaches of the MoU between the PRA and FCA.



Complying with FSMA

This section covers a number of issues that the PRA takes into account when carrying out its duties or has an obligation to report on.

These include:

- complying with FSMA;
- complying with the regulators' code and principles;
- the PRA's complaints scheme;
- details of how the PRA has used the provisions of section 166 of FSMA; and
- sections 339A and 339B of FSMA relating to firms' auditors.

Complying with FSMA

Section 3B of FSMA sets out a number of regulatory principles to which the PRA must have regard in discharging its general functions. These are:

(a) the need to use its resources in discharging its general functions in the most efficient and economic way;

(b) the principle that a burden or restriction which is imposed on a person, or on the carrying on of an activity, should be proportionate to the benefits, considered in general terms, which are expected to result from the imposition of that burden or restriction;

(c) the desirability of sustainable growth in the economy of the United Kingdom in the medium or long term;

(d) the general principle that consumers should take responsibility for their decisions;

(e) the responsibilities of the senior management of persons subject to requirements imposed by or under FSMA, including those affecting consumers, in relation to compliance with those requirements;

(f) the desirability where appropriate of exercising its functions in a way that recognises differences in the nature of, and objectives of, businesses carried on by different persons subject to requirements imposed by or under FSMA;

(g) the desirability in appropriate cases of publishing information relating to persons on whom requirements are imposed by or under FSMA, or requiring such persons to publish information, as a means of contributing to the advancement by the PRA of its objectives; and

(h) the principle that it should exercise its functions as transparently as possible.

The PRA takes these principles into consideration when carrying out its functions, including when making policy.

Further, in carrying out its functions during the reporting period, the PRA was required to, so far as is reasonably possible, act in a way which facilitated effective competition in the markets for services offered by PRA-authorised persons in carrying on regulated activities (section 2H(1) of FSMA). As outlined in Box 2 on page 31 there are several examples of how meeting this requirement has been achieved.

Details of how the PRA has met its general duty to consult (under section 2L of FSMA) can be found on page 34, which also explains how the PRA engages with firms more generally. These arrangements include the establishment and maintenance of the PRA Practitioner Panel. The panel met six times during the year, providing particular input and advice to the PRA Executive and PRA Board on remuneration policy, Pillar 2 disclosures and external auditors.

The PRA and FCA have a duty to ensure a co-ordinated exercise of functions (under section 3D of FSMA) and details of how this has been managed effectively is covered on pages 19 and 34.

The PRA has the power to require the FCA to refrain from taking certain actions, specified under section 3I of FSMA, or to give a direction to the FCA in relation to with-profits policies (section 3J of FSMA). The PRA did not exercise this power during the period.

The PRA is considering how it will meet its new requirement in paragraph 19 of schedule 1ZB of FSMA to report on ring-fenced bodies.

Section 354B of FSMA outlines the PRA's duty to co-operate with other persons who have functions similar to the PRA or have functions relevant to financial stability. Details of how the PRA has complied with this duty is set out on pages 19 and 34.

Regulators' principles and code

The PRA, when exercising its functions, is required to have regard to the following regulators' principles and code.[31]

Regulators' Principles

- Regulatory activities should be carried out in a way which is transparent, accountable, proportionate and consistent.
- Regulatory activities should be targeted only at cases in which action is needed.

Regulators' Code

- Regulators should carry out their activities in a way that supports those they regulate to comply and grow.
- Regulators should provide simple and straightforward ways to engage with those they regulate and hear their views.
- Regulators should base their regulatory activities on risk.
- Regulators should share information about compliance and risk.
- Regulators should ensure clear information, guidance and advice is available to help those they regulate meet their responsibilities to comply.
- Regulators should ensure that their approach to their regulatory activities is transparent.

PRA's complaints scheme

As part of the statutory Complaints Scheme, the PRA is responsible for ensuring formal complaints against it are dealt with in an efficient and effective manner. During 2014/15 the PRA received five complaints, one of which was upheld. The complaint upheld by the PRA related to a delay experienced by an individual in receiving a response to correspondence.

The Complaints Commissioner received one joint complaint about the FCA and PRA during the year. This joint complaint related to the PRA's and FCA's decision to impose rules. As complaints in relation to the performance of the regulators' legislative functions are excluded from the Complaints Scheme the complaint was not upheld by the Complaints Commissioner. The Complaint Commissioner's Annual Reports can be found on the *Office of the Complaints Commissioner* website.[32]

31 www.bankofengland.co.uk/publications/Documents/annualreport/2015/pra-links.pdf

32 www.bankofengland.co.uk/publications/Documents/annualreport/2015/pra-links.pdf

Section 166 reports by skilled persons

Section 166 (s166) of FSMA provides a regulatory tool which gives the PRA the powers to obtain an outside expert view of aspects of a firm's activities. Such reviews can be undertaken where the PRA seeks additional information, further analysis, expert advice and recommendations, an assessment, or assurance around a particular subject.

In 2014/15 s166 was used by the PRA in 42 cases (2013/14: 33 cases). Eight (2013/14: four) were commissioned using the powers, introduced in the Financial Services Act 2012, to contract directly with the skilled person. The reviews focused on risk management, insurance reserving, systems and controls, governance and culture, and capital adequacy.

The total cost of commissioned s166 reviews was £15.2 million[33] (2013/14: £11.4 million[34]) and the cost per review ranged from £22,500 to £1.8 million (2013/14: £14,602 to £1.3 million). Of this total, the cost of the eight reviews commissioned where the PRA contracted directly with the skilled persons was £1.5m (2013/14: four at a cost of £0.8m).[35] The costs disclosed include actual costs incurred by the firms or an estimate where actual costs are not yet available. Additional information can be found online.[36]

Table 3: Section 166 reports by area of focus

Area of focus	Total for 2013/14	Total for 2014/15
Governance, controls and risk management frameworks	18	23
Data and IT infrastructure	2	2
Prudential – deposit-takers and recognised clearing houses	5	6
Prudential – insurance	8	11
Total	**33**	**42**

33 All disclosed costs are exclusive of VAT. VAT is however charged to firms in directly contracted skilled person reviews.

34 The figure provided is the cost reported in the *Annual Report and Accounts 2014*. Since its publication all actual costs have become available resulting in a total actual cost of £11.0m in 2013/14.

35 The PRA has recovered £1.6m from firms (excluding VAT) of the direct contract costs for both reporting years.

36 www.bankofengland.co.uk/publications/Documents/annualreport/2015/pra-links.pdf

Meetings with auditors

Pursuant to section 339A(2) of FSMA the PRA must issue and maintain a code of practice which includes arrangements on: (i) the sharing with auditors of PRA-authorised persons of information that the PRA is not prevented from disclosing; and (ii) the exchange of opinions with auditors of PRA-authorised persons. The PRA published the code of practice in April 2013.[37] Pursuant to section 339B of FSMA the PRA must make arrangements for meetings to take place at least once a year between the PRA and the auditor of any PRA-authorised person to which section 339C[38] of FSMA applies. 37 firms fell within the scope of section 339B FSMA during the reporting period and the PRA conducted 69 meetings with the auditors of these firms.

At least one meeting with the auditor of each such firm was held during the reporting period, with the following exceptions:

- The PRA met the auditors of one firm shortly before the start of the PRA reporting period (27 February 2014) and with another two firms shortly after the end of the reporting period (3 March 2015).
- A further firm was recognised by the PRA as falling within section 339C of FSMA in October 2014, and therefore the section 339B duty commenced from that date. The PRA met with this firm's auditors in March 2015.

The PRA looks to auditors to contribute to effective supervision by directly engaging with the PRA in a proactive and constructive way. The PRA provided feedback on the quality of the current relationship between auditors and supervisors under the PRA code of practice in a consultation paper on its engagement with external auditors published on 27 February 2015.[39] It was noted that the relationship was reasonable, but that there was room for improvement.

By order of the Board

Mr M Carney
Chairman

10 June 2015

37 www.bankofengland.co.uk/publications/Documents/annualreport/2015/pra-links.pdf

38 www.bankofengland.co.uk/publications/Documents/annualreport/2015/pra-links.pdf

39 www.bankofengland.co.uk/publications/Documents/annualreport/2015/pra-links.pdf

Directors' Report

The Directors present their report and the audited financial statements of the Prudential Regulation Authority for the year to 28 February 2015.

Principal activity and future developments

The PRA is a wholly-owned subsidiary of the Bank. It became the UK's prudential regulator for deposit-takers, insurers and major investment firms, with statutory responsibilities under the Financial Services and Markets Act 2000 (FSMA), on 1 April 2013. The PRA's regulatory activities during the year are described in the *Review of 2014/15* on pages 23–35.

Details of proposed future developments can be found within the *Business Plan 2015/16* section on pages 37–46.

Financial results

The PRA's financial statements for the period to 28 February 2015 are presented on pages 66–85.

Governance

The PRA is required under FSMA to 'have regard to such generally-accepted principles of good corporate governance as it is reasonable to regard as applicable to it'.[40] As a private limited company the PRA is not obliged to comply with the UK Corporate Governance Code (the Code), but the Board considers that the PRA complies with the Code as far as is appropriate to the PRA. The PRA's governance arrangements are described below.

The Board

The PRA is led by its governing body, the Board. FSMA provides that the Governor of the Bank is Chair of the PRA; the Bank's Deputy Governor for Prudential Regulation is the Chief Executive; the Deputy Governor for Financial Stability and the Chief Executive of the Financial Conduct Authority are members of the Board; and that additional members are to be appointed by the Bank's Court of Directors, with the approval of HM Treasury,[41] who may be executive or non-executive. A majority of the Board must be made up of members who are not employed by the PRA or the Bank.

To guide the process of appointing Board members, the Bank's Court has adopted a policy on conflicts of interest. This is published on the Bank's website.[42] The key requirement is that, other than in exceptional circumstances, Board members should have no continuing association with a PRA-regulated firm. Appointed members are appointed for renewable terms of three years, though some initial appointments have been for shorter periods to stagger rotation.

During the year the Board met 32 times (and held one teleconference). There were also three joint meetings with the Financial Policy Committee. Attendance at Board meetings is set out in the table on page 53.

40 Section 3C of FSMA.

41 Paragraph 6 of Schedule 1ZB of FSMA.

42 www.bankofengland.co.uk/publications/Documents/annualreport/2015/pra-links.pdf

Table 4: PRA Directors 2014/15:

		Date of first appointment	Expiry of current term	Attendance at Board meetings
Mark Carney	Ex-Officio	1 July 2013	30 June 2021	25/32
Andrew Bailey	Ex-Officio	20 February 2013	31 March 2018	32/32
Sir Jon Cunliffe	Ex-Officio	1 November 2013	31 October 2018	22/32
Martin Wheatley[43]	Ex-Officio	20 February 2013	–	21/32
Iain Cornish	Appointed NED	20 February 2013	Resigned 31 March 2015	29/32
Sandy Boss	Appointed NED	1 September 2014	31 August 2017	14/19
Nick Prettejohn	Appointed NED	10 June 2013	Resigned 5 March 2014	0/0
Charles Randell	Appointed NED	20 February 2013	19 February 2017	30/32
Minouche Shafik	Appointed Bank	1 September 2014	31 July 2019	16/19
Mark Yallop	Appointed NED	1 December 2014	30 November 2017	10/10
Rosalind Gilmore	Appointed NED	20 February 2013	Resigned 30 September 2014	14/17

Notes: Since the year end, Iain Cornish has resigned from the Board and David Belsham has joined, as a non-executive.

Board members have declared the following interests, and where these may involve potential conflicts these have been noted and approved by the Board:

Mr Cornish

Non-executive Director of Arrow Global plc

Non-executive Director of:

- St James's Place UK plc (Senior Independent Director and Chair of Risk Committee)
- St James's Place Wealth Management plc
- St James's Place Unit Trust Group Ltd

Mr Randell

Non-executive Director and (from 1 May) Chair of Audit and Risk Committee, Department for Energy and Climate Change

Visiting Fellow in Financial Services Regulation at Queen Mary University of London

Former Partner of Slaughter and May (capital account in course of repayment)

Mr Yallop

Director of Baltic Wharf Limited

Director of Dartmouth Ventures Ltd

Director of Centre for Social Justice (also Chair Audit and Risk Committee)

Partner of TQ9 Partnership LLP

Dart Marine Surveyors & Consultants Ltd (presently dormant company)

43 In line with para 5 of Schedule 1ZB of FSMA, Mr Wheatley does not attend meetings that are convened solely to discuss or take decisions about a particular institution or person.

In addition to statutory functions such as rulemaking, the Board has reserved to itself the making of key decisions in relation to the most significant regulated firms. Matters reserved to the Board include: regulatory policy, strategy and management, recommending the PRA budget to Court and risk management. Other decisions are delegated to the Executive and its committee structure.

Board effectiveness

During the year the Chairman of the Bank's Court reviewed PRA Board effectiveness, based on a targeted survey and discussions with individual members. Overall, the Board was seen to be working well. Three main areas for improvement were identified as: the measurement of the PRA's performance against objectives; talent management and succession planning; and the volume of material on Board agendas. The review was discussed at an extended Board meeting in December, where measures to provide Board members with better information on major projects and to make better use of Board meetings were agreed.

Regulatory functions and decision-taking

The Board is independently responsible for delivering the PRA's statutory objectives. The PRA pursues its objectives by making policies and rules, supervising authorised firms, giving directions, issuing guidance and carrying out other legislative functions and in doing so acts through its Board. The Board (consulting Court) also sets the *PRA's Strategy* (see page 20). The Board has delegated some other matters to the PRA's Chief Executive, but has reserved to itself key regulatory decisions relating to the most significant firms.

The Board is supported by a Supervisory Oversight Function, the aim of which is to: assure senior management and the Board on the quality and effectiveness of supervision; promote continuous improvement through the findings and recommendations from its Supervisory Effectiveness Reviews; support supervision and respond to ad hoc requests to conduct reviews; and provide a portfolio-wide view on supervision risk. The Supervisory Oversight Function fulfils this role in a number of ways: by conducting a rolling programme of Supervisory Effectiveness Reviews; high-level analysis of supervisory risk management information; and conducting initial assessments of any potential regulatory failures.

Accountability

The PRA is required under FSMA to be accountable to stakeholders including the public and practitioners. The PRA consults the public before making rules. Consultation with PRA-authorised persons on general policies and practices is carried out in part through a panel of persons established and maintained by the PRA (the PRA Practitioner Panel) to represent the interests of practitioners. Details of the panel can be found on the Bank's website.[44]

Management

The PRA's management, personnel, budgetary and financial infrastructure is integrated with the Bank's: the PRA's staff are Bank employees; and common services are provided centrally by the Bank. The PRA's budget is subject to the approval of the Bank's Court, and the Bank has reserved to itself the right to determine remuneration policies, significant changes in the management structure, the most senior appointments, and codes of conduct for staff and Directors. The Bank's Remuneration Committee advises, and the Court or (as appropriate) its Oversight Committee determine, the remuneration of the ex officio and the appointed directors of the PRA. The PRA Board receives regular information from the Bank functions on which it relies, including in particular IT, Finance, Internal Audit, and HR.

Risk management

The PRA participates in the Bank's risk management framework. The Bank's Court is responsible for the risk management and internal control systems across the Bank and its subsidiaries. The Bank's risk framework includes risk standards to define the organisation's tolerance of risk and an incident monitoring system. It is an overarching framework to achieve consistency and transparency in risk management across the Bank and its subsidiaries; it identifies key parties and their roles and responsibilities and risk management policies; it considers strategic risks, financial risks to the Bank's balance sheet and operational risks caused by weaknesses in processes, systems, or through staff and third-party activities.[45]

The PRA Board has put in place robust reporting systems and controls to identify, evaluate and manage risks to the PRA's objectives. The PRA's specific reporting systems and controls include identifying external developments affecting the resilience of regulated institutions as a whole, including the economic environment; competitive pressures and legislative developments in the United Kingdom and internationally; risks arising from interaction with other macroprudential and microprudential regulators, including the FPC, the FCA and international agencies; and risks to the Board's regulatory strategy arising from the regulatory process, the quality of supervision, resource constraints and other operational factors.

44 www.bankofengland.co.uk/publications/Documents/annualreport/2015/pra-links.pdf

45 For further information on the Bank's risk management framework and risk governance, see the Bank's *Annual Report*.

The Board's appetite for risk is ultimately determined by the statutory objectives of the PRA and is set out in the *PRA's Strategy* (on page 20 of this report) and Approach documents. The PRA has developed a structured process for monitoring risks to these objectives, and the assessment is approved by the Board before being shared with the Bank's risk committees, including Court's Audit and Risk Committee (ARCo), which Board members attend. The PRA's proactive intervention framework captures the PRA's judgement about the risk of failure of each individual firm and the Board routinely considers the supervisory strategies (including resolution plans) for those judged to be most at risk and thus for those firms with the highest combined probability and impact of failure.

Systems and Controls

ARCo assists Court in meeting its responsibilities for an effective system of financial reporting, internal control and risk management. It is responsible for reviewing the findings of internal and external auditors. It is supported by the Bank's internal audit function. The Board participates in ARCo, which is attended by Board members, and in which the PRA's performance and risk profile can be reviewed alongside other parts of the Bank. ARCo also acts as an interface with the National Audit Office, in their role of conducting the audit of the PRA on behalf of the Comptroller and Auditor General.

ARCo makes an annual report on its activities, which is reported in the Bank's *Annual Report*. The PRA is within the scope of the Bank's internal audit function. The Board is consulted on the annual internal audit plan before it is finalised, receives copies of internal audit reports relating to the PRA and meets with the Head of Internal Audit on a quarterly basis.

Board remuneration

The PRA Board is appointed under statute and is the governing body of the PRA. Remuneration of appointed members of the Board is determined by the Bank's Remuneration Committee. During the year they were paid at the rate of £102,326p.a. They received no medical or pension benefits, though the Bank reimburses travel and related expenses. As a Deputy Governor of the Bank, Mr Bailey is remunerated at a rate of £263,986p.a. Remuneration is paid by the Bank and the PRA pays consideration to the Bank for the directors' services received. The Bank recharged Mr Bailey's remuneration in full for the year to 28 February 2015. In addition, the Bank received consideration of £399,000 (2014: £295,000) for the services provided to the PRA by the Governor, Sir Jon Cunliffe and Minouche Shafik. Their full remuneration is reported in the Bank's *Annual Report*. Mr Wheatley receives no remuneration from the PRA.

Mr Bailey is a member of the Bank pension fund, but no longer receives pension contributions from the Bank. Included in Mr Bailey's benefits is a 30% salary supplement in lieu of pension contribution.

During the year it was identified that certain 2013/14 taxable expenses had been classified as business expenses rather than taxable amounts, and therefore not disclosed in the Remuneration table (on page 57). The prior year non-executive expenses have been restated from nil to £27,251 and are gross of relevant tax liabilities.

Board members leaving the PRA are bound by the terms of their contract to accept no new employment that would conflict with their PRA responsibilities for a period of three months, and their fee continues to be paid for that period.

Table 5: PRA Board remuneration (audited)

	Mr A J Bailey		Mr Cornish		Mr Prettejohn		Mrs Gilmore	
	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14
Base salary	263,986	253,127	102,326	77,520	26,762	56,152	85,272	77,520
Salary and fees	**263,986**	**253,127**	102,326	**77,520**	**26,762**	**56,152**	**85,272**	**77,520**
Taxable benefits	**2,791**	**11,356**	**37,750**	**25,495**	**–**	**1,731**	**51**	**25**
Payment in lieu of pension	79,196	75,938	–	–	–	–	–	–
Pension benefits	**79,196**	**75,938**	**–**	**–**	**–**	**–**	**–**	**–**
Total single figure of remuneration	**345,973**	**340,421**	**140,076**	**103,015**	**26,762**	**57,883**	**85,323**	**77,545**

	Mr Randell		Ms Boss		Mr Yallop	
	2014/15	2013/14	2014/15	2013/14	2014/15	2013/14
Base salary	102,326	77,520	51,163	–	25,582	–
Salary and fees	**102,326**	**77,520**	**51,163**	**–**	**25,582**	**–**
Taxable benefits	**–**	**–**	**–**	**–**	**–**	**–**
Payment in lieu of pension	–	–	–	–	–	–
Pension benefits	**–**	**–**	**–**	**–**	**–**	**–**
Total single figure of remuneration	**102,326**	**77,520**	**51,163**	**–**	**25,582**	**–**

Indemnities

Members of the PRA Board have been indemnified by the Bank against any personal civil liability arising from the carrying out or purported carrying out of their functions, provided they have acted honestly and in good faith and have not acted recklessly. In addition, under FSMA the PRA and persons acting as members, officers and members of staff of the PRA have immunity from liability in damages.

Other disclosures

HM Treasury

HM Treasury has made a direction under paragraph 22 of Schedule 1ZB of FSMA requiring the PRA to disclose the following:

Fair pay (audited)

The banded remuneration of the highest-paid Director (base salary plus benefits excluding payment in lieu of pension) in the financial year 2015 was £266,777 (2014; £270,165) (salary of £263,986 (2014; £258,809) as at 28 February 2015 plus non-pension related benefits of £2,791 (2014; £11,356)). This was 3.95 times (2014; 3.68 times) the median remuneration of the workforce, which was £67,952 (2014; £73,448). During 2015, no employees received remuneration in excess of the highest-paid Director. Remuneration[46] ranged from £18,578 to £266,777 (2014; £16,900 to £270,165).

Exit packages (audited)

There have been no compulsory redundancies during the year.

There were four other exit packages agreed during the year, in the ranges set out below:

£0–10,000 – 1
£10,001–20,000 – 1
£20,001–30,000 – 1
£30,001–40,000 – 1

Environment, Employees and Health and Safety

The Environment

In addition to health and safety, the Bank's Safety, Health and Environment (SHE) Committee monitors the impact of the Bank's operations on the environment. By managing waste production/disposal and reducing energy usage through better power efficiency, the Bank is able to minimise its impact on the environment.

The Carbon Reduction Commitment (CRC) is a mandatory scheme aimed at improving energy efficiency and cutting emissions in large public and private sector organisations. The scheme features a range of reputational and financial drivers to encourage organisations to develop energy management strategies. The Bank is required to declare carbon emissions and to purchase allowances equivalent to those emissions.

The Bank submits an annual report to the Environment Agency who administers the scheme stating its usage figures for both gas and electricity usage in kilowatt hours. Utilising conversion factors supplied by CRC the readings for both gas and electricity are converted in to Carbon Dioxide emissions in tonnes (tCO_2). The CRC levy a charge against a participant based on the number of tonnes produced.

Figures for CO_2 emissions declared via the CRC scheme for 2013–14 were 23,425 tCO_2, 300 tonnes less than the previous year, a further reduction of 784 tCO_2 was realised in 2014/15 following a number of energy saving initiatives. The continued reduction in energy consumption also saw a further reduction in the displayed energy certificate rating.

More than 98%, or 1,285 tonnes, of waste generated by the Bank is recycled or reused. Over a third of this waste is utilised in the production of power through the burning of the waste material at an award winning 'Energy from Waste' facility. The Bank's main publications, including this *Annual Report*, are printed on paper which contains 75% post-consumer recycled fibre and 25% virgin fibre sourced from well-managed, responsible, Forest Stewardship Council® certified forests, and is certified as a FSC® mixed sources product.

Employee involvement

Details of employee involvement can be found in the Bank's *Annual Report*.

Employment of people with disabilities

Details of employment of people with disabilities can be found in the Bank's *Annual Report*.

Health and Safety

The Bank manages health, safety and risk as a priority. Through its safety management system the Bank delivers a safe working environment and promotes and maintains a positive health and safety culture. Health and safety issues and incidents are monitored by the Bank's SHE Committee which reports annually to Court.

46 Total remuneration includes salary, non-consolidated performance-related pay and benefits-in-kind. It does not include severance payments, employer pension contributions and the cash equivalent transfer value of pensions.

Disclosure of information to the Auditor

The Directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the PRA's Auditor is unaware; and each Director has taken all the steps that he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the PRA's Auditor is aware of that information.

Statement of Directors' responsibilities in respect of the Directors' Report and the financial statements

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations and with any accounts direction given by HM Treasury. Company law requires the Directors to prepare financial statements for each financial period, and they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and applicable law. The Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the PRA and of the profit or loss of the PRA for the relevant period. In preparing these financial statements, the Directors are required to:

– select suitable accounting policies and then apply them consistently;
– make judgements and estimates that are reasonable and prudent;
– state whether they have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and applicable law;
– prepare the financial statements on a going concern basis unless it is inappropriate to presume that the PRA will continue in business; and
– observe the accounts direction issued by HM Treasury including the relevant accounts and disclosure requirements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the PRA's transactions and disclose with reasonable accuracy at any time the financial position of the PRA and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the PRA and to prevent and detect fraud and other irregularities.

Assessment of going concern

The Directors have made an assessment of going concern and it is their opinion that the PRA will be able to adequately manage any possible future funding requirements, and has sufficient resources to continue its business for the foreseeable future. The Directors therefore conclude that using the going concern basis is appropriate in preparing its financial statements.

The Bank of England has proposed to the Government that the PRA become an authority within the Bank, operating as a part of the Bank. Should this proposed change be approved through the Bank of England Bill announced in the Queen's Speech on 27th May 2015, the PRA would cease to become a separate legal entity. It is the Directors' view that this potential change does not impact the going concern assessment.

Auditor

Under provisions of FSMA, the Comptroller and Auditor General is responsible for auditing the PRA's accounts.

Financial Review of 2014/15

Operating costs for 2015 of £236m, compared to £193m in 2014 (eleven-month operating period) were broadly in line with the budget of £238m, with modest underspend on staff costs.

The increase from 2014 across all areas is primarily attributable to:

- a full year of operations (2014 covered an eleven-month period commencing 1 April 2013);
- closure of prior year resourcing gaps and expansion of the PRA's activities; and
- investment in systems.

Specific initiatives that drove year-on-year operating cost increases include:

- implementation of the Solvency II Directive;
- policy development, notably in relation to PCBS recommendations, which highlighted four main areas for reform including individual responsibility, governance, competition and the responsibilities of regulators;
- implementation of concurrent stress testing of the UK banking system and stabilisation of resourcing levels across Supervisory Risk Specialists; and
- development of new or improved systems to support the expansion of the regulatory regime and enhancements to information security across the Bank.

Table 6: PRA expenditure by function:

	2015 £m (12 month operating period)	2014 £m (11 month operating period)
UK Deposit-Takers Supervision	40	37
International Banks Supervision	19	17
Insurance Supervision	57	49
Prudential Policy	33	23
Supervisory Risk Specialists	40	31
Regulatory Operations	47	36
Operating costs*	**236**	**193**
Transition costs	–	9
Total expenditure	**236**	**202**

*Of total operating costs, £6m (2014: £11m) related to special projects. The PRA commenced operations in April 2013 following legal cutover, and therefore 2014 represents eleven months of activity.

The PRA's budget for 2016 is £255m, including special project fees of £13m. The planned year-on-year increase is predominantly required for:

- the one-off cost uplift arising from the harmonisation of staff terms and conditions across the Bank; and
- the additional resource requirement to deliver specific new policy initiatives, including:
  - implementation of the PCBS recommendations through the SMR and SIMR;
  - continued implementation of the Solvency II Directive;
  - implementation of the CRD IV for banks, building societies and designated investment firms;
  - implementation of Banking Structural Reform (also known as 'ring-fencing'); and
  - evolution of the framework to undertake regular stress testing of the UK banking system to assess capital adequacy of the most systemic firms in line with FPC recommendations.

Income

Total income for the year, reflecting the level of expenditure incurred, was £236m (2014: £202m), and comprised:

- fee income for 2015 of £227m (2014: £190m) representing the Annual Funding Requirement (AFR) levied and collected from regulated firms of £230m (2014: £201m) less £3m (2014: £20m) of levy in excess of expenditure which will be refunded to fee-payers in 2016;
- Solvency II income of £6m (2014: £10m) representing the Solvency II Special Project Fees levied and collected from regulated firms of £13m (2014: £14m), less amounts retained for capital expenditure during the year of £4m (2014: reduction of £1m), and fees in excess of expenditure of £3m (2014: £3m) to be refunded to fee-payers in 2016; and
- other income of £1m which is made up of other smaller special project fees, interest on deposits and authorisation fees; and
- financial enforcement fee income of £1.4m (2014: nil).

Balance sheet

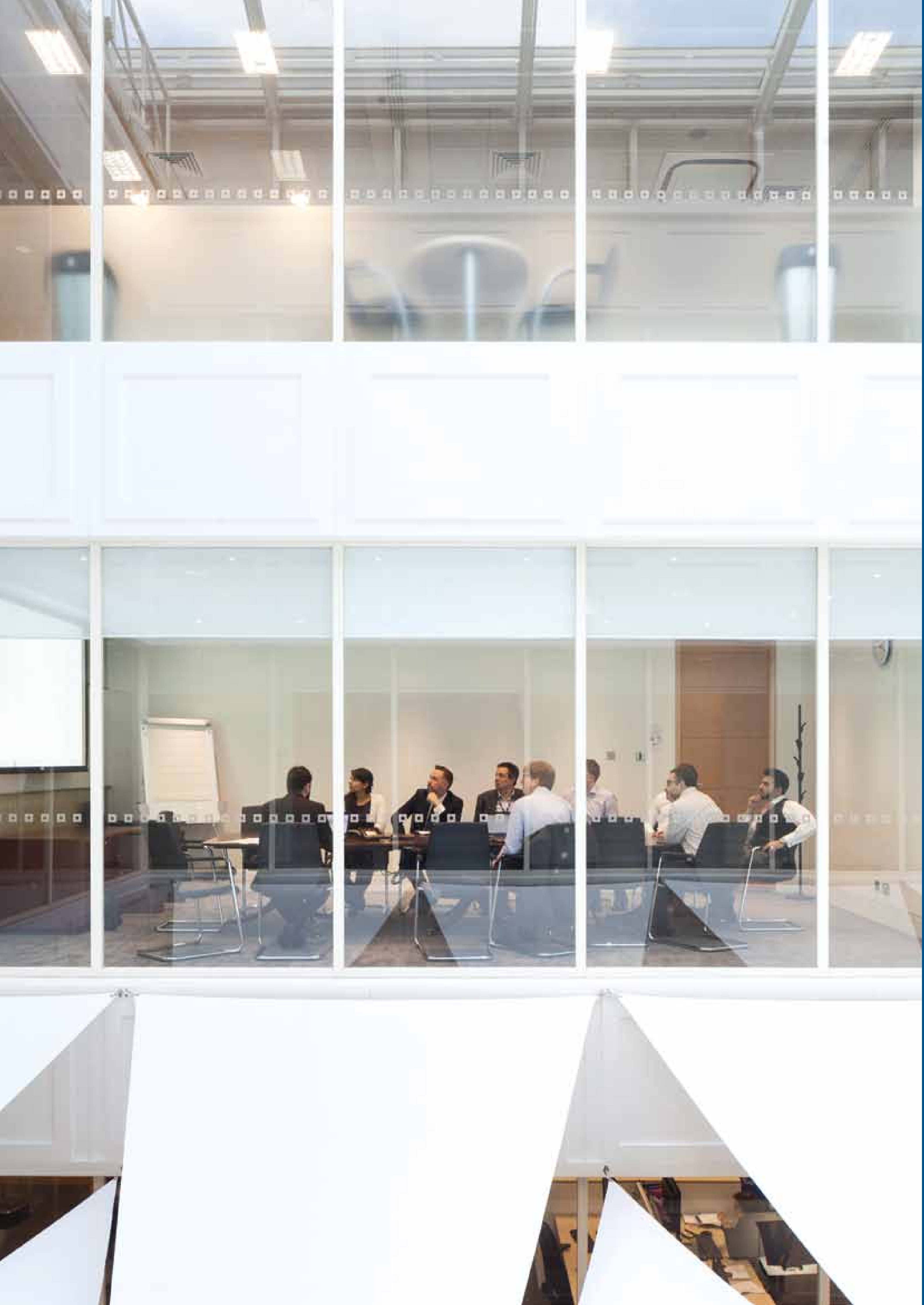
Total assets at 28 February 2015 were £84m (2014: £102m). Assets include current and non-current transition costs receivable from fee-payers of £45m (2014: £59m), cash of £23m (2014: £18m) and intangible assets of £16m (2014: £16m). All fixed assets were transferred to the Bank during the year (2014: £9m), with the Bank assuming central stewardship of these items. This transfer and the repayment of transition costs to the Bank account for the year-on-year reduction in the balance sheet.

Liabilities include enforcement fines collected in the year of £14m, of which £12.6m is payable to HM Treasury and the remaining £1.4m to fee-payers. Levy income to be refunded is £3m (2014: £20m) in relation to the AFR and £3m (2014: £3m) in relation to Solvency II special project levies. An amount of £59m (2014: £78m) is due to the Bank, of which £45m (2014: £59m) relates to transition costs and £14m (2014: £19m) to corporate services recharges.

By order of the Board

Mr M J Carney
Chairman

10 June 2015



The Certificate and Report of the Comptroller and Auditor General to the Houses of Parliament

I certify that I have audited the financial statements of the Prudential Regulation Authority for the year ended 28 February 2015 under the Financial Services and Markets Act 2000. The financial statements comprise the Statement of Comprehensive Income, Statement of Changes in Equity, Statement of Financial Position, Statement of Cash Flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards as adopted by the European Union. I have also audited the information in the remuneration section of the Directors' Report that is described in that report as having been audited.

Respective responsibilities of the directors and the auditor

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Financial Services and Markets Act 2000. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Overview, PRA Strategic Report and Directors' Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on regularity

In my opinion, in all material respects the expenditure and income recorded in the financial statements have been applied to the purposes intended by Parliament and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- the financial statements give a true and fair view of the state of the Company's affairs as at 28 February 2015 and of its result for the year then ended;
- the financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by European Union; and
- the financial statements have been prepared in accordance with the Companies Act 2006 and HM Treasury directions issued under the Financial Services and Markets Act 2000.

Emphasis of Matter

Without qualifying my opinion, I draw attention to page 59 of the Annual Report concerning the application of the going concern basis in light of the Bank of England's proposals to merge the functions and expertise of the Prudential Regulation Authority with the Bank, through the enactment of the Bank of England Bill announced in the 2015 Queen's Speech. There is therefore uncertainty over the Prudential Regulation Authority's ability to continue to operate in its current legal form.

Opinion on other matters

In my opinion:

- the part of the Directors' Report to be audited has been properly prepared in accordance with HM Treasury directions issued under the Financial Services and Markets Act 2000; and
- the information given in the Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept or returns adequate for my audit have not been received from branches not visited by my staff; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- I have not received all of the information and explanations I require for my audit.

Report

I have no observations to make on these financial statements.

Sir Amyas C E Morse
Comptroller and Auditor General

11 June 2015

National Audit Office
157–197 Buckingham Palace Road
Victoria
London SW1W 9SP

Statement of comprehensive income
for the year to 28 February 2015

	Note	2015 £000 (12 month operating period)	2014 £000 (11 month operating period)
Income			
Fee income	4	227,136	189,998
Enforcement fine income	7	1,355	–
Income on bank deposits	11	421	339
Other income	5	6,937	12,205
Total income		**235,849**	**202,542**
Expenses			
Administrative costs	6	(235,760)	(193,249)
Other expenses	8	–	(9,215)
Total expenses		**(235,760)**	**(202,464)**
Surplus before taxation		**89**	**78**
Taxation	11	(89)	(78)
Surplus after taxation		**–**	**–**

The PRA commenced operations in April 2013 following legal cutover, and therefore 2014 represents eleven months of activity.

The notes on pages 70 to 85 are an integral part of these financial statements.

Statement of changes in equity
for the year to 28 February 2015

There were no changes in equity during the period. The entire capital comprising 1 ordinary share of £1 was issued, and fully paid by the Governor and Company of the Bank of England on 21 November 2011.

The notes on pages 70 to 85 are an integral part of these financial statements.

Statement of financial position
as at 28 February 2015

	Note	2015 £000	2014 £000
Assets			
Current assets			
Cash and cash equivalents	12	22,631	17,864
Trade and other receivables	13	15,690	15,293
		38,321	33,157
Non-current assets			
Property, plant and equipment	15	–	8,617
Intangibles	16	15,939	15,948
Trade and other receivables	14	29,502	44,253
		45,441	68,818
Total assets		**83,762**	**101,975**
Liabilities			
Current liabilities			
Trade and other payables	17	54,260	57,718
		54,260	57,718
Non-current liabilities			
Trade and other payables	18	29,502	44,257
		29,502	44,257
Total liabilities		**83,762**	**101,975**
Equity	20	–	–
Total liabilities and equity		**83,762**	**101,975**

The financial statements were approved by the board on 10 June 2015 and signed on its behalf by:
Mr M Carney Chairman
Sir Jon Cunliffe Director

Company Number: 07854923

Except as provided by section 22 (1) of Schedule 1ZB of FSMA, the PRA is exempt from the requirements of Part 16 of the Companies Act 2006.

The notes on pages 70 to 85 are an integral part of these financial statements.

Statement of cash flows
for the year to 28 February 2015

	Note	2015 £000 (12 month operating period)	2014 £000 (11 month operating period)
Surplus for the year from operations		–	–
Adjustments for:			
Interest received on bank deposits		(421)	(339)
Amortisation of other intangible assets	16	3,509	2,741
Impairment loss on intangible assets	16	869	685
Depreciation of property, plant and equipment	15	2,570	2,329
Impairment loss on tangible assets	15	262	–
Decrease/(increase) in receivables	13, 14	14,354	5,176
(Decrease)/Increase in payables	17, 18	(18,213)	37,253
Other non cash items		5,679	(538)
Net cash from operating activities		**8,609**	**47,307**
Investing activities			
Interest received on bank deposits		421	339
Expenditure on software development	16	(4,234)	(18,865)
Purchases of property, plant and equipment	15	(29)	(10,917)
Net cash used in investing activities		**(3,842)**	**(29,443)**
Net increase/(decrease) in cash and cash equivalents	**12**	**4,767**	**17,864**
Cash and cash equivalents at 1 March	12	17,864	–
Cash and cash equivalents at 28 February	**12**	**22,631**	**17,864**

The notes on pages 70 to 85 are an integral part of these financial statements.

Notes to the financial statements

1 Basis of preparation

Form of presentation of the financial statements

The financial statements comprise the statement of comprehensive income, the statement of financial position, the statement of cash flows, statement of changes in equity and related notes.

The Prudential Regulatory Authority's (PRA) financial statements have been prepared in accordance with the requirements of International Financial Reporting Standards and interpretations of the International Financial Reporting Interpretations Committee as adopted by the EU (together, 'adopted IFRS'). The financial statements have been prepared on a going-concern basis (see *Directors' Report* for the Directors' assessment of going concern), under the historical cost convention and in accordance with Companies Act 2006, with the exception of the requirements of paragraph 16, and applicable accounting standards and in accordance with Accounts Direction given by HM Treasury under Paragraph 22(1) of schedule 1ZB to the Financial Services and Markets Act 2000.

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been applied consistently to all the years presented unless otherwise stated.

2 Accounting policies

a Functional and presentational currency

The financial statements are presented in sterling, which is the PRA's functional and presentational currency.

b New and amended standards

The PRA has considered the potential effect of forthcoming EU endorsed standards which have not been adopted in the financial statements; none of these is expected to materially impact the PRA.

c Property, plant and equipment

Tangible assets were transferred from the PRA to the Bank of England on 28 February 2015. These assets included fixtures and fittings and hardware relating to projects, with the Bank assuming central stewardship of these items. Assets will be made available to the PRA by the Bank and a usage charge will be levied.

d Intangible assets

Intangible assets primarily consist of computer software and the costs associated with the development of software for internal use. Costs associated with maintaining software programs are recognised an as expense when incurred. Intangible assets are tested for impairment at each reporting date.

i Initial recognition

Costs directly associated with the internal production of unique and separately identifiable software products, which are controlled by the PRA and which will probably generate economic benefits exceeding those costs, and externally purchased software which is controlled by the PRA, are recognised as intangible assets.

ii Subsequent valuation

Subsequent costs are added to an asset's carrying amount or are recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the PRA and the cost of the item can be reliably measured.

All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

iii Amortisation

Intangible assets are amortised over the expected useful lives of the software, ranging from three to five years, determined on a case by case basis.

iv Impairment

Intangible assets are tested for impairment at each balance sheet date. Intangible assets are also subject to an impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

e Financial assets

Financial assets are receivables from counterparties. They are recognised initially at fair value, which is deemed to be not materially different to amortised cost due to the low value and short maturity. Fair value is therefore used at the reporting date. Appropriate allowances for estimated irrecoverable amounts are recognised in the statement of comprehensive income when there is objective evidence that the asset is impaired. The amount of loss is measured as the difference between the asset's carrying value and the present value of the estimated future cash flows.

Transition costs

In the two years prior to legal cutover the Bank of England incurred costs in relation to setting up and preparing the PRA for its responsibilities. These were charged to the PRA in the years ending 28 February 2013 and 28 February 2014, and recognised in those years. The Board agreed to recover the costs from fee-payers over a five year period commencing 2013. An amount receivable from fee-payers, and a corresponding amount payable to the Bank of England, have been recognised on the balance sheet.

f Financial liabilities

Financial liabilities are recognised initially at fair value, which is deemed to be not materially different to amortised cost due to the low value and short maturity. Fair value is therefore used at the reporting date.

g Revenue recognition

Most revenue is receivable under the Financial Services and Markets Act 2000 (FSMA), as amended by the Financial Services Act 2012, and is measured at fair value and represents fees to which the PRA deemed it was entitled to in respect of the financial year.

Fee income

Fee income comprises levy fees collected from regulated firms through the Annual Funding Requirement (AFR) consultation process. This fee income is recognised net of any surplus against expenditure, in the statement of comprehensive income.

Any surplus or deficit against levy income in the year will be held as a payable or receivable on the balance sheet as the intention is to return any surplus or claim any deficit in the following financial year.

Special project fees

Special project fees income is recognised, as relevant expenditure is incurred through the income statement.

Solvency II special project fees

Solvency II special project fees are collected from fee-payers in anticipation of the total spending requirements in the year. Income is recognised through the income statement against cost incurred.

Fees collected which relate to capital and not revenue expenditure are deferred to the balance sheet and recognised as income in subsequent periods. This is applicable to both tangible assets which are held on the Bank of England balance sheet, and intangible assets held on the PRA balance sheet.

Enforcement fine income

Enforcement fines are recognised as revenue where they have been levied and received in the financial year. Where enforcement fines specific to a single case exceed its costs, the excess fines received can be used to cover expenditure on other cases in the current period. Any income received in excess of total enforcement expenditure in the current period is paid over to HM Treasury.

Interest income

Interest income is recognised on a straight line basis which approximates the effective interest method.

Notes to the financial statements continued

2 Accounting policies continued

Sundry income

Sundry income comprises fees for firms and individuals applying to become authorised on PRA regulated activities, and are recognised as incurred. It also includes late payment charges and other miscellaneous items.

h Reserves

The PRA will not hold any accumulated reserves as the intention is to return any surplus to fee-payers or collect any deficit from fee-payers in the subsequent financial year.

i Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition.

j Provisions

Provisions are recognised when the PRA has a present obligation, legal or constructive, as a result of a past event, where it is probable that an outflow of resources will be required to settle that obligation and the amount can be reliably estimated.

k Equity capital

The entire equity capital comprising one £1 ordinary share is held by the Governor and Company of the Bank of England.

l Taxation

Under the agreement with HM Revenue and Customs (HMRC), the fee paid by regulated institutions for regulatory purposes is not included within the charge to corporation tax, but net interest income on deposits and any other investment income is subject to corporation tax as a non-trade credit.

m Retirement benefit costs

Employees are members of either the FSA defined contribution scheme or the Bank of England defined benefit scheme. Company contributions to the defined contribution scheme are recognised in the period incurred.

The PRA is a participating employer in the Bank of England pension fund. Within the recharge of staff costs from the Bank of England is a charge for pension costs. These are disclosed with the pension contributions charge for the year, with the rate being the service cost charged on by the Bank.

Further details of the Bank of England pension fund are reported in the *Bank of England Annual Report and Accounts*.

n Property costs

Office space is provided to the PRA by the Bank of England. Floor space recharges based on occupancy and building management charges are transferred to the PRA by the Bank of England.

o Cost recoveries

Costs in relation to section 166 FSMA reports are fully recovered directly from the specific entities under review. The recovery of these costs is matched directly to the costs incurred in the income statement within expenditure.

3 Significant accounting estimates and judgements in applying accounting policies

The PRA makes estimates and assumptions that affect the reported amounts of assets within the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a Intangible assets

Management has made judgements when capitalising intangible assets. Various costs incurred in the production of an internal project are capitalised if a number of criteria are met. Management has made judgements and assumptions when assessing whether a project meets these criteria and when measuring the costs and economic life attributable to such projects.

b Staff costs

Staff working in the PRA are employed by the Bank of England and the PRA is recharged the costs monthly. In substance this arrangement reflects that employees are PRA staff members, and as such full staff cost and number disclosures have been made.

c Levy income

Any surplus or deficit of expenditure against levy income will be recognised on the balance sheet. It is the intention of the PRA to return any such surplus or deficit to fee-payers in the subsequent financial year, and therefore management have determined that these amounts should be recognised on the balance sheet and not through reserves.

d Deferred income – capital

Special project fees collected in respect of capital expenditure are recognised as deferred income on the balance sheet. Income is subsequently recognised in the income statement as the assets are depreciated or amortised.

Where assets linked to special projects are tangible, they are held on the Bank of England balance sheet. Management have determined it appropriate to hold this deferred income and recognise revenue as the PRA is charged for the use of these assets through the corporate services fee.

4 Fee income

	2015 £000 (12 month operating period)	2014 £000 (11 month operating period)
Fee income	227,136	180,783
Transition cost recoveries from fee-payers	–	9,215
Total	**227,136**	**189,998**

Costs related to the transition to the new regulatory framework were incurred by the Bank of England and charged to the PRA. These are recoverable from fee-payers over a five year period commencing 2013.

Transition costs incurred in 2014 relate to the period prior to legal cutover on 1 April 2013 along with further expenditure incurred post legal cutover as the transition continued during the year. These have been charged to the PRA by the Bank of England. No transition costs were incurred in the current year.

Notes to the financial statements continued

5 Other income

	2015 £000 (12 month operating period)	2014 £000 (11 month operating period)
Solvency II income	6,202	9,539
Special project fee income	224	1,528
Other sundry income	511	1,138
Total	**6,937**	**12,205**

Solvency II income is recognised to the extent of costs incurred during the year on Solvency II activity.

Special project fee income is recognised to match expenditure incurred on activity that has been designated as a special project, for which fees are raised separately.

Other sundry income related to Authorisation fees paid by firms and individuals is recognised in the income statement as incurred.

6 Administrative expenses

	Note	2015 £000 (12 month operating period)	2014 £000 (11 month operating period)
Staff costs	9	117,298	97,889
Corporate services fee[A]		94,753	59,374
Property costs		76	10,610
Professional and membership fees		15,213	11,892
Impairment of assets		1,131	685
Information technology costs		–	5,076
Amortisation of intangible assets		3,509	2,056
Depreciation of property, plant and equipment	15, 16	2,570	2,329
Travel and accommodation		1,936	1,964
Other administration and general expenses		2,563	1,374
Cost recoveries		(3,289)	–
Total		**235,760**	**193,249**

The current year represents a twelve-month operating period (2014: eleven-month operating period following legal cutover).

Included within administrative expenses is a corporate services fee charged by the Bank of England for provision of IT, finance, property and procurement and human resource services. This fee totalled £97.2m for the year of which £2.4m, relating to software development, was capitalised.

An impairment charge of £1.1m relating to assets transferred from the FCA at legal cutover was recorded through expenditure in the current year. This amount was recovered in full from the FCA during the year, and included within cost recoveries.

[A]The components of the corporate services fee are disclosed in the table below:

	2015 £000 (12 month operating period)	2014 £000 (11 month operating period)
Staff costs	49,818	44,594
Depreciation	3,537	1,311
Administration expenditure	2,291	1,128
Information technology costs	14,887	4,309
Professional fees	13,320	3,719
Property costs	10,900	1,174
Overhead allocation	–	3,139
Total	**94,753**	**59,374**

The Bank provides certain central and support services to the PRA, for which it charges a corporate services fee. During the year the Bank changed its methodology for recognition and subsequent recharging of expenses. As a result, costs which had previously been recognised directly in the PRA (notably certain property and IT items) were initially incurred in the Bank, and subsequently recharged, thereby driving an increase in the fee charged, with corresponding direct cost decreases.

On a comparable basis, and assuming a full twelve-month operating period (2014: eleven-months), the 2014 charge of £59m would have been approximately £84m. The year on year increase is attributable, inter alia, to IT investment and legal expenditure.

7 Enforcement fine income

	Note	2015 £000 (12 month operating period)	2014 £000 (11 month operating period)
Fines raised in the year		14,000	–
Fine receipts due to HM Treasury	17	(12,645)	–
Fine income recognised		**1,355**	**–**

One fine was issued and paid during the year. Pursuant to paragraph 28 (3) of Schedule 1ZB to FSMA, the PRA retained a portion of the fine income to the value of enforcement related expenditure incurred in the year. This is payable to fee-payers and held as a payable at the year end. The remaining balance was paid to HM Treasury on 31 March 2015.

Notes to the financial statements continued

8 Other expenses

	2015 £000 (12 month operating period)	2014 £000 (11 month operating period)
Transition costs charged by the Bank of England	–	9,215
Total	**–**	**9,215**

Costs related to the transition to the new regulatory framework were incurred by the Bank of England and charged to the PRA. These costs are recoverable from fee-payers.

9 Staff costs

	2015 £000 (12 month operating period)	2014 £000 (11 month operating period)
Wages and salaries	94,003	80,466
Social security costs	10,925	9,890
Pension and other post-retirement costs	12,377	8,052
Seconded staff recoveries	(7)	(519)
Total	**117,298**	**97,889**

All staff are employed by the Bank of England. Staff costs are recharged to the PRA on a monthly basis by the Bank of England.

Pension costs include £7.0m (2014: £6.3m) of contributions to the FSA defined contribution scheme. At 28 February 2015 no balance was outstanding.

Contributions to the Bank of England pension fund are made based on the cost of provision of the pension benefit to employees. The contribution made in the year to 28 February 2015 was £5.4m (2014: £1.8m). Full details regarding the Bank of England pension fund can be found in the *Bank of England Annual Report and Accounts 2015*.

Average staff numbers:
The average number of persons employed by the PRA during the year was made up as follows;

	2015 £000 (12 month operating period)	2014 £000 (11 month operating period)
Chief Executive and other members of the Executive Committee	20	13
Managers and Analysts	934	895
Other staff	153	130
Total	**1,107**	**1,038**

The number of staff employed by the Bank and working for the PRA at 28 February 2015 was 1,139, of which 1,028 were full-time staff and 111 were part-time.

Directors' emoluments
The Directors' remuneration is disclosed in the *Remuneration Report*.

10 Audit fees

	2015 £000 (12 month operating period)	2014 £000 (11 month operating period)
Audit fees for the PRA's audit		
Fees relating to current year	90	65
Fees relating to prior year	34	–
Total	**124**	**65**

No non-audit work was undertaken by the auditor.

Notes to the financial statements continued

11 Taxation

	2015 £000 (12 month operating period)	2014 £000 (11 month operating period)
Tax charge on investment income	89	78
Total tax charge on investment income	**89**	**78**

	2015 £000 (12 month operating period)	2014 £000 (11 month operating period)
Interest on cash deposits	421	339
Tax calculated at rate of 21.14% (2014: 23.08%)	89	78
Non-deductible expenses	–	–
Prior year items	–	–
Total tax charge for the period	**89**	**78**

Under the agreement with HM Revenue and Customs (HMRC), the fees paid by regulated institutions for regulatory purposes are not subject to corporation tax, but net interest income on deposits and any other investment income are subject to corporation tax as non-trade credits.

12 Cash and cash equivalents

	2015 £000	2014 £000
Cash balance held at the Bank of England	22,631	17,864
Total	**22,631**	**17,864**

13 Current trade and other receivables

	2015 £000	2014 £000
Fees receivable	541	542
Transition costs recoverable from fee-payers	15,149	14,751
Total	**15,690**	**15,293**

Transition costs are being recovered from fee-payers over a five year period commencing 2013. The transition fees £15.2m are recoverable within one year.

14 Non current trade and other receivables

	2015 £000	2014 £000
Transition costs recoverable from fee-payers	29,502	44,253
Total	**29,502**	**44,253**

15 Property, plant and equipment

	Computer equipment £000	Furniture and equipment £000	Total £000
For the period to 28 February 2015			
Cost or valuation			
At 1 March 2014	9,257	1,689	10,946
Additions	–	–	–
Impairment	(325)	–	(325)
Transfers out to Bank of England	(8,932)	(1,689)	(10,621)
At 28 February 2015	–	–	–
Accumulated depreciation			
At 1 March 2014	2,059	270	2,329
Charge for the year	2,253	317	2,570
Disposals/write-offs	(63)	–	(63)
Transfers out to Bank of England	(4,249)	(587)	(4,836)
At 28 February 2015	–	–	–
Net book value at 1 March 2014	7,198	1,419	8,617
Net book value at 28 February 2015	–	–	–

Notes to the financial statements continued

15 Property, plant and equipment continued

	Computer equipment £000	Furniture and equipment £000	Total £000
For the period to 28 February 2014			
Cost or valuation			
At 1 March 2013	–	–	–
Additions	189	121	310
Transfers in from Bank of England	6,769	861	7,630
Transfers in from FSA	2,299	707	3,006
At 28 February 2014	**9,257**	**1,689**	**10,946**
Accumulated depreciation			
At 1 March 2013	–	–	–
Charge for the year	2,059	270	2,329
At 28 February 2014	**2,059**	**270**	**2,329**
Net book value at 1 March 2013	–	–	–
Net book value at 28 February 2014	**7,198**	**1,419**	**8,617**

On 28 February 2015 the tangible assets held by the PRA were transferred to the Bank at carrying value. The costs related to tangible fixed assets used by the PRA will be recovered by the Bank from the PRA by means of a usage charge.

There are no assets held under finance leases. The fair value of assets is not materially different to the carrying value in the current year.

There were no additions purchased but not paid for at the balance sheet date (2014: £29,000 furniture and equipment).

16 Intangible assets

	Intangibles £000	Intangibles work in progress £000	Total £000
Cost			
At 1 March 2014	14,344	4,345	18,689
Transfers from WIP	4,345	(4,345)	–
Additions	1,165	3,204	4,369
Impairments	(1,077)	–	(1,077)
At 28 February 2015	**18,777**	**3,204**	**21,981**
Accumulated amortisation			
At 1 March 2014	2,741	–	2,741
Charge for the year	3,509	–	3,509
Impairments	(208)	–	(208)
At 28 February 2015	**6,042**	**–**	**6,042**
Net book value at 1 March 2014	11,603	4,345	15,948
Net book value at 28 February 2015	**12,735**	**3,204**	**15,939**

Notes to the financial statements continued

16 Intangible assets continued

	Intangibles £000	Intangibles work in progress £000	Total £000
Cost			
At 1 March 2013	–	–	–
Additions	–	4,345	4,345
Transfers in from FSA	15,029	–	15,029
Impairments	(685)	–	(685)
At 28 February 2014	**14,344**	**4,345**	**18,689**
Accumulated amortisation			
At 1 March 2013	–	–	–
Charge for the year	2,741	–	2,741
Disposals	–	–	–
At 28 February 2014	**2,741**	**–**	**2,741**
Net book value at 1 March 2013	–	–	–
Net book value at 28 February 2014	**11,603**	**4,345**	**15,948**

Intangible assets comprise software development to enable the PRA to fulfil its regulatory duties.

Included within additions is £644,000 (2014; £509,000) of intangible assets purchased but not paid for at the balance sheet date.

17 Current trade and other payables

	Note	2015 £000	2014 £000
Fees received in advance		3,479	20,260
Fees received in advance – Solvency II		2,808	2,770
Deferred income – Solvency II		4,888	746
Financial penalties received – payable to HM Treasury	7	12,645	–
Financial penalties received – payable to fee-payers	7	1,355	–
Amounts due to the Bank of England – transition costs		15,154	14,781
Amounts due to the Bank of England – management recharge		13,886	19,079
Other payables		45	82
Total		**54,260**	**57,718**

Amounts due to the Bank of England comprise transition cost recoveries payable within one year and recharged expenditure, staff costs and the corporate services fee.

Fees received in advance comprise fees collected in relation to the annual funding requirement and Solvency II, in excess of related expenditure.

In accordance with the PRA Financial Penalty Scheme, financial penalty monies received are payable to HM Treasury, where they are in excess of costs incurred in the year, with the remainder due to fee-payers.

18 Non-current trade and other payables

	2015 £000	2014 £000
Amounts due to the Bank of England – transition costs	29,502	44,257
Total	**29,502**	**44,257**

19 Government bodies' payables

	2015 £000	2014 £000
Other central government bodies	71,232	78,199
Bodies external to government	12,530	23,776
Total	**83,762**	**101,975**

Notes to the financial statements continued

20 Capital

The entire capital comprising of one authorised, issued and fully paid ordinary share of £1 is held by the Governor and Company of the Bank of England.

21 Financial risk

The PRA's principal financial assets are cash, together with fee and other receivables.

Credit risk

Credit risk is the risk of loss arising from the failure of counterparty to meet its financial obligations to the PRA. The credit risk that PRA faces arises when the PRA invoices counterparties from the financial services industry for the collection of regulatory fees.

The Bank of England monitors the credit risk exposures on behalf of the PRA and the collection of fees from counterparties. The PRA has a strong record of collecting fees with outstanding amounts at the year-end almost negligible.

Liquidity risk

Liquidity risk is the risk of encountering difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The PRA manages its liquidity risk by monitoring and forecasting the projected income and expenditure related to its day to day business. The PRA also has an overdraft facility in place with the Bank of England should the need for additional liquidity arise.

Interest rate risk

Interest rate risk is the risk of loss as a result of changes in absolute level of interest rates. The PRA is only exposed to interest rate risk on its cash deposits held with the Bank of England which are sensitive to variations in interest rates.

22 Losses and Special payments

There were no reportable losses or special payments in the year.

23 Related party transactions

The Bank of England

The Bank of England is the parent company of the PRA and provides central services and support functions to the PRA, for which it charges a corporate services fee on a monthly basis. As disclosed in Note 6 the basis for the corporate services fee was revised during 2015. During the period these fees totalled £97.2 (2014: £59.4m as corporate services fee and £10.6m as PRA property management costs).

At the year end, all of the tangible fixed assets in the PRA were transferred to the Bank of England at a carrying value of £5.8m.

All PRA staff are employed by the Bank of England. During the period staff cost recoveries of £117.3m (2014: £97.9m) were charged by the Bank to the PRA. Included in the staff cost recoveries are PRA contributions to the Bank of England pension fund of £5.4m (2014: £1.8m) on behalf of employees.

The Bank of England meets the cost of direct expenditure for the PRA and recharges the cost. In 2015 this totalled £22.0m (2014: £20.0m).

During the year the Bank of England incurred no costs (2014: £9.2m) in relation to the transition from the FSA to the PRA. The transition period ended in 2014 and no further costs are expected to be incurred in future years.

As at 28 February 2015 £44.7m (2014: £59.0m) of transition costs are due to the Bank of England. A further £13.9m (2014: 19.1m) is due to the Bank of England in respect of the management fee and other recharged costs.

HM Treasury

As part of the HM Treasury group the PRA is a related party to Royal Bank of Scotland, Lloyds Banking Group and the Financial Conduct Authority. The PRA received levy income from both Royal Bank of Scotland and Lloyds Banking Group in the year.

During the year the PRA fined Royal Bank of Scotland £14.0m in relation to an enforcement case. This was paid in full during the year.

As at 28 February 2015 a payable of £12.6m (2014: £0) is due to HM Treasury for fine income raised by the PRA in excess of enforcement costs incurred.

Financial Conduct Authority

The Financial Conduct Authority charges the PRA an administration fee relating to the invoicing and collection of fee and other income from levy payers. Charges for this service totalled £83,000 (2014: £83,000) in the year. The PRA is also charged for the shared use of some FCA software applications to support regulation. The total charge for this service was £7.5m (2014: £6.9m). The PRA had no amounts payable to the FCA (2014: £3,000) at the balance sheet date.

Key management

The Directors of the PRA are considered to be the only key personnel as defined by IAS 24. The Directors' remuneration is disclosed in the *Directors' Report* and in the *Bank of England's Annual Report*.

All transactions with related parties are entered into on an arm's length basis.

24 Ultimate parent company

The ultimate parent company of the PRA is HM Treasury.

25 Events after the balance sheet date

The changes to the PRA proposed by the Bank, discussed in the *Directors report* (page 59), could result in cessation of the PRA operating as a separate legal entity. As the conditions did not exist at the balance sheet date this is considered a non-adjusting event.

There were no further events that had a material effect on the accounts after the end of the reporting period.

26 Preparation of accounts

The accounts were approved for distribution on 11 June 2015.

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PRUDENTIAL REGULATION
AUTHORITY

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