

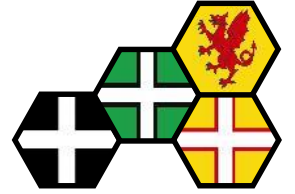


# South West Mutual

Regional banking for inclusive growth

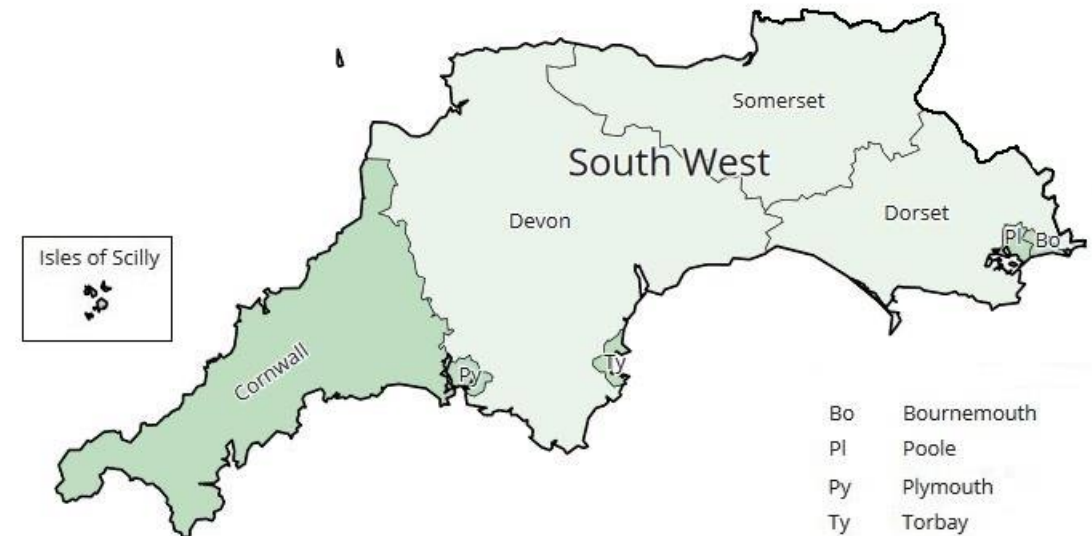


# Introducing South West Mutual



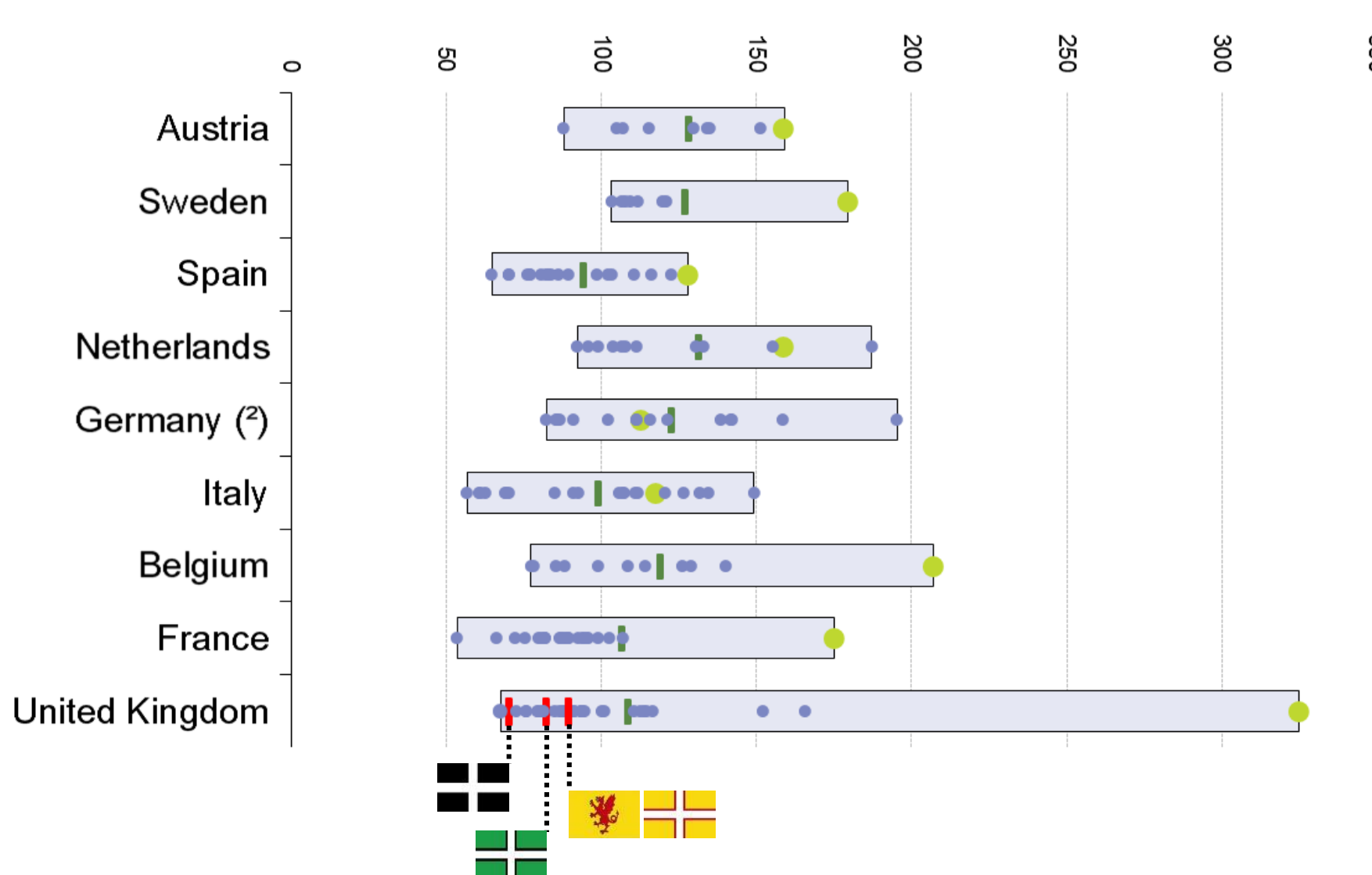
**Mission-led business promoting sustainable and equitable prosperity for the South West**

- 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





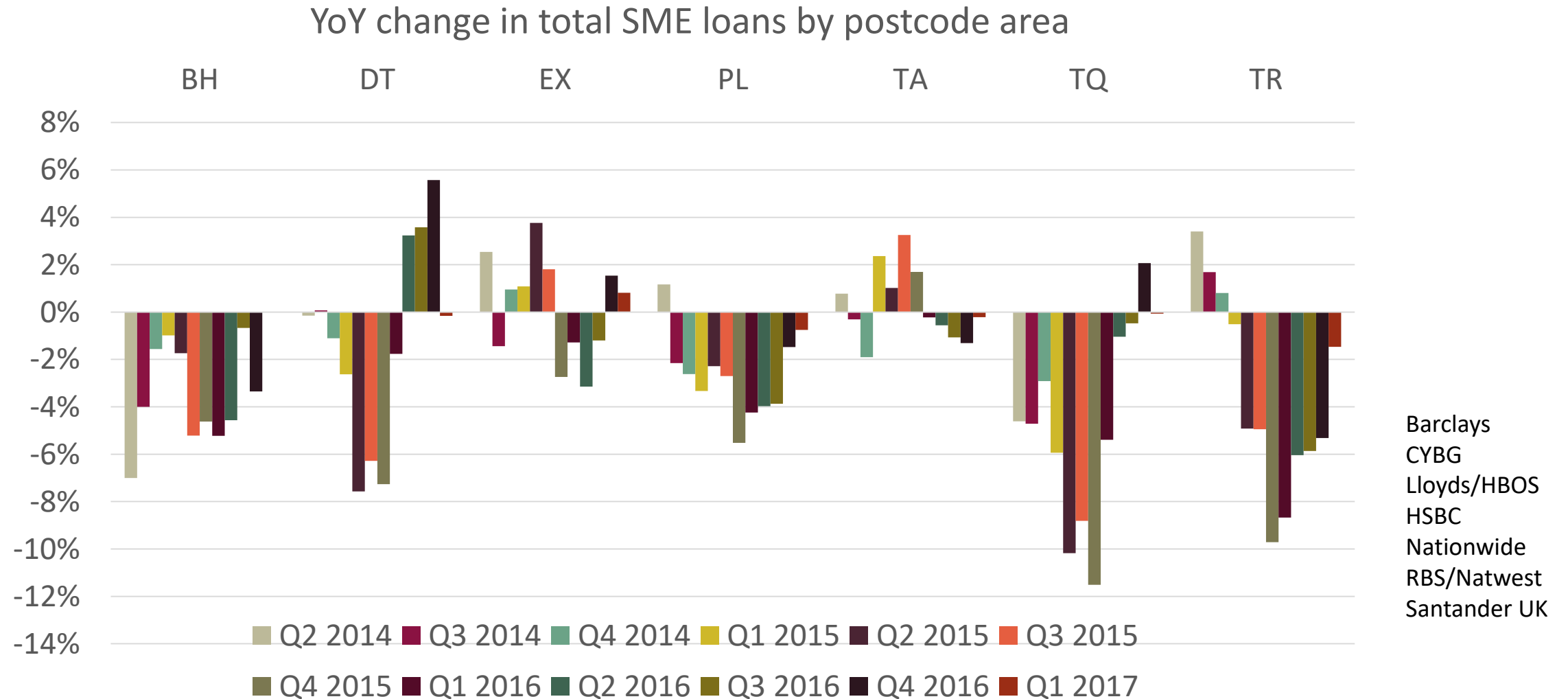
# Helping tackle regional inequalities



**SWM is an anchor institution**

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

# SME finance is an ongoing issue



# Lending to the real economy where you live

SME deposits and loans in  
Devon districts

Deposits **£853m**

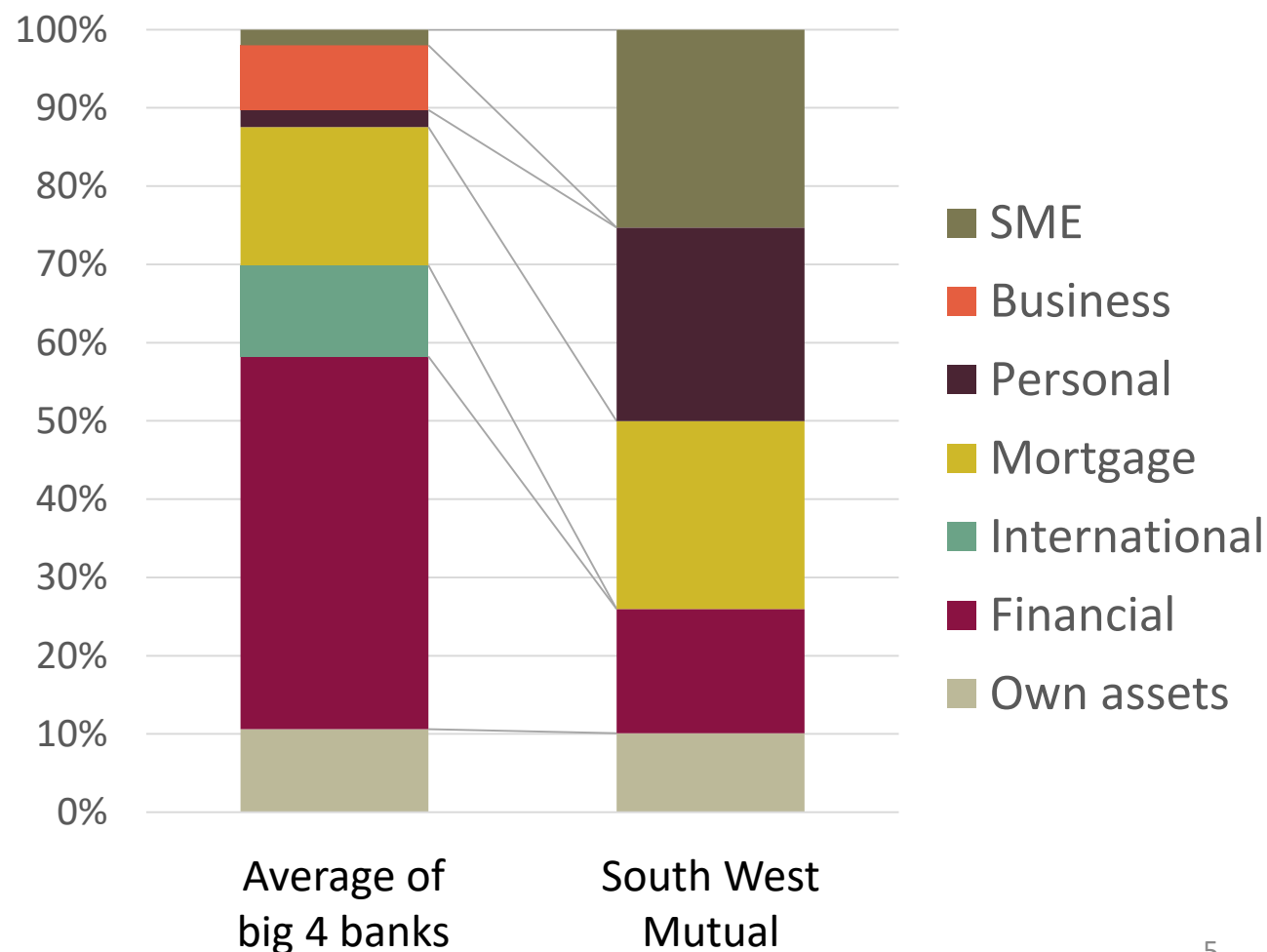
Loans **£462m**

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

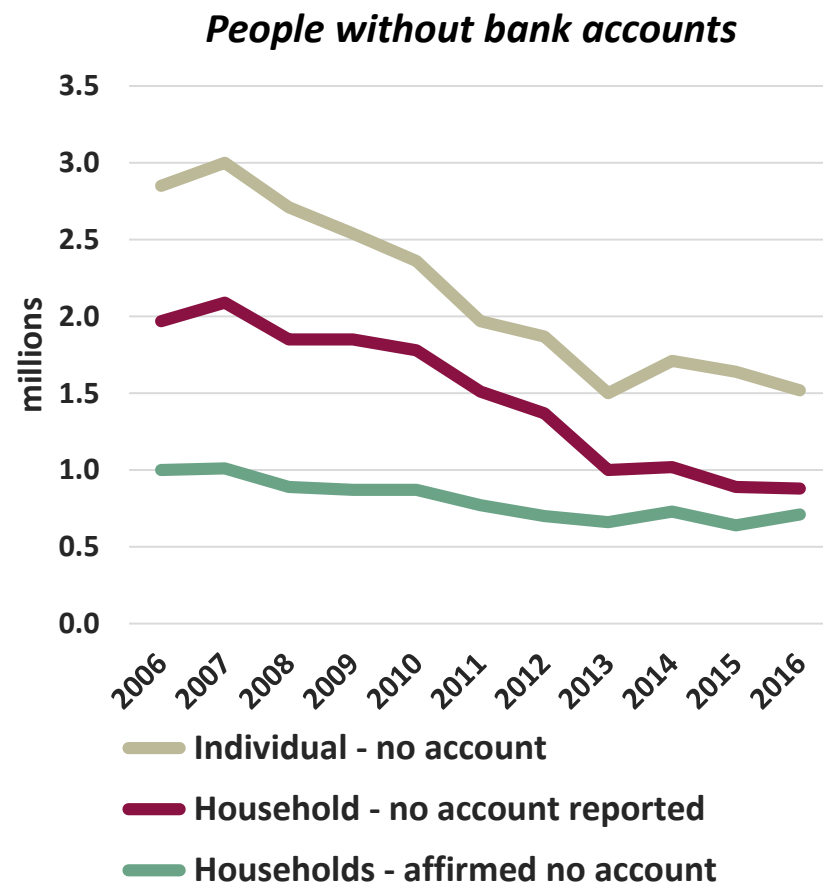
In Devon districts there are approximately\*:

- 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**

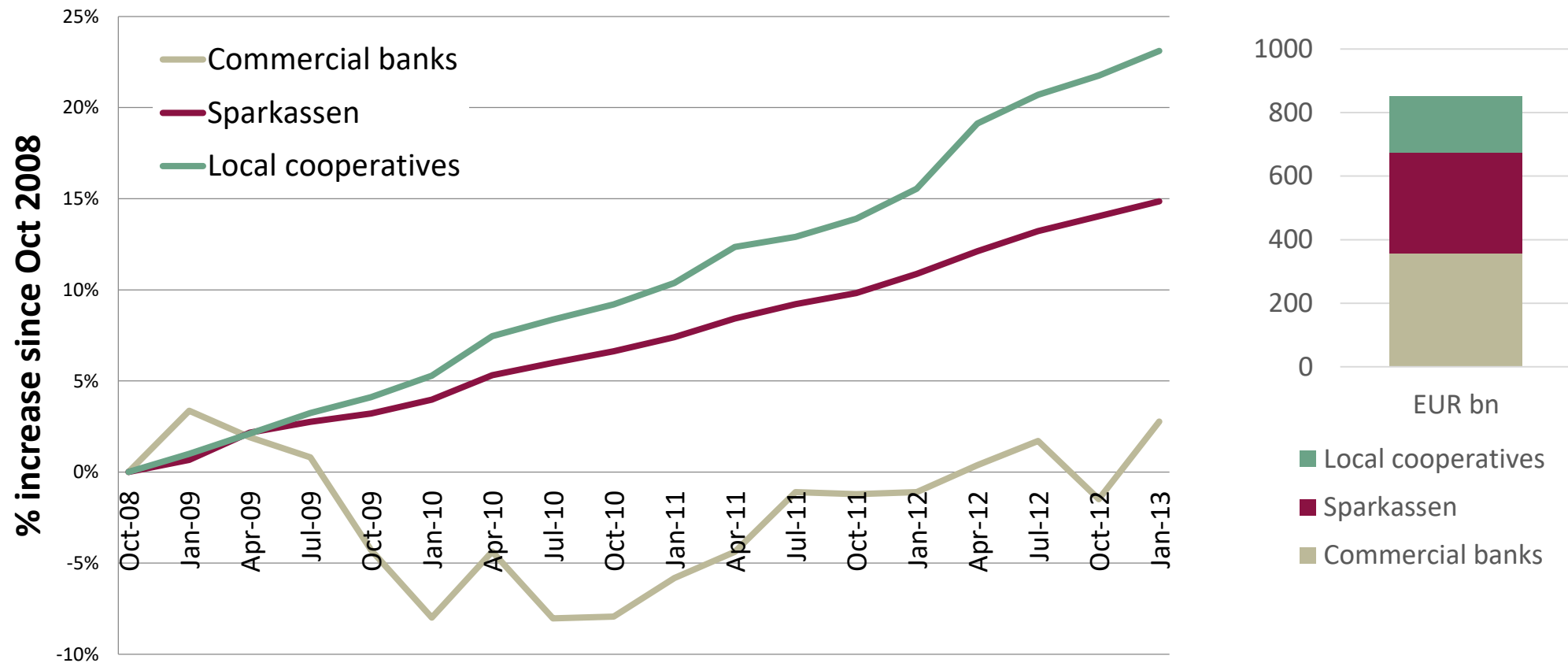
**Branch Closures 2015-18**



	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'?

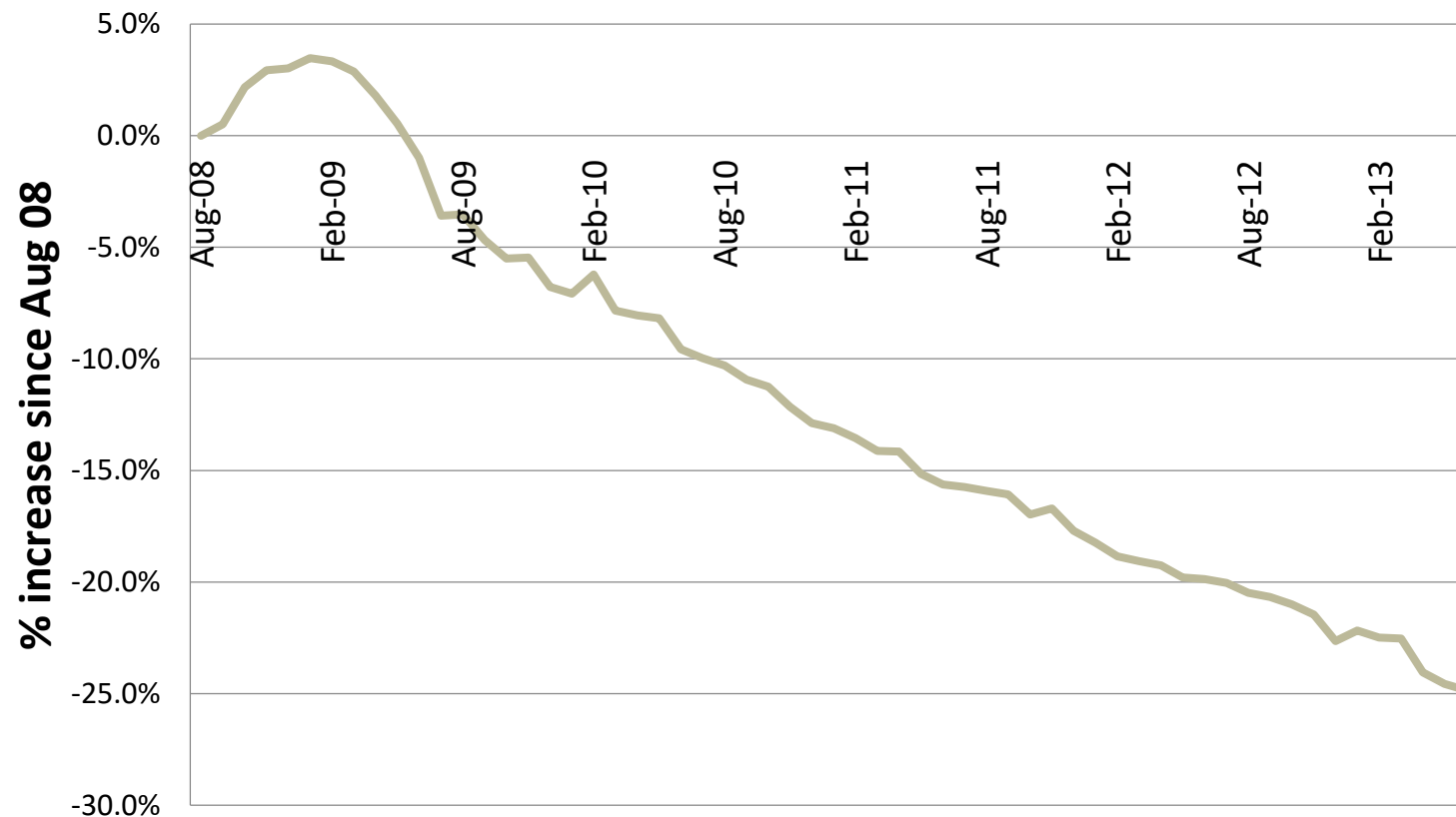
## German bank lending to domestic enterprises and self-employed





# Economic resilience: the UK's Achilles heel?

Total UK bank lending to non-financial corporates

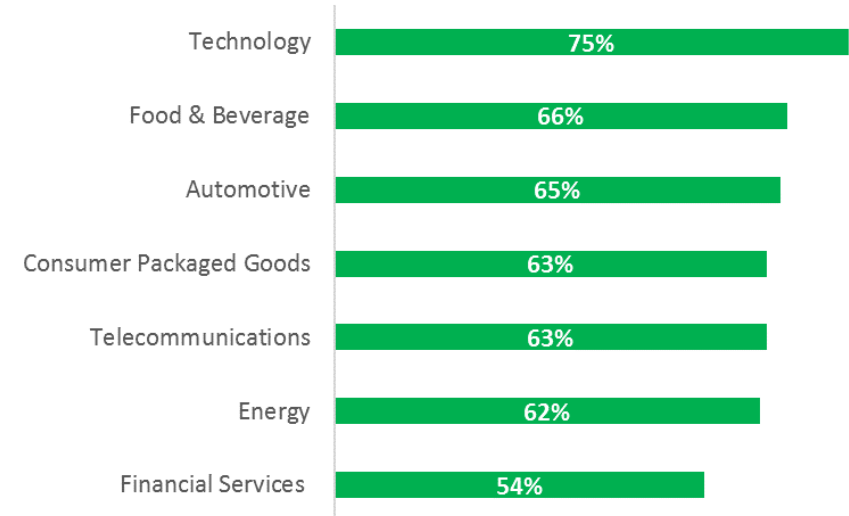


**SWM is committed to the region. We won't chase the booms so we are still there during the busts.**

# 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

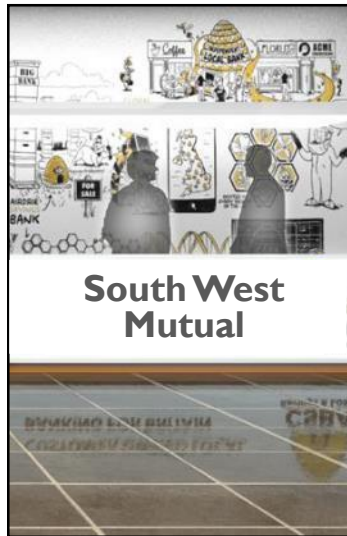


Do you trust your bank?	TRUST
Keeping my money safe	48%
Protecting my personal and financial information	43%
Providing me with truly unbiased advice suited to my needs	25%
Telling me if there is a better product for my needs/ situation even it means less money for them	21%

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

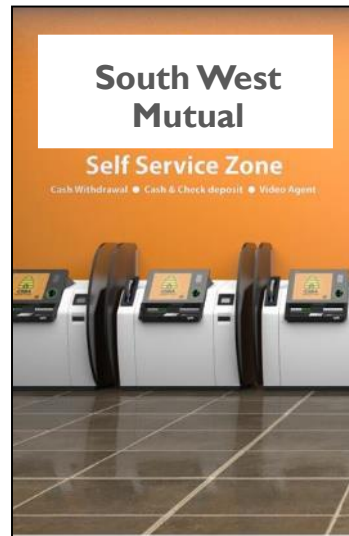
# Full range of services competing with high street banks

## Local HQ



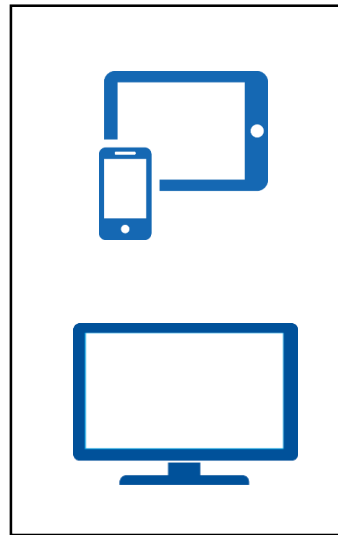
Sub-regional hub  
with staff and  
Branch Director.  
Safety deposit boxes.

## 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  
29<sup>th</sup> 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

RETURNS	Financial	Dividend of 7.5% by year 6 Growing dividend yield as profits rise Moderate share price growth over the medium term
	Economic	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
	Social & environmental	Tackling financial exclusion and problem debt Improving financial capability and wellbeing Restoring trust and building civic participation Improved environmental and social performance
EXIT ROUTE		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



<p><b>We will focus on:</b></p> <ul style="list-style-type: none"><li>✓ Bringing new businesses into the District</li><li>✓ Business development and growth</li><li>✓ Improving and generating our town centres</li><li>✓ Growing the tourism sector</li></ul>	<p><b>We will focus on:</b></p> <ul style="list-style-type: none"><li>✓ Building more council houses</li><li>✓ Facilitating the housing growth that Mid Devon needs, including affordable homes</li><li>✓ Planning and enhancing the built environment</li></ul>	<p><b>We will focus on:</b></p> <ul style="list-style-type: none"><li>✓ Working with local communities to encourage them to support themselves</li><li>✓ Working with town and parish councils</li><li>✓ Promoting physical activity, health and wellbeing</li></ul>	<p><b>We will focus on:</b></p> <ul style="list-style-type: none"><li>✓ Increasing recycling and reducing the amount of waste</li><li>✓ Reducing our carbon footprint</li><li>✓ Protecting the natural environment</li></ul>
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# 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

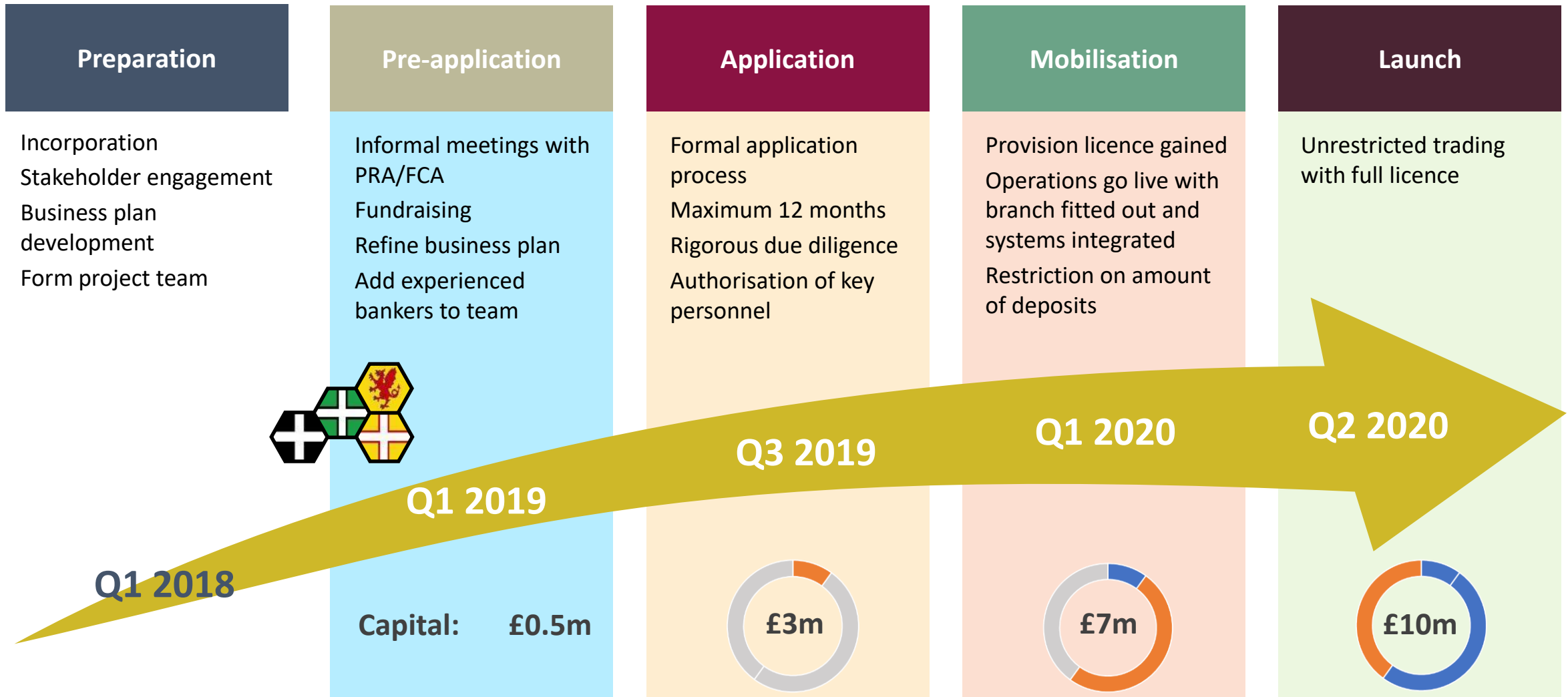
The general power of competence allows local authorities in England to do “**anything that individuals generally may do**”

# Local authority investment - precedents

Bank	Authority	Notes
<b>South West Mutual</b>	West Devon Borough Council - £50k	Approved on 4 Dec 18
	South Ham DC - £50k	Approved on 5 Dec 18
<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





# In conclusion...



## South West Mutual

[www.southwestmutual.co.uk](http://www.southwestmutual.co.uk)