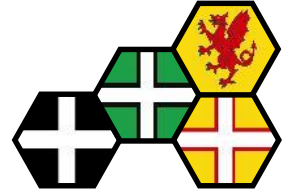


# South West Mutual

Regional banking for inclusive growth

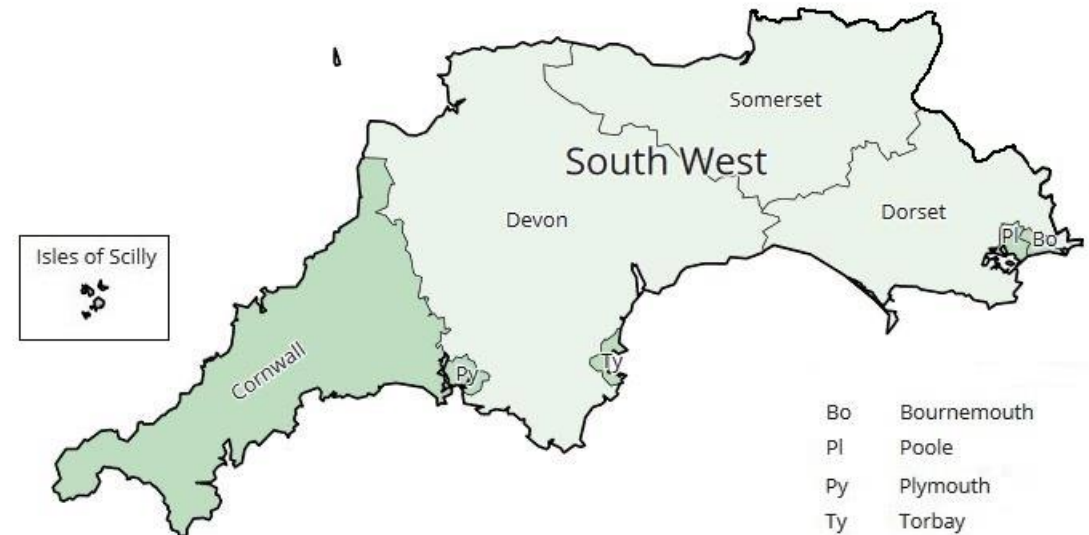


# Introducing South West Mutual

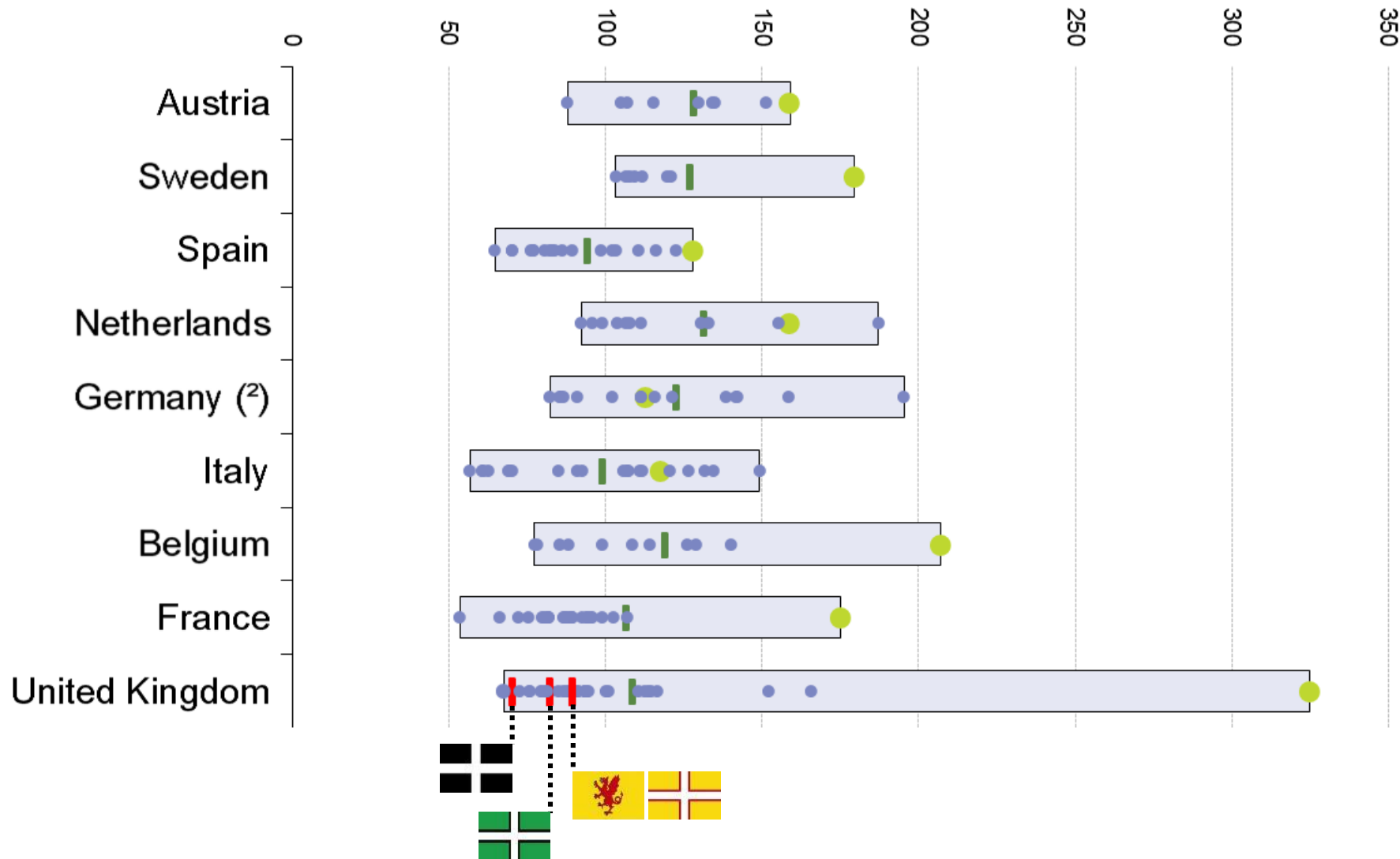


**Mission-led business promoting sustainable and equitable prosperity for the South West**

- First **customer-owned** full service bank
- **Financial inclusion** in the rules
- **SME and social enterprise** focus
- Multi-channel, committed to **branches** and **relationship banking**
- **Scale and efficiency** – part of the CSBA network
- **Financial strength:** Profits £15m pa / loan book £380m by year 9



# Helping tackle regional inequalities

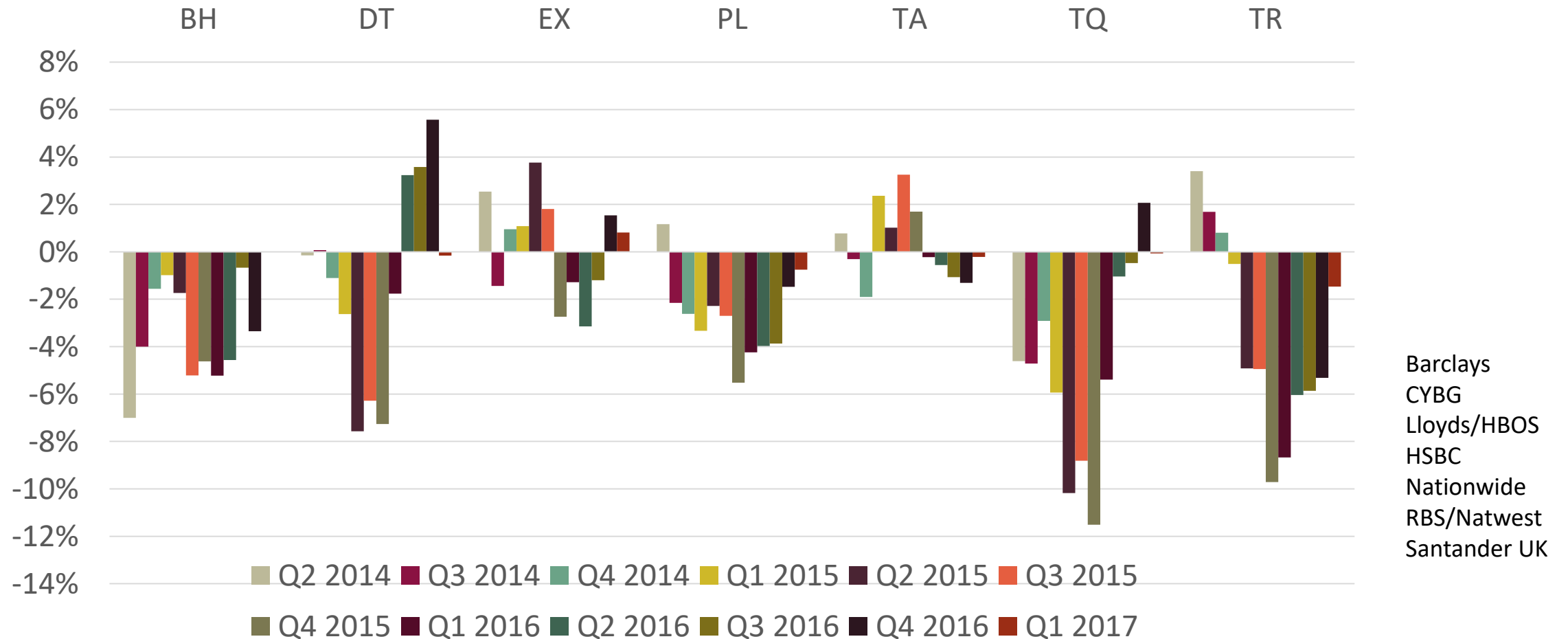


**SWM is an anchor institution**

**Supporting equitable and sustainable prosperity for the South West is our mission**

# SME finance is an ongoing issue

YoY change in total SME loans by postcode area



# Lending to the real economy where you live

SME deposits and loans in  
Devon districts

Deposits **£853m**

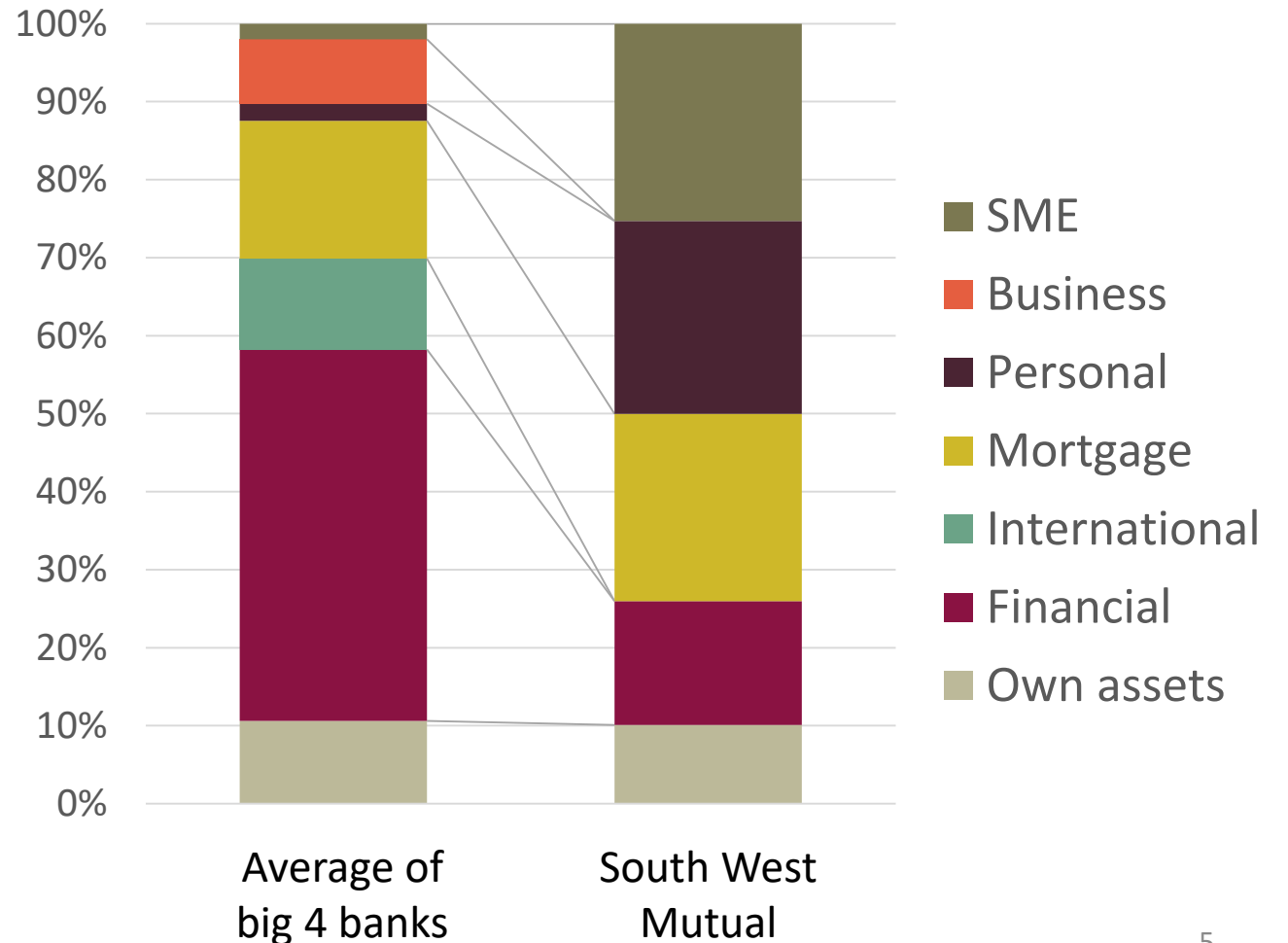
Loans **£462m**

Net outflow **£390m**



**SWM keeps money  
flowing within the  
region's economy**

*Real economy impact – SWM lending vs UK Big 4*



# Commitment to financial inclusion

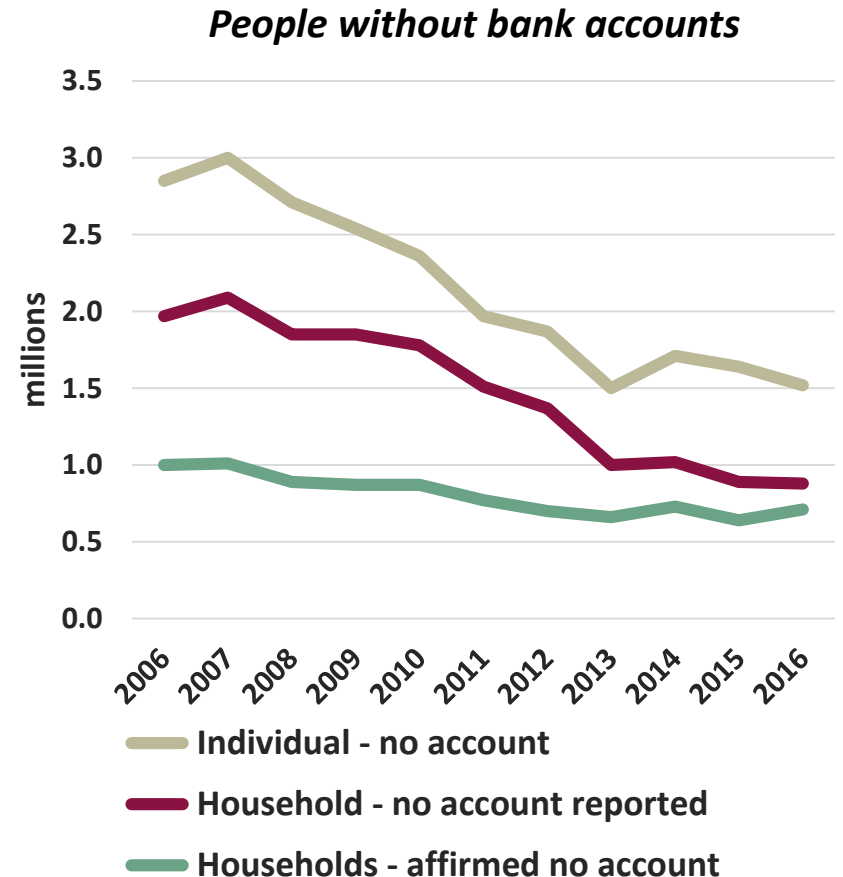
In Devon districts there are approximately\*:

- 21,000 individuals without bank account
- 106,000 non-users of the internet
- 33,000 entirely dependent on cash
- 46% uncomfortable using digital only banks
- £8 million poverty premium



**SWM will provide full current account to any resident**

*\*Source: Pro-rata on population of 642,000 adults , from HMT report on cash March 2018, and CHASM Financial Inclusion Report 2016*



Source: FINANCIAL INCLUSION  
ANNUAL MONITORING REPORT 2017

# Branches and local managers

- Losing 60 branches / 300 cash machines a month
- Branch access still important for many customers
  - eg trading businesses; some older/vulnerable people
- Evidence confirms 'soft information' is vital for safe local lending



- **SWM has Branch Directors and staff with decision making power**
- **We use modern technology to deliver a low-cost branch solution**

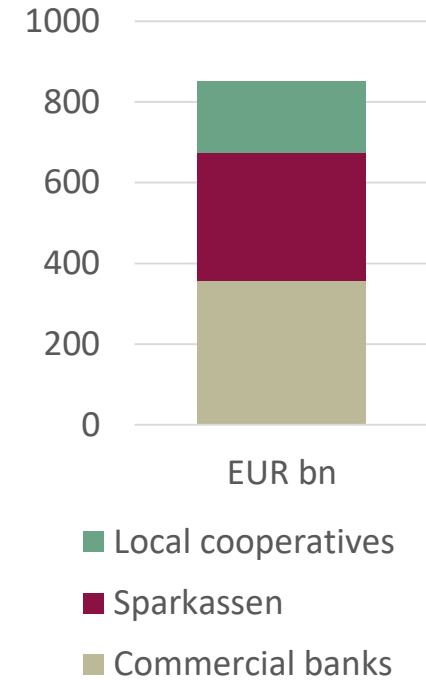
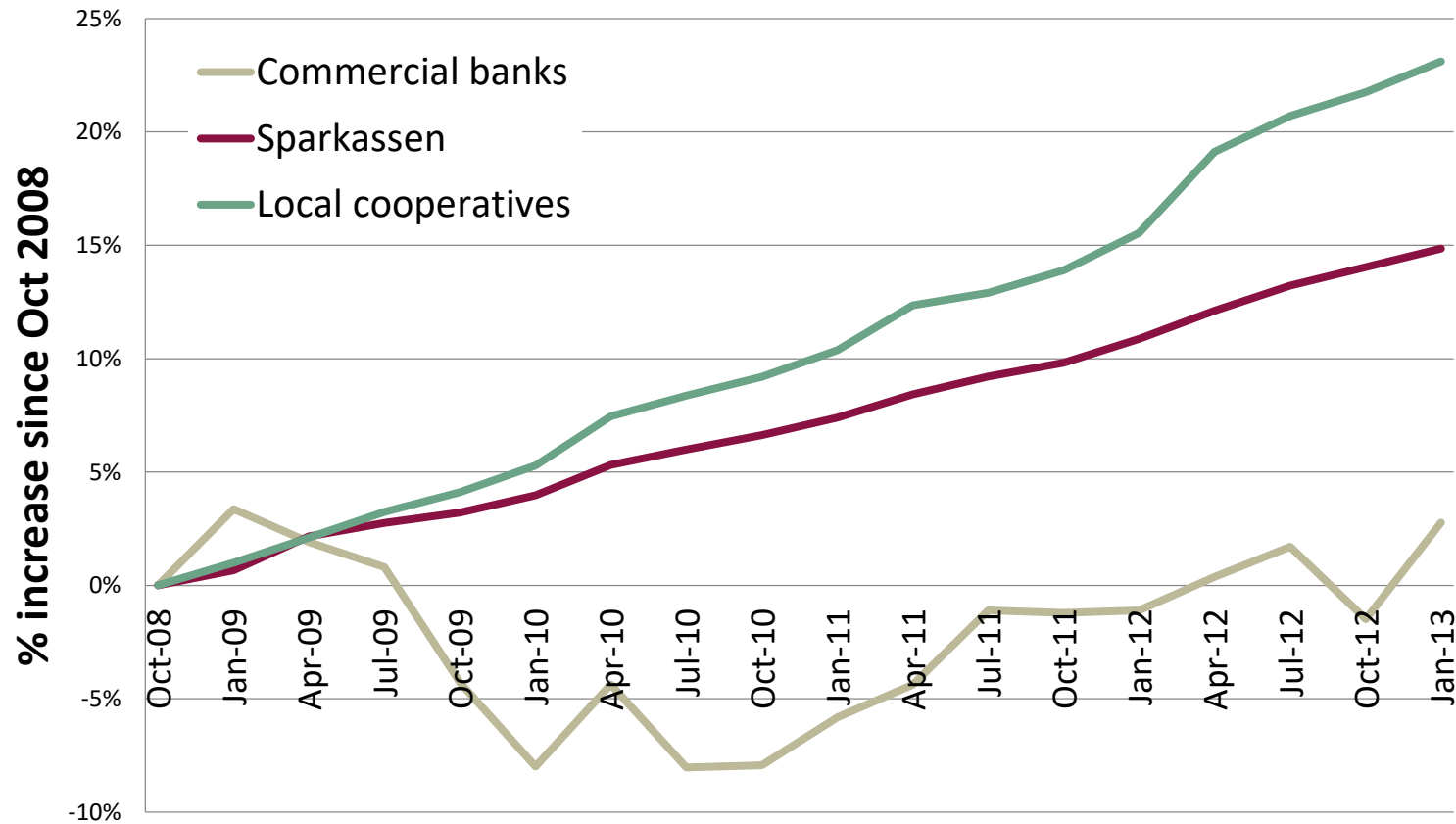
**Branch Closures 2015-18**



	RBS/ NW	Lloyds	Barclays	HSBC	Co-Op	Other	Total
East Devon	5	2	3	1	1		12
Exeter	2	4		1		1	8
Mid Devon	2	1	2				5
North Devon	3	4	1	2	1		11
South Hams	4	4	1	2		2	13
Teignbridge	3	4		1	1		9
Torridge	3	1	2				6
West Devon	3	1	1	1	1		7
<b>Grand Total</b>	<b>25</b>	<b>21</b>	<b>10</b>	<b>8</b>	<b>4</b>	<b>3</b>	<b>71</b>

# Economic resilience: 'no more boom and bust'?

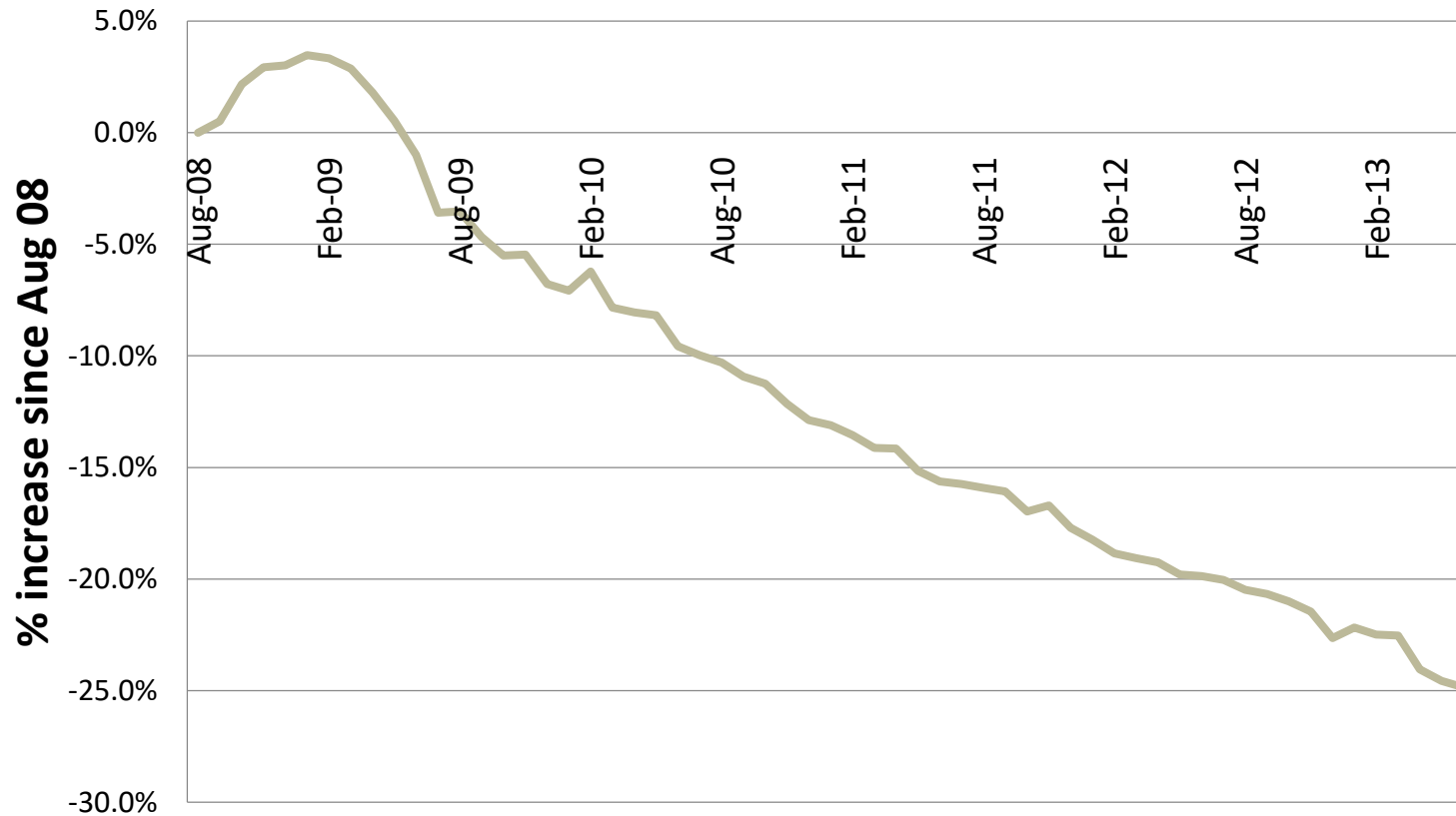
## German bank lending to domestic enterprises and self-employed





# Economic resilience: the UK's Achilles heel?

Total UK bank lending to non-financial corporates

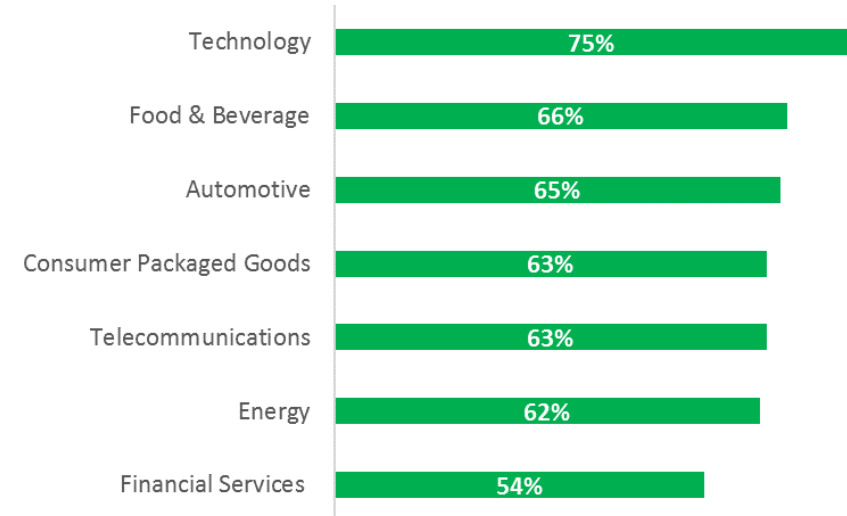


**SWM is committed to the region. We won't chase the booms so we are still there during the busts.**

# Restoring trust in banking

- Our customers are our shareholders
- We will not engage in financial trading and speculation
- No bonuses or sales incentives paid to staff
- Living wage employer
- Maximum 10x pay ratio
- Board directly accountable to customers
- One member one vote
- Simple, honest and transparent charging structure
- No pressure to cross-sell financial products

Edelman Trust Barometer  
2017 Results

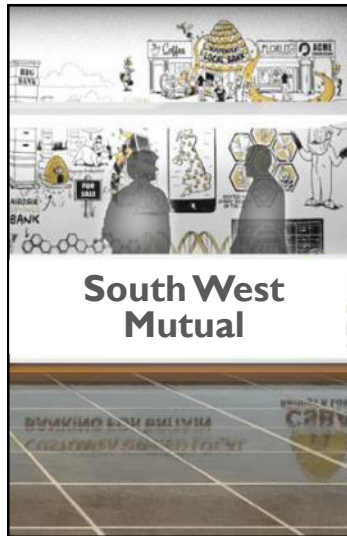


Do you trust your bank?	TRUST
Keeping my money safe	48%
Protecting my personal and financial information	43%
Providing me with truly unbiased advice suited to my needs	25%
Telling me if there is a better product for my needs/ situation even it means less money for them	21%

Source: EY Global bank survey 2016: Without it you're just another bank

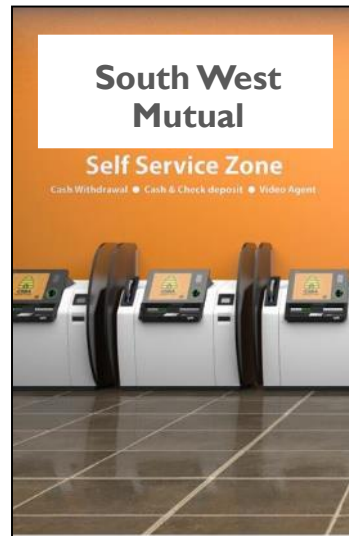
# Full range of services competing with high street banks

## Local HQ



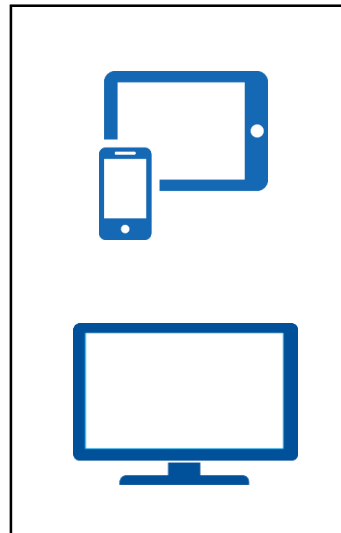
Sub-regional hub  
with staff and  
Branch Director.  
Safety deposit boxes.

## Satellite branches



24/7 video linked  
full service  
automated branch.  
Some staffed times

## Digital channels



Online and  
app.

## Current accounts



Fixed, transparent and  
simple membership fee:

Personal: £5 pcm  
Organisation: £10 pcm

- Expense analysis
- 'Jam jar' functionality
- Interest on whole balance
- Additional member benefits tbc

# Why a monthly charge? Free banking does not exist

- Free-if-in-credit (FIIC) accounts are NOT free
- 90% of customers with FIIC accounts effectively pay charges
- Our model simple, transparent and honest
- Allows us to be inclusive
- and to maintain branch access
- Better value for money for many customers

“I do not advocate the ending of free-if-in credit banking. Why? Because there is no such thing to start with, so it cannot be abolished as such.

Nothing in life is free  
– sorry to disappoint.”

Andrew Bailey, Chief Executive FCA  
29th June 2017



Bank	SWM	Lloyds	NW
		Classic	Select
Monthly membership fee	(5.00)	-	-
Interest on £1,000 in current a/c	1.22	-	-
Interest on £4,000 in current a/c	4.88	-	-
Cost of £500 overdraft for 15 days	(1.94)	(10.65)	(9.74)

- 44% of Free-If-In-Credit accounts attract overdraft charges
- 80% of consumers do not know what their overdraft charges are
- £2.9 billion paid in overdraft fees in 2014
- £4.3 billion interest foregone in 2014

# Community Savings Bank Association

- Highly experienced Board
- 'Bank in a box' service
- 18 regional banks
- Test and training facility



# Investment in Shares of South West Mutual

<b>RETURNS</b>	<b>Financial</b>	Dividend of 7.5% by year 6 Growing dividend yield as profits rise Moderate share price growth over the medium term
	<b>Economic</b>	Supporting local enterprises, business rates and employment Boosting economic resilience during recessions, protecting jobs and incomes Inclusive growth: spreading opportunities for locally driven business and employment Recycling more spending and savings back into the Devon economy
	<b>Social &amp; environmental</b>	Tackling financial exclusion and problem debt Improving financial capability and wellbeing Restoring trust and building civic participation Improved environmental and social performance
<b>EXIT ROUTE</b>		Trade with approx. 90,000 members projected by year 9 on a share trading platform

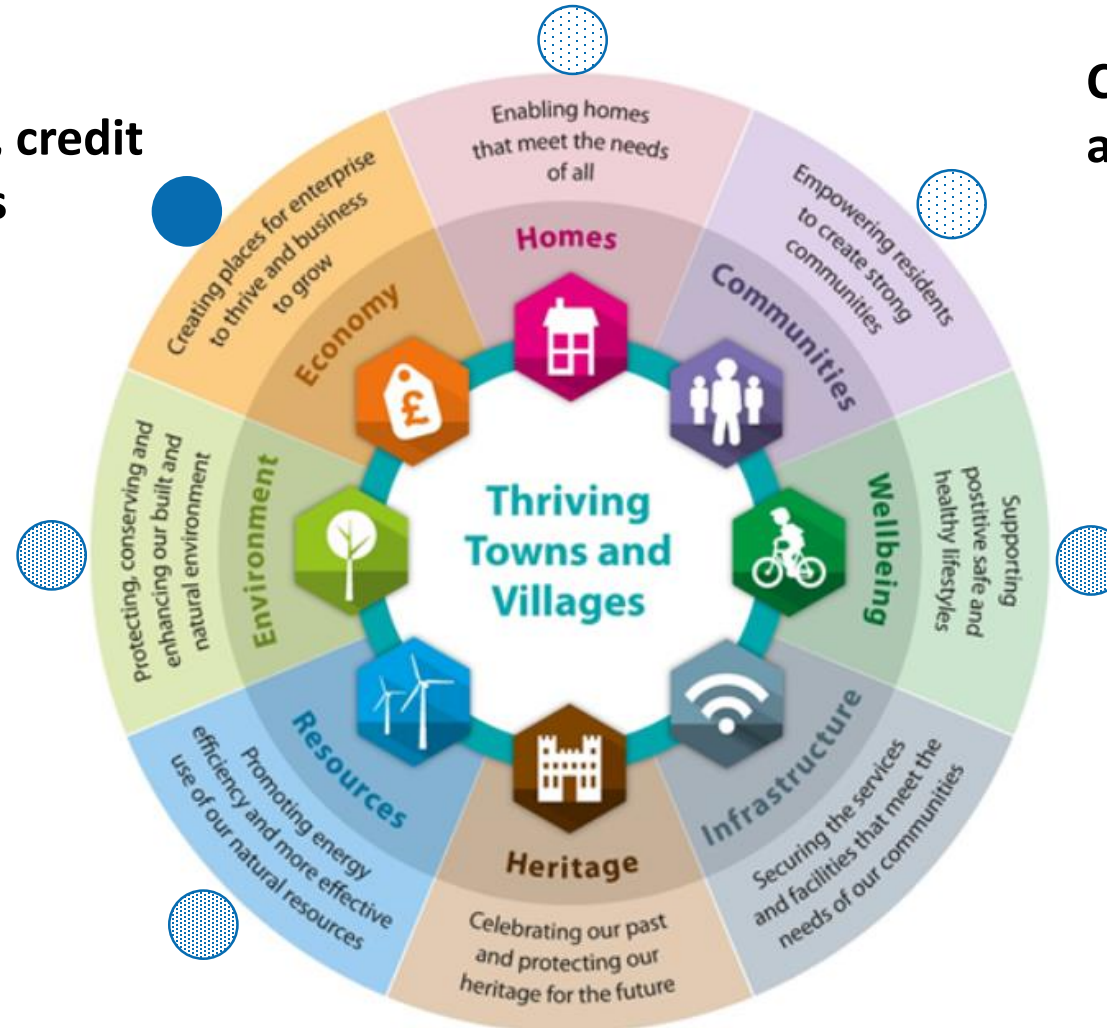
*This is not investment advice; it is non-binding and it is subject to T&Cs that are to be agreed separately*

# Strategic alignment

## Community land trusts

## Community businesses and social enterprise

Access to banking facilities, credit and supporting high streets



Financial inclusion, education and tackling problem debt

Environmental protection integrated in risk assessment. Supporting community energy

# Local authority investment

Guidance from Arlingclose (Treasury Advisors)

## Local Government Act 2003

“Investments made by local authorities can be classified into one of two main categories:

- Investments held for treasury management purposes; and
- Other investments”

“Local authorities should disclose the contribution that all **other investments** make towards the **service delivery objectives** and/or **place making role** of that local authority.”

## Localism Act 2011

The general power of competence allows local authorities in England to do “**anything that individuals generally may do**”



# Local authority investment - precedents

Bank	Authority	Notes
<b>Hampshire Community Bank (Note 1)</b>	Portsmouth BC - £5m Winchester - £250k Test Valley - £500k	Capex funded by unsupported Prudential Borrowing / Capital receipts reserve. 'Spend to save' project. Economic development powers / general power of competence in S1 Localism Act 2011
<b>Cambridge and Counties Bank</b>	Cambridgeshire Local Government Pension Scheme	£8m in deferred shares for 50% 50:50 with Trinity College Cambridge
<b>Cambridgeshire Building Society</b>		£15 million core capital deferred shares carrying only 1 vote
<b>Redwood Bank</b>	Warrington BC £30m	Bank will open a northern regional office in Warrington. Shortlisted in 'Innovation in Finance' category of 2017 MJ Local Government Achievement Awards

Note 1 – Hampshire Community Bank is not part of the CSBA network and has not been licensed yet. It is possible that the regulators consider it to be too small scale as a stand alone bank.

# Timeline for banking licence and launch

