Bank 1

9 November 2015

Dear Sirs,

We noted in your provisional findings report that you were seeking further input in respect of the potential barriers to market entry posed by regulatory capital requirements.

To this end, as a relatively new SME specialist challenger bank, our observations on this would be as follows:

- We feel that the lack of level-playing-field in terms of the regulatory capital requirements has been identified already in the report. In this regard, we would note in particular:
    - The regulatory capital requirements (the Individual Capital Guidance) from the PRA are quite high for new banks compared to those for more established banks
    - New banks with no historic data have to use the standardised risk weighting model for their assets, which is a material disadvantage compared to established banks who can use internal rating models. For example, the proposed 150% risk weighting for property development finance (and the amendments to this proposed in the Basel III risk weightings) will be damaging to new banks on the standardised model trying to compete with those using internal rating models where the risk weightings can be as low as 8%, by comparison.
- A number of regulatory requirements appear to be one-size-fits all, irrespective of the business being carried out by the bank in questions. Smaller banks tend to specialise in a more limited number of products and services and so have a different risk profile and customer management model to larger banks offering a wider range and more complex products and services. A number of regulatory requirements also appear to be drafted with investment banking only in mind, but are applied to banks generally, which have implementation costs for smaller banks although the risks they are seeking to address are not present (for example, the prescribed salary-based criteria for material risk-takers for the purposes of the certification regime and remuneration code implementation).