

AVON MUTUAL



Regional banking for inclusive growth



May 2019 update for Bristol City Council



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1. Why do we need a regional mutual bank?

“Central government should explore and encourage the establishment of regional banks... including community banking models such as the Community Savings Bank Association.”

RSA Inclusive Growth Commission

Current banking is failing the West of England



	HOW EXISTING BANKS ARE FAILING	IMPACT
TRUST	<p>Banks put profits and bonuses first</p> <p>Banks are remote and unaccountable</p> <p>People no longer trust banks</p>	<p>Banks are incentivised to prioritise short-term investments over social, environmental, and local needs</p> <p>Banks do not work in the interests of society or communities, their decision making is opaque, and there is little recourse to challenge them</p> <p>People are increasingly wary of banks, undermining confidence in the financial system and its institutions</p>
SERVICE	<p>Bank lending is rigid and inflexible, based on algorithmic assessment – the “computer says no”</p> <p>Branches are disappearing</p> <p>Small businesses are poorly served</p>	<p>Small, micro, community and social businesses are excluded from lending, reducing growth and opportunity</p> <p>Branch closures worsen financial exclusion for communities and the vulnerable, and hasten local economic demise</p> <p>Cash services are increasingly restricted, business accounts provide poor value, and lending is too expensive and risky</p>
INCLUSIVE GROWTH	<p>Too many people are excluded from banking</p> <p>Lending and deposits are heavily skewed to London and do not fund the local economy</p> <p>During the recession, large commercial banks withdrew credit from local economies</p>	<p>Banks financially penalise many on low incomes, and are bad at providing for people with complex needs – many prefer to avoid</p> <p>Mass inequality between London and other regions. Local deposits fund global speculation and London property bubble</p> <p>Local economies suffer from mainstream bank mistakes, lack resilience, and are susceptible to financial and economic shocks</p>

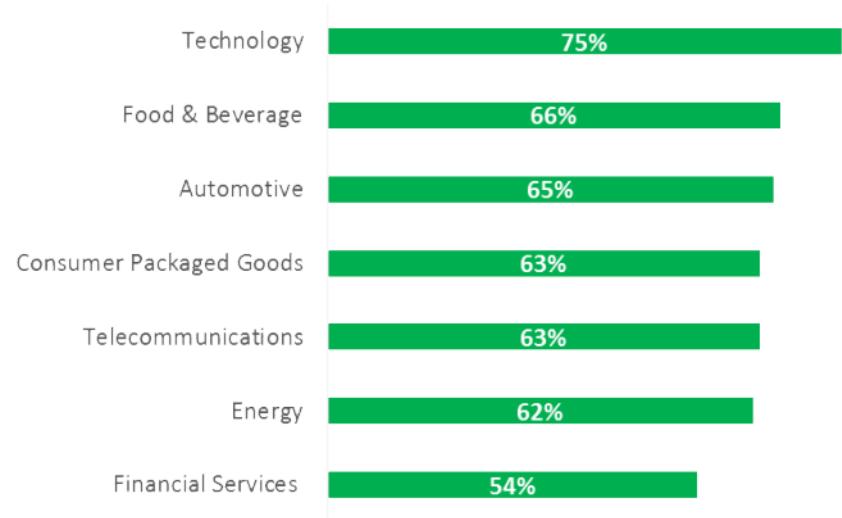
Restoring trust in banking



Since the financial crisis and a series of scandals from PPI to interest rate swap mis-selling, trust in banks has fallen dramatically. This matters because if business and consumers lack faith in banks, they will not seek access to finance they need to make the most of economic opportunities. Avon Mutual is seeking to restore trust.

- Work for, owned by, and accountable to our customers
- One member, one vote. Every customer is a member
- We will not engage in financial trading or speculation
- No bonuses or sales incentives paid to staff
- Living wage employer
- Maximum 10x staff pay ratio top to bottom
- Board directly accountable to customers
- 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

Customer service comes first



Branch access is still important for customers

- UK losing 60 branches and 300 cash machines a month – often in the poorest areas
- Vulnerable customers including the elderly, disabled, and those of low financial means are particularly affected
- But consumer research shows that people want branches and still use them
- Many small businesses are reliant on branch facilities for banking takings and have to travel further for banking facilities, harming their business
- Branch closures have also been associated with declining local economies

Branch closures in Bristol (2015-17)



Customers value relationships and managers with power to take decisions

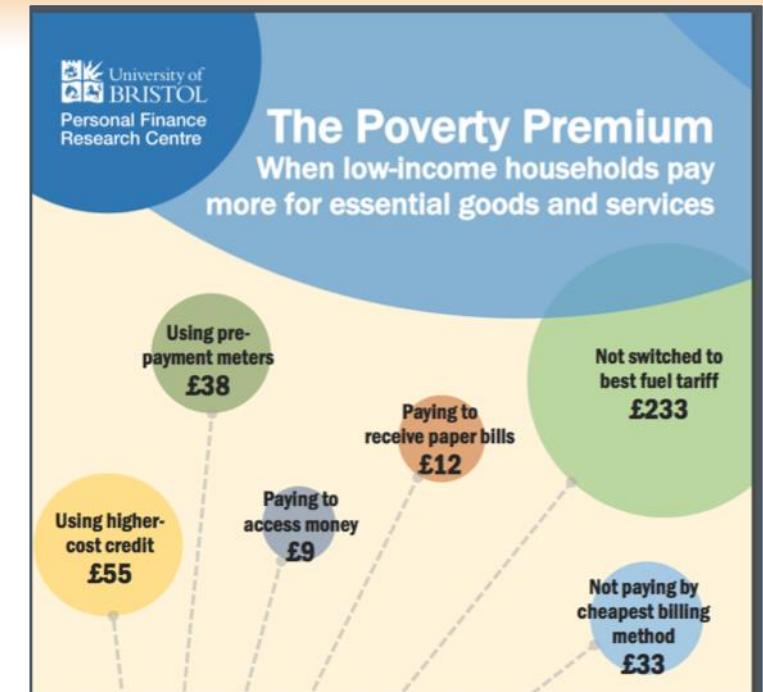
- Human judgement has been replaced with algorithms and chatbots
- This means that any person that does not fit the system is rejected, leaving many potential customers unserved or underserved
- Peoples top reasons for choosing banks are based on being treated as an individual
- Avon Mutual uses modern technology and low-cost branch solution to open branches and enable provision where other banks are retreating

- Lloyds/Halifax (6)
- HSBC (5)
- RBS/Natwest (5)
- Barclays (3)
- Co-Op (1)
- Santander (1)
- TSB (1)
- Yorkshire Bulding Society (1)

The Poverty Premium



- According to Bristol University those on low incomes suffer an average £490 p.a. additional costs due to their low income preventing access to better deals
- The impact of this 'poverty premium' can be severe - for 10% of these households the cost rises to £780 p.a. and for others this premium rises to as much as £2250 p.a.
- In some areas of Bristol this is likely to be a major concern, with for example 49% of people living in 'Fulford Road North' in Hartcliffe ward suffering from income deprivation and the poverty premium. Over 79,000 Bristolians suffer income deprivation
- Greater London Mutual has estimated that 63% of this cost is associated with lack of access to a full current account. Current estimates suggest there are around 1.3m people without a current account in the UK
- 2.5m people are using high-cost credit, and 2.1m living in perpetual overdraft debt
- 400,000+ households are using high cost "rent-to-own" for essential household goods
- There are 16m people in the UK with savings of under £100
- Bristol University estimate that the elimination of the poverty premium could potentially release an extra £4,000m per year into the local communities and economies that need it the most.



"The impacts of exclusion are not just financial but also affect education, employment, health, housing, and overall well-being."

Reducing the poverty premium



- Bristol University's Personal Finance Research Centre's report *Making the Poverty Premium History* has recently called for new forms of banking relevant to the socially excluded - this speaks directly to Avon Mutual's business model and focus on appropriate credit assessment and closeness to customers and community:
 - *"While innovation and Fintech are attractive for some, they will not be appropriate for all low-income customers, especially the most excluded and vulnerable. To feel properly valued and supported, customers may want to interact in other ways, including face-to-face. Investing in some more personal assessment (of credit risk, for example), and relying less on automation as a default, will deliver a business model that better serves low-income customers."*
- The study identified a current market gap emphasising how the expansion of socially inclusive stakeholder banking is key to reducing the poverty premium:
 - *"the FCA recently estimated that over four million people use some form of unsecured high-cost credit, at a value of £8.3bn. In contrast, the Community Development Finance Institution (CDFI) market lent a total of £20 million in personal loans, and the reach of credit unions appears to be similarly constrained."*

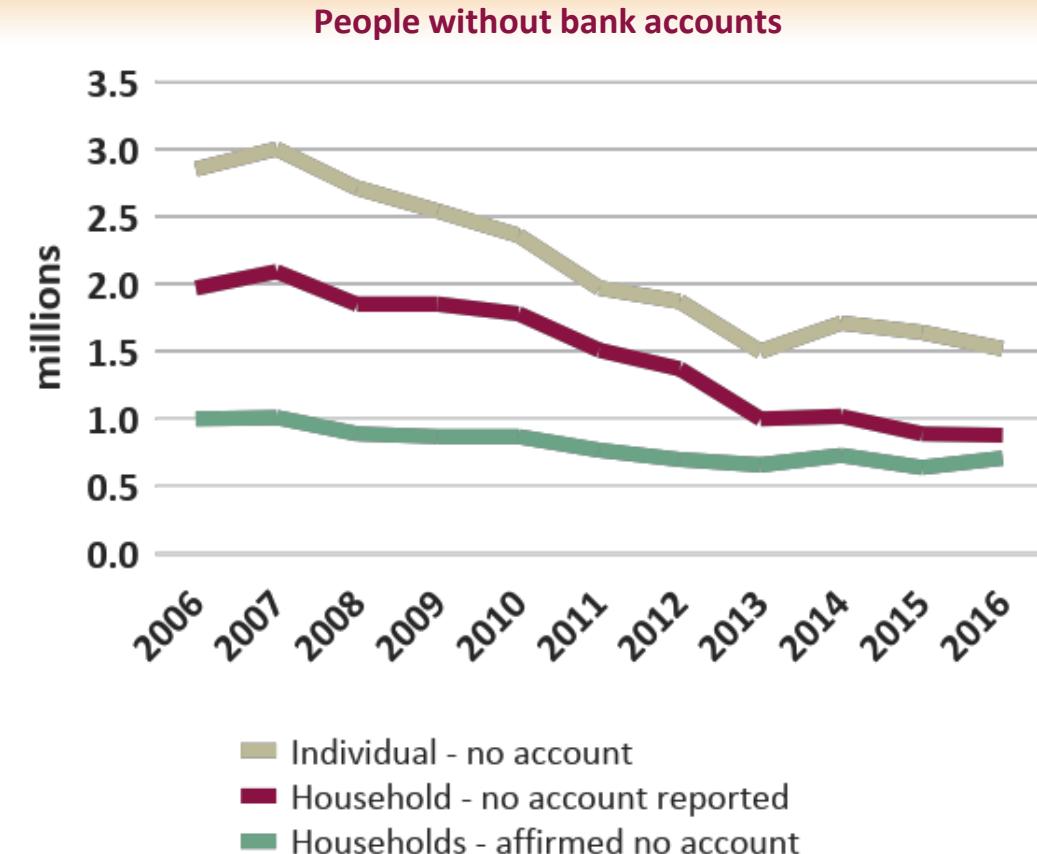
The cover of the report is blue with a textured background. At the top, the title "Making the Poverty Premium History" is displayed in large white font. Below it, a subtitle reads "A practical guide for business and policy makers". A summary box contains the text: "The Poverty Premium: when households in poverty pay more for everyday goods and services. First coined in the 1960s it may be an old concept but it remains an important social issue today. And for the poorer households affected it is a real and pressing problem. We estimate that the average low-income household in 2016 paid a poverty premium of £490. Of course, there is no such thing as an average low-income household – depending on households' needs, preferences and circumstances, some will have paid less while others will have paid more. Much more." The bottom left corner features the University of Bristol logo and the text "University of BRISTOL Personal Finance Research Centre".

Banking for inclusive growth - Households



Based on pro-rata estimates, the number of people and households in Bristol with inadequate financial provision or showing signs of financial distress are shown below. Financial inclusion and literacy are key parts of the mission of Avon Mutual.

INDICATOR	BRISTOL est.
Individuals without bank account	12,000
Households without bank account	7,000
'non-users' of the internet	60,000
Entirely dependent on cash	19,000
Consumers with 1 or more indicators of potential vulnerability	183,000
Can't pay bills/meet credit commitments in 3 out of last 6 months	29,000
Not able to find £200 at short notice	40,000
3 day emergency food packages from Food Banks	8,000
Adults with little or no confidence in money management	88,000
Used unauthorised overdraft facility in last 12 months	22,000
Borrowing from friends and family in last 12 months	25,000



Sources: Pro-rata on adult population of Bristol City Council area - 365,000 from UK population estimates mid-2017, HMT report on cash 2018, CHASM Financial Inclusion Report 2016 & 2017, FCA Financial Lives Survey 2017

Source: CHASM, Financial Inclusion Monitoring Report 2017

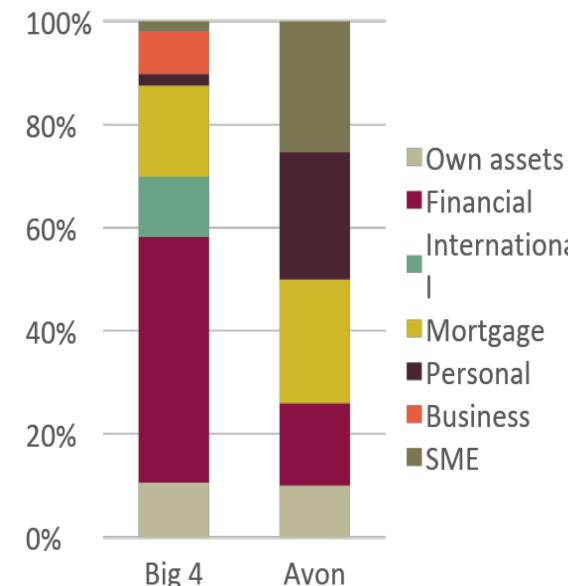
Banking for inclusive growth – SMEs & the real economy

Smaller SMEs are increasingly neglected by high street banks

- SME loans in the BS postcode area have fallen by 19% in 5 years – almost double the national average of 11%
- Big four banks only allocated 1%-4% of assets to SME lending: Avon Mutual plans to allocate 25% to local SMEs
- According to the ONS Bristol SME registrations rose 6% 2016-17 and those registered (which are only about 50% of the total) employ 101,000 people and represent £11.7bn business for the economy.
- Small businesses in Bristol have bank deposits of £750m but only £308m of loans – a net outflow of £441m
- Medium sized businesses have bank deposits of £662m but only £458m of loans – a net outflow of £204m

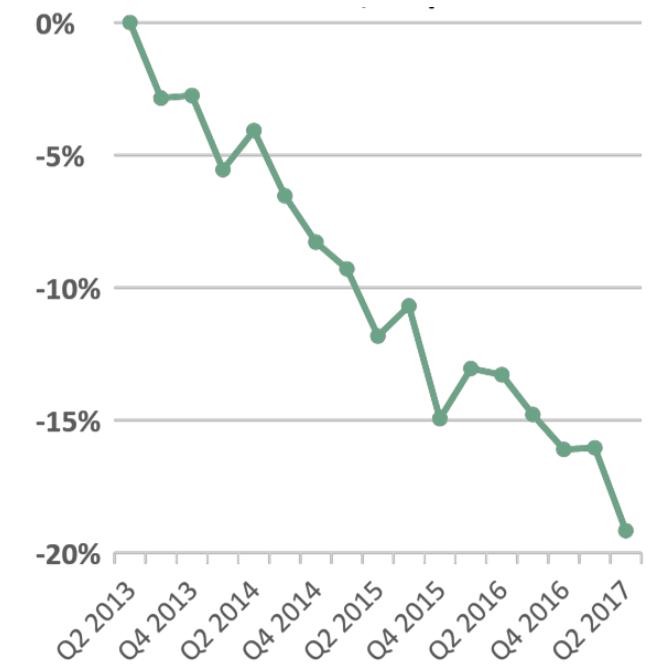
In the UK since the financial crisis, large commercial banks have withdrawn credit from productive lending, local economies and SMEs. In countries like Germany stakeholder banks have stepped in to fill this gap

Distribution of bank assets



Source: Bank Annual Reports vs Avon Mutual Financial Model

Total SME Loans, BS postcode



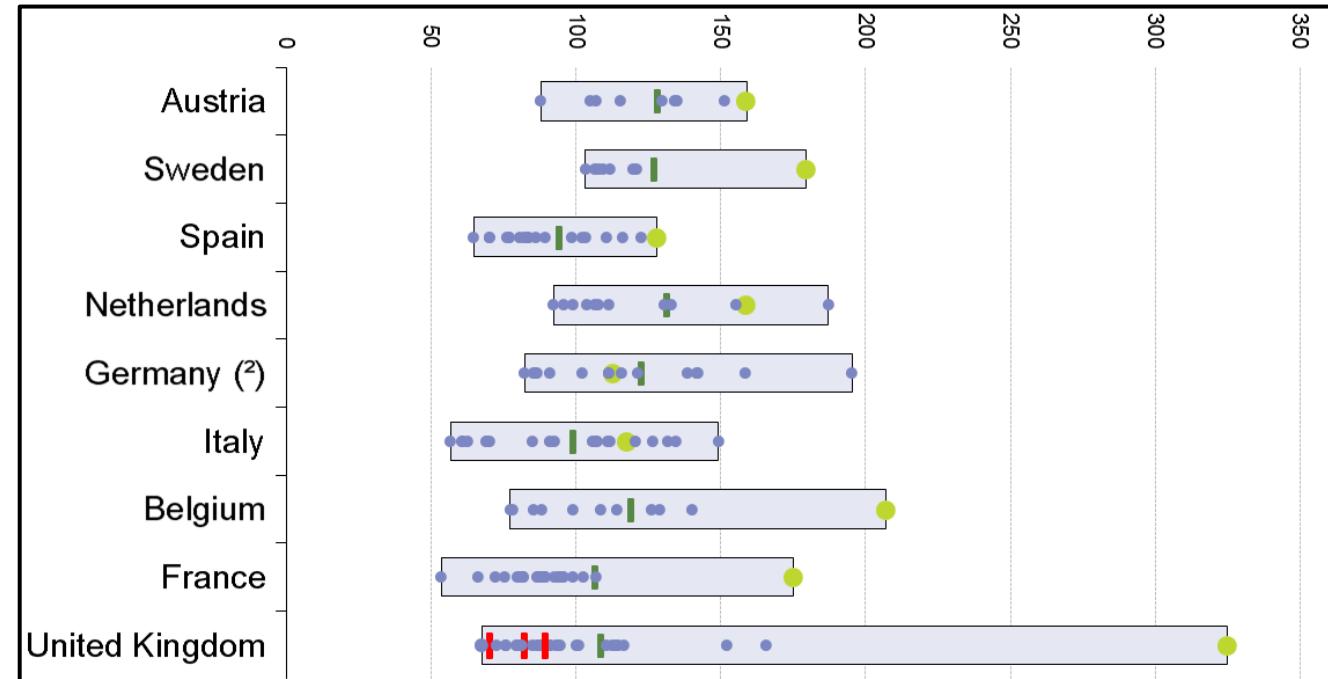
Source: UK Finance Post Code Lending Data. Total of 7 largest banks: Barclays, CYBG, Lloyds, HSBC, Nationwide, RBS/Natwest and Santander

NOTE: BS postcode figures are shown as data is not available for local authority areas

Banking for inclusive growth – regional regeneration



- The UK's regional GVA (Gross Value Added) is highly skewed towards London compared to other counties.
- Empirical studies in Italy and Germany found that cooperative banks and savings banks help reduce 'capital drain' to urban centres and capital cities thus regional inequality, most probably because of their strong SME lending.
- Preventing such a capital drain can help create jobs and encourage people to stay in their local area, rather than having to migrate to economic centres to look for work.



The light purple shaded bar shows the range of the highest to lowest region for each country. The dark green bar shows the national average. The light green circle shows the capital city region. The dark purple circles show the other regions.

International evidence and best practice

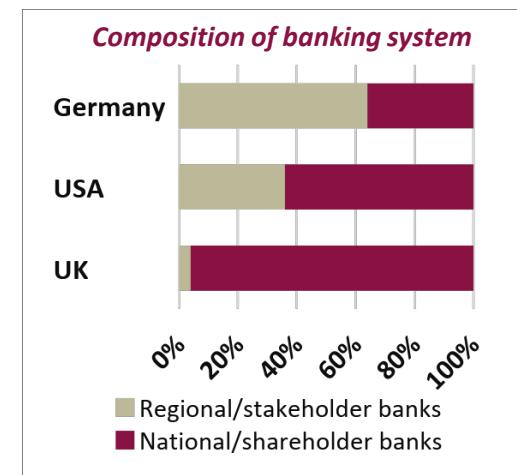


Avon Mutual is part of the Community Savings Bank Association which has created a regional banking model for the UK that is based on substantial and robust theoretical and empirical evidence about successful banking models in other countries.

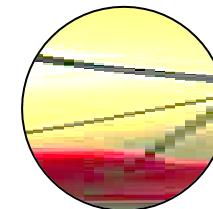
The UK is highly unusual in having a domestic banking sector that is dominated by large shareholder owned and profit driven banks.

In many other countries, from USA, Canada, Europe to South East Asia and Japan, regional stakeholder banks hold a large or majority share of the banking sector and have significant social and economic impacts:

- Commitment to financial inclusion
- Higher proportion of SME lending
- Credit allocation to real (non financialised) economy
- Reducing regional inequalities
- Boosting resilience of local economies in recessions
- When commercial banks shrink such support



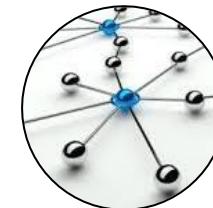
Three characteristics of regional stakeholder banks across the world:



Mission-led
Dual social and financial mission



Regional
Devoted to serving a defined area



Networks
Collaboration enables efficiency and scale without removing local autonomy



2. Introducing Avon Mutual: Products and Services

"Throughout my time we have committed to getting inclusive growth, that means getting right to the very basis of the nature of the economic development and growth that we experience, so that by definition and by process it is inclusive."

Marvin Reese, Mayor of Bristol

Introducing Avon Mutual



A mission-led community-wealth building anchor institution promoting sustainable and equitable prosperity for the West of England

- First **customer-owned** regionally focused full service bank
- Serving **people of ordinary means**, community groups, **SMEs (SEMs) and social enterprises**
- Committed to a renaissance of **branches and relationship banking**
- **Scale and efficiency** – part of the CSBA network
- **Financial strength:** Profits £20m pa / loan book £430m by year 9
- Using the very **latest technology**, and free of outdated legacy infrastructure of mainstream banks



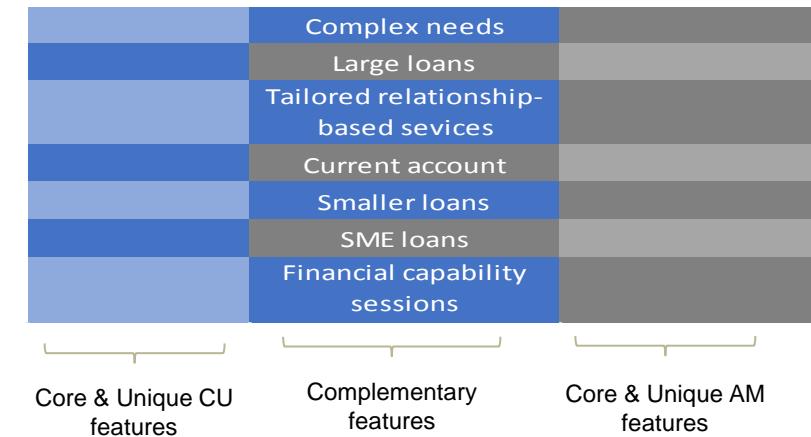
Completing the community finance puzzle



Community Banks the world over compliment other key players such as Credit Unions. Below are the “Lock and key” synergies between credit unions and community banks (analysis carried out by RSA and the Finance Innovation Lab):

- Current accounts: Avon Mutual will have access to the payments system, unlike CU, but can provide current accounts to CU customers thus helping them mitigate the ‘poverty premium’.
- Business banking: although credit unions can theoretically provide business banking, in practice they lack the resources and skills to do so. Avon Mutual will open on day 1 with experienced business bankers and the essential core services required by SMEs: current account, branches, and overdraft facilities.
- Breadth: crucially, the ability of Avon Mutual to offer residential mortgages as well as business and personal loans allows it to rapidly achieve scale and financial viability.
- Scale: Avon Mutual is projected to have a large deposits base than BCU. Currently BCU has in the region of £8m.
- Savers: we consider it highly unlikely that any BCU depositors will switch deposits to Avon Mutual. Our main target market is customers of high street banks.
- Loans: there will be individuals with minimal credit records and complex needs that will be unsuitable for lending by a regulated bank and for which a credit union is better suited.
- Co-operation: in other countries stakeholder banks and CUs work closely together, and here many CUs are welcoming the advent of our movement. We are in discussions with a number of CUs, including BCU, and with the Association of British CUs, to form collaborations to cross-refer and work together to serve customers.

Core and unique features



Avon Mutual's Board



DENA BRUMPTON

Recently retired after a long career in Citigroup and Barclays where she was most recently CEO of Barclays Savings, Investment and Wealth management. She has been recognised in Top 25 'Women of Inspiration and Enterprise' and City Power Woman. Dena is also a past member of Cancer Research UK Women of Influence Board.



GRAHAM HUGHES

Is a qualified Solicitor and one of the founding directors of Church House Trust plc, a bank which was subsequently sold to Virgin Money plc. He also chairs the Remuneration Committee for a local Hospital Foundation Trust and is a volunteer adviser at Citizens Advice.



TRACY MORSHEAD

Is Chair of Mortgage Brain and of the National Friendly Society and a NED with the Newbury Building Society. Tracy's career has included roles as MD of Principality Building Society and at Nationwide. Prior to working in financial services Tracy had a career in marketing with ITV and led marketing at board level for Grand Met.



JULES PECK

Is Founding Director of Avon Mutual, Founder of the Real Economy Lab, a Board member of the New Economics Foundation, a Research Fellow on the future of the economy at the Democracy Collaborative's Next System Project, an Advisor to The B Team, a Fellow of the RSA and a Certified Bank Director.



RICHARD WARRINGTON

Has focused on the areas of Risk and Compliance as well as Governance and Culture throughout most of his 40-year career in financial services. He has worked in banks (NatWest, Lloyds, NAB, Virgin and Egg), building societies (Woolwich and Nationwide), insurers (RSA) and also, most recently, in risk management consultancy. He has held senior executive and Board positions, as well as significant influence/ controlled functions.

Avon Mutual's growing team



Paul Hornsey – Operations Director – has 20 years of experience in operations and regulatory compliance in Financial Services in the U.K. & Abroad for companies including Nationwide, Morgan Stanley, UBS, Credit Suisse, JP Morgan and started his career with Andersen Consulting.



Clive Bowles – CTO - has over 26 years financial services industry experience, having worked with Barclays Bank, the Bank of Nova Scotia, West Merchant Bank and Deloitte Touche before establishing his own IT consultancy and software company in 1996. Misys Plc acquired his company in 2004 and since leaving Misys in 2007, Clive has continued to provide IT consulting services to various financial institutions in the UK and overseas on data migration, data warehousing, reporting, system selection and system integration. Clive was a non executive director of Charity Bank and of CAF Bank.



Fionn Travers-Smith – Project Officer - also leads the Positive Money 2^o Lending Network City Finance Labs initiative, is Social Impact Officer and a Founding Member of Avon Mutual's sister bank Greater London Mutual. Previously, Fionn managed the Move Your Money campaign, and has published work on the future of finance with the RSA, New Economics Foundation, and others.



Gareth Griffiths – Customer and proposition Director - has over 15 years experience in retail banking and wealth management working on customer proposition, marketing, branch design and management and call Centre management with HSBC, Bradford & Bingley and RAC.

Our current offices



In April 2019 we opened our first offices at Setqsaured Bristol where we are part of the Business Acceleration mentoring programme.

WORLD LEADING BUSINESS SUPPORT

Business support & mentoring

Investor-readiness training

Investor introductions

Flexible office space

SETsquared
BUSINESS
Acceleration

About the programme

Twice ranked as the **Global No. 1 Business Incubator**, since 2002 we've supported 3,500 businesses, helping them to raise over £1.8bn investment.

Our Business Acceleration Programme incubates new high growth ventures. We help you validate your thinking, build a team, find start-up funding and launch an investor-ready business. We create bespoke packages of business support in order to help each start-up become a viable, profitable and thriving businesses. It will include a blend of the support detailed below.



Avon Mutual's Advisory Council



- We are also building an Advisory Council of advisors who are supporting us with a variety of pro bono support on issues such as PR, communications, branding, ethical policy, investment, legal, community engagement, fintech and business planning.



Avon Mutual's growing band of supporters.....



Craig Cheney, **Bristol Deputy Mayor**, Steve West, **Vice Chancellor** of the University of West of England and Chair of regional **LEP**; Canon Dr John Savage CBE, Chair West of England Initiative and Bristol Royal Infirmary; Darren Jones MP; Alex Chalk **MP**; Wera Hobhouse MP; Hugh Brady, **Vice Chancellor** of Bristol University; James Durie, **CEO of Business West**, The Initiative and Chambers of Commerce; David Owen, CEO of Gloucestershire **LEP**; **Ken Loach**, social campaigner and film director; Alan Bailey, Chairman Low Carbon SW and serial entrepreneur; Marcelle Spellor **OBE**, Founder Localgiving and trustee of New Philanthropy Capital; Jaya Chakrabarti, Board member of SWIG Finance; Jeremy Sell, Bath based growth, institutional investor and IPO expert; **Alastair Sawday**, publisher and environmentalist; James Moore, Founder, CSBA; Peter Capener, Founder Bristol and Bath Community Energy and Trustee at Power To Change; Alan Bec RSA SW Fellowship Councillor; John Pontin OBE; Dave White Founder and CEO White Bruce; Ian Townsend, **CEO** of Bristol Green Capital Partnership; Mohammed Sadiq, Chair **Bristol Green Capital Partnership**; Tony Greenham, Director of Economy, Enterprise and Manufacturing, RSA; Peter Lipman, Chair Transition Network; Rob Hopkins, **Founder of the Transition Towns** movement; Sir Jonathan Porritt, past Chair of SW RDA; Dave Hunter, Trustee Bristol Pound; Simon Cooper, **Society of Merchant Venturers**, chair of the Schumacher Society, director of Bristol Chamber of Commerce & Initiative; Peter Holbrook, **CEO Social Enterprise UK**; Andrew Garrad, Society of Merchant Venturers and Cabot Institute; Ken Simpson, Regional Chair of the Federation of Small Businesses; Seth Tabatznik, Founder of Berti Investments; Edward Hoare, banker and philanthropist; Colin Skellett, **CEO Wessex Water**; Professor Olinga Taeed, Founder Blockchain Alliance for Good; Barbara Mellish, President Blockchain Alliance for Good; Charlie Thomas, Fund Manager of Jupiter Ecology Fund and Jupiter Responsible Income Fund; Chris Coles, Bath social entrepreneur and finance sector specialist; Alastair Singleton, Founder Hanover Fox headhunters; Peter Macfadeyn, ex-Mayor of Frome; Molly Scott-Cato MEP; Merlin Hyman, CEO Regen SW; Peter Madden OBE; Jamie Pike, Founder of **Bristol Coexist and Canteen**; Oliver Mochizuki, Founder and CEO of Fundsurfer; Ed Mayo, **Secretary General of Cooperatives UK**; Gavin Eddy, Social/Angel Investor; Tom Sain, Investment Manager; Tom Carnac, Mission 2020; James Perry and Charmian Love, **Co-Chairs of B Corps** UK; Paul Cobham, Social/Angel Investor; Stephen Dawson, Venture Capital pioneer and Angel Investor; Luke Lang, Co-Founder Crowdcube; Chris Shaw, Chairman of Savings Champion; Harry Partington, Chair Bristol Credit Union; David Freed, Founder Deeley Freed Estates and The Park Community Centre; Trevor Osbourne, Chair The Osbourne Group, Governor and Trustee of Bath Spa University, member of the Bath Initiative and Greater Bath Ltd; Henry Meakin, Founder, GWR.

Some notable supporters



175 4.0K 13K

You Retweeted

Craig Cheney @CheneyCraig · Apr 4
A huge opportunity to bring a whole new model to UK banking. Exciting.

#regionalbank #banking #ukfinance #SMEsupport

avon mutual @AvonMutual
Great to hear @bristolcouncil Deputy Mayor Craig Cheney at our @thersaorg event yesterday calling for councils to support what he called 'a revolution in Uk banking' - a revolution of which Avon Mutual is proud to be a part

Doina Cornell Following
@doinacornell

Good to see we got unanimous support tonight at council for decision to be a founder member of **@AvonMutual** with £50k grant - look forward to other local authorities in our area joining us to support local economy & SMEs, reduce financial exclusion.

1:24 pm - 25 Apr 2019

8 Likes

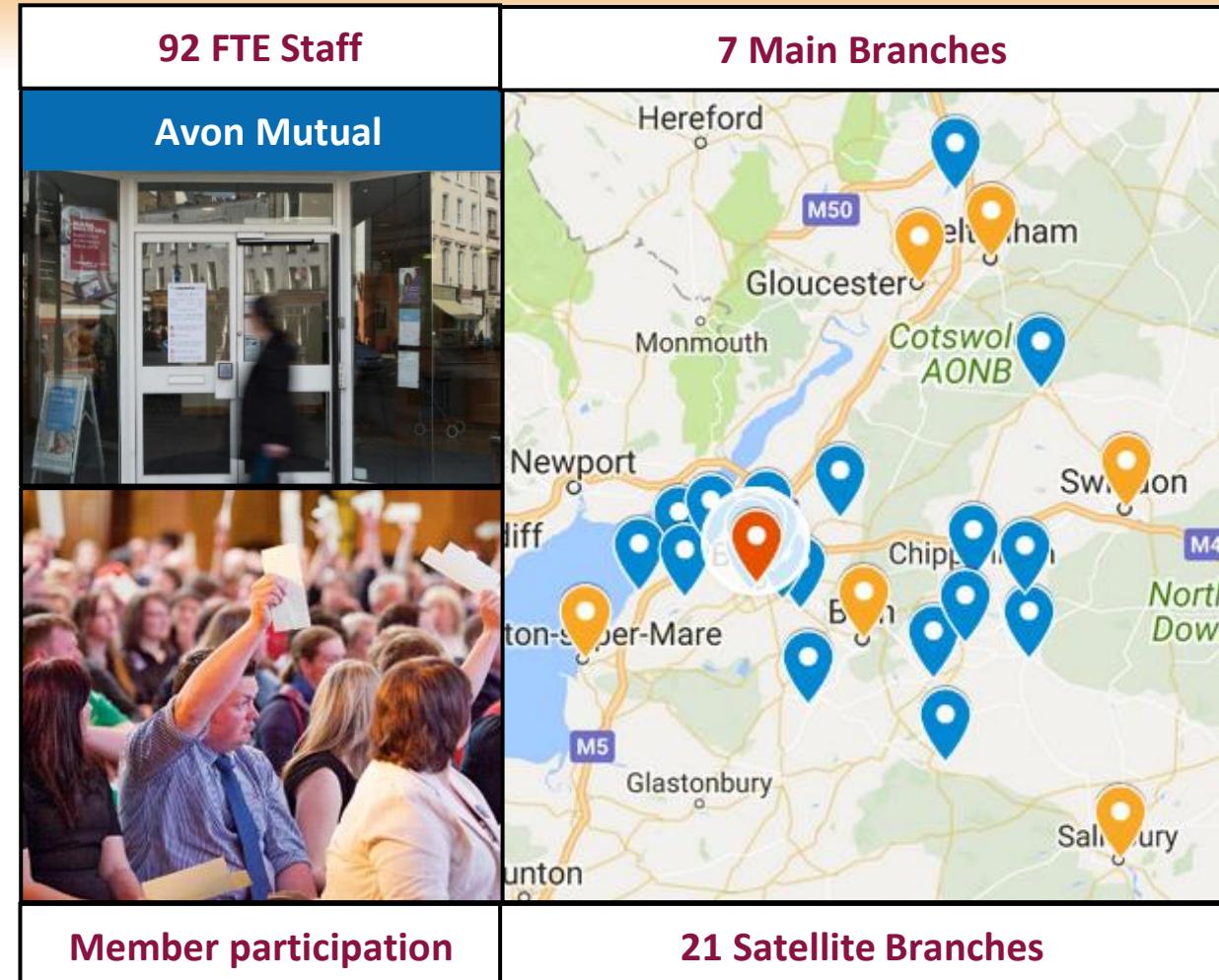
Avon Mutual in 2029



Our prudent financial plan is based on modest market share targets and slow but steady growth in deposits and loans.

Even these conservative projections show that in 10 years Avon Mutual will be a financial powerhouse for the region.

Financial and operating statistics	£m	Market share
Residential mortgages	£147m	0.3%
SME/SE loans	£144m	3.5%
Personal loans	£129m	8.2%
Customer deposits	£482m	0.7%
Personal members	69,300	3.1%
Corporate members	17,600	8.5%
Annual profits	£20m	
Equity Tier 1 ratio	>15%	
Cost/income ratio	50%	

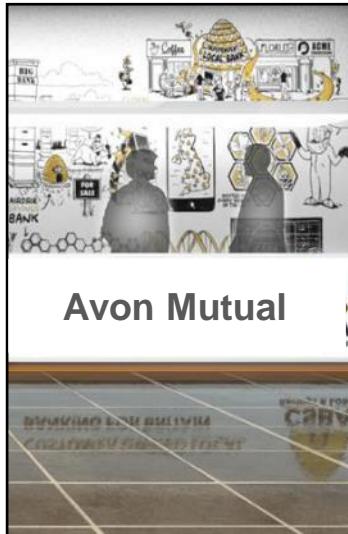


Note: final branch locations will depend on rigorous market assessment

Full range of services competing with high street banks

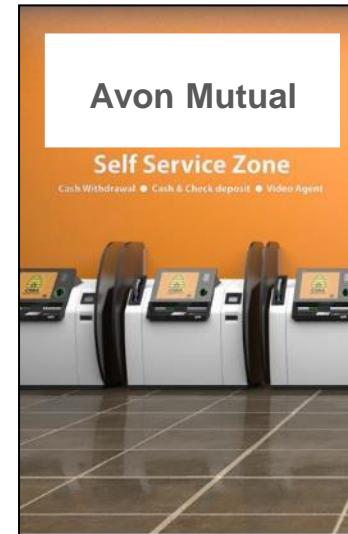


Staffed branches



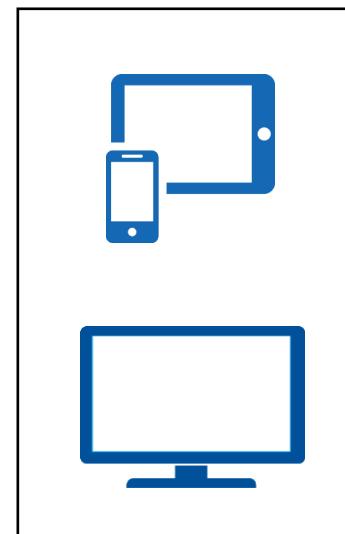
7 main branches act as sub-regional hubs. Branch director has autonomy over lending. Anchor for local relationships and knowledge.

Satellite branches



21 high-tech satellites - access all the same services as in a main branch 24/7. Video link to talk to customer assistants. Low cost and can be co-located with community facilities.

Digital channels



Multi-channel access to products and services by web, online banking and banking app for mobile, tablet.

Current accounts



Fixed, transparent and simple membership fee: Personal: £5 / month organisation: £10 / month.

Budgeting tools including analysis of expenditure and visualisations and 'Jam jar' functionality to improve control over finances.

Interest on whole combined balance across accounts including current account

Why a monthly charge? The myth of ‘free banking’



- The UK market for current accounts is unusual in its charging structure, with **apparently** free current accounts (Free-if-in-credit – FIIC) – most other countries charge for banking. FIIC account providers over-sell other complex and untransparent products to pay for the cost of such accounts.
- We charge a simple, transparent and honest fee of £5/month for personal, £10/month for organisations.
- Unlike most banks we **pay interest on current account balances** - a recent FCA report calculated that 90% of customers with FIIC accounts were effectively paying charges if foregone interest is included. As shown in the comparison with Lloyds and Natwest FIIC accounts, once the balance exceeds £1000 our account is **better value**. It is **much better value** for any customers who need an overdraft. The £5/month costs is outweighed by these benefits and the significantly reduced ‘poverty premium’ for poorer customers.
- Because we can offer a current account without requiring a minimum income or a credit check we can bank currently excluded customers who are **not allowed to have FIIC accounts** by the high street banks and who suffer a high poverty premium as a result.

We believe financial inclusion means equality of respect: the same service for all regardless of income, wealth or background.

“It is a myth because nothing in life is free...this unclear picture may have encouraged the mis-selling now causing so much trouble.”

Andrew Bailey, Chief Executive FCA on ‘free banking’
29th June 2017



Bank	CSBA	Lloyds	Natwest
		Classic	Select
Monthly membership fee	(5.00)	-	-
Interest on £1,000 in current account	1.22	-	-
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

Cutting edge FinTech

- Compared to mainstream banks with huge IT legacy issues, our FinTech ecosystem delivers a “plug & play” multi-channel, modular, customisable banking framework at significantly lower cost and lower risk.
- Anchored by a Tata's TCS modular, cloud core-bank system, innovative BankPod satellite branches, robotised safe deposit boxes and interfaced to multiple networks designed with nodes both traditional FinTech “hard” digital data and crucially often overlooked “softer” analogue human factors and local knowledge.
- Remote human interaction is taken to a new level with highly innovative new in-house developments in direct eye-to-eye video conferencing which is key to our remote banking and for which we will be applying for a UK patent and the use of augmented reality to reduce the cost of remote branches.



World class partners

TCS BANKS

Bottomline Technologies

EVRY

KPMG

GUNNEBO

GLORY

BIG POTENTIAL

RSA

Core banking system

Faster payments

Cards management

License & audit

Security & safe deposit boxes

Teller system

Social impact

Advocacy and support



Business current accounts and overdrafts are key



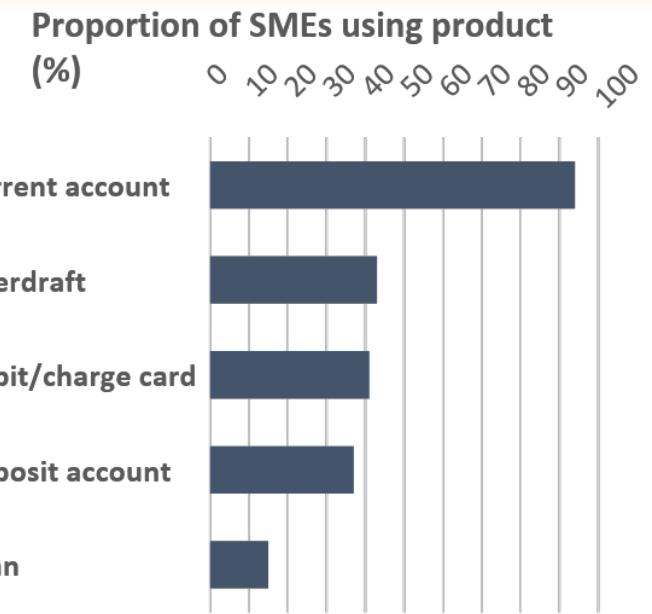
As noted earlier, small businesses in Bristol deposit £441m more than they borrow, and medium businesses deposit £204m more than they borrow. They do not receive interest on these deposits.

A key advantage of Avon Mutual is that it provides the products most needed by SMEs, **business current accounts, cards, overdrafts and branches**.

Our £10/month charge compares favourably with other banks because

- Unlike other banks, we pay interest on current account balances
- There are no complex additional charges, for example for paying in cash
- The monthly charge funds the provision of branch services, which many SMEs rely on for cash banking facilities

Although the ability to offer loans is important, and our relationship banking and local branch model will give us a competitive advantage in this respect, it is important to note that the main credit product for SMEs is an overdraft, which can only be provided directly by banks (and not by credit unions or loan funds).



Note: some small businesses use personal current accounts rather than business current accounts

Stronger together – the CSBA model



Until recently it was extremely difficult to start a new mutual bank because of hostile regulators, massive IT systems costs, inability to access payment systems controlled by the large banks, and co-ops were not permitted to have a banking licence.

However, since the financial crisis there has been a political commitment to allowing new challenger banks, increasing availability of high spec off the shelf IT solutions, breaking up of the payments monopoly and a new law in 2014 that allow co-ops to become banks.

The formation of the Community Savings Bank Association (CSBA), of which AM is a member, is the final development needed to start a new movement of 18 regional mutual banks.

Their highly experienced Board has created a comprehensive template to start a bank, including financial modelling and agreements with key suppliers – the ‘Bank in a Box’:

- | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none">⌚ Cooperating Network Structure⌚ Detailed Investment and Business Model⌚ Working Pilot Bank Facility⌚ HMRC agreed Corporate Tax Structure⌚ FCA Approved Corporate Form & Registration⌚ Financial and Legal Advisors⌚ Banking License Application Pack | <ul style="list-style-type: none">⌚ Banking Systems & Hosting⌚ Payment System Interfaces⌚ Bank Operating Infrastructure⌚ Technology Partnership Agreements – Specification, Installation, Pricing, Maintenance, Service Level Agreements⌚ Product Specifications⌚ Non-Banking Website – Specification, Pricing, Maintenance |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|





3. Impact and investment case: the benefits for Bristol

"In terms of the delivery of a current account, we would rather partner with a local community bank in some way to ensure that our members had more access to a full suite of products."

Credit Union CEO

Alignment with BCC strategies, values, and aims



- AM fully aligns with BCC's One City Plan, the 2018-23 Corporate Strategy, the Resilience Strategy and the 2018-19 Business Plan.
- Predominantly Avon Mutual will further outcomes in BCC's "Fair and Inclusive" theme, although we can also contribute to the "Empowering and Caring" and "Corporate Services and Organisational Support" themes as well.
- In particular, AM is well positioned to advance the strategic priorities of 'people centred sustainable prosperity', 'inclusive business types and models that create the right conditions for people-driven productivity', and 'delivering good growth that enables social mobility' in the Inclusive and Sustainable Economic Growth Strategy cabinet agreement.
- AM is also well positioned to "help develop balanced communities which are inclusive and avoid negative impacts from gentrification" through our regional investment and local branch model.
- AM can play a key role in the BCC aims to disrupt the market and establish "a resilient city financing structure" which would "seek to blend public and private money" with "investment that is able to recognise long-term resilience value, rather than just short-term financial returns".
- AM will help the council deliver target outcomes around a prosperous and inclusive economy, as well as helping the city be innovative, prosperous, resilient, and attractive to business. Our values and ways of working are also highly aligned.



Building a vibrant regional financial ecosystem



- The UK bank landscape is missing our kinds of banks - other countries have a broad range of institutions that in combination provide a diverse, resilient and vibrant regional financial system that has enough variety and choice to serve all needs. This spans from local/neighbourhood credit institutions (German co-operative banks, US Community Development Credit Unions), through to regional banks and investment institutions (Swiss Cantonal banks and German Landesbanken).
- Bristol and the wider region which supports it with customers, workers and supplies deserves its own bank - as the BCC Resilience Strategy points out, "***Bristol is also increasingly recognised as a leader in next economy ‘pattern disruptions’***", it is unique in perhaps being the UK powerhouse of an ecosystem of community-wealth building enterprises such as:

Bristol and Bath Regional Capital || Bath and West Community Energy || Bristol Energy Mongoose Community Energy || Sustrans || Soil Association || Centre for Sustainable Energy || Triodos Bank || Bristol Pound || Engine Shed || Watershed || Bristol Community Energy || Happy City || numerous Transition Town initiatives || Together Group Komedia || Bristol Green Capital Partnership || Festival of Ideas || Resonance || St Johns and Quartet Foundations || Society of Merchant Venturers || The Matthew Tree Project || Bristol Bike Project || Knowle West Media Centre || Malcolm X Centre || Bristol Credit Union || Wiltshire Savings and Loans || Bristol Community Land Trust || Ardagh Community Land Trust || Ecomotive || Swindon's Mechanics Institution Trust

- Avon Mutual plans to be part of this ‘pattern-disruption’ by collaborating with these and many other players to help put the region on the map as a best-in-class regional next-economy inclusive-growth incubator and exemplar. In particular we will complement and help build the region’s evolving alternative finance ecosystem.

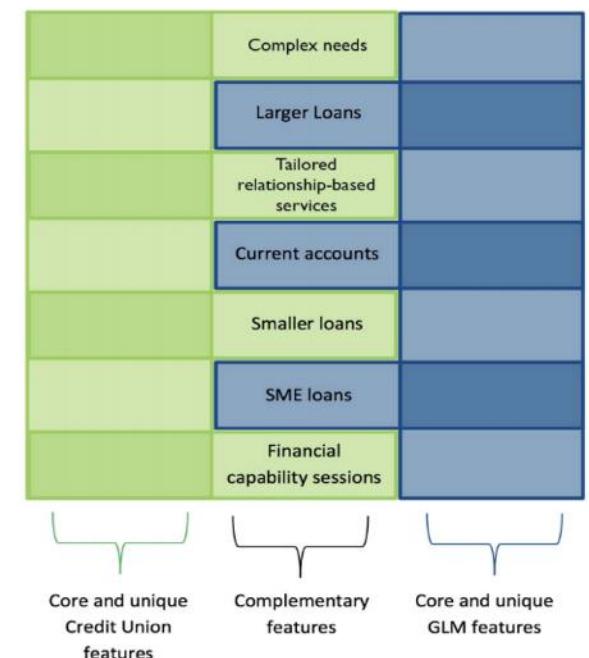
Community banks and credit unions



- CUs play a vital role in the alternative finance ecosystem and our banks plan to work closely with CUs. Work carried out by the RSA, Finance Innovation Lab and NEF has identified a number of differences and complementarities between community banks and credit unions which, rather than overlap, offer symbiosis and partnership potential:
- Current accounts: Avon Mutual will have access to the payments system, unlike BCU, but can provide current accounts to BCU customers thus helping them mitigate the ‘poverty premium’.
- Business banking: although credit unions can theoretically provide business banking, in practice they lack the resources and skills to do so. Avon Mutual will open on day 1 with experienced business bankers and the essential core services required by SMEs: current account, branches, and overdraft facilities.
- Breadth: crucially, the ability of Avon Mutual to offer residential mortgages as well as business and personal loans allows it to rapidly achieve scale and financial viability.
- Scale: Avon Mutual is projected to have £500m in deposits and currently BCU has in the region of £8m.
- Savers: we consider it highly unlikely that any BCU depositors will switch deposits to Avon Mutual. Our main target market is customers of high street banks.
- Loans: there will be individuals with minimal credit records and complex needs that will be unsuitable for lending by a regulated bank and for which a credit union is better suited.
- Co-operation: in other countries stakeholder banks and CUs work closely together, and here many CUs are welcoming the advent of our movement. We are in discussions with a number of CUs, including BCU, and with the Association of British CUs, to form collaborations to cross-refer and work together to serve customers.

**“Lock and key” synergies
between credit unions and
community banks**

(RSA/Finance Innovation Lab/GLM)



Social Impact – Consolidated Impact Areas



Avon Mutual is a mission-led bank, with financial inclusion built in to its structure and constitution. It is part of our ethos to identify, target and report on our economic, social and environmental impacts. Bristol is Avon Mutual's core city and has high levels of relative multiple deprivation, with 16% of residents (69,000 people) and 22% of Bristol's children living in the most deprived areas in England. The social impact measures shown below are illustrative as we intend to work with stakeholders, including Bristol City Council, to understand BCC's strategic objectives such as the 'fair and inclusive' and 'wellbeing' strategies and how we can contribute to its targets and develop measures that are specific and appropriate for the needs of the region. We have repeated below our pro-rata estimates of financial vulnerability for residents of Bristol. As an example, based on Bristol University research into the poverty premium, giving 2500 residents access to a fully functional current account for the first time would eliminate excess costs and charges of almost £1m annually.

Individuals

Improved budgeting ability

Active saving

Lower debt costs

Bonuses & dividends

Improved wellbeing

Reduced poverty premium

Improved confidence

Focus on underserved

INDICATOR	BRISTOL est.
Individuals without bank account and so suffering the 'poverty premium'	12,000
Households without bank account and so suffering the 'poverty premium'	7,000
'Non-users' of the internet	60,000
Entirely dependent on cash	19,000
Consumers with indicators of potential vulnerability	183,000
Can't pay bills/debt in 3 out of last 6 months	29,000
Not able to find £200 at short notice	40,000
Little or no confidence in money management	88,000
Used unauthorised overdraft facility in last 12 months	22,000
Borrowing from friends and family in last 12 months	25,000

SMEs

Access to branches

Increased trust in banks

Wage growth

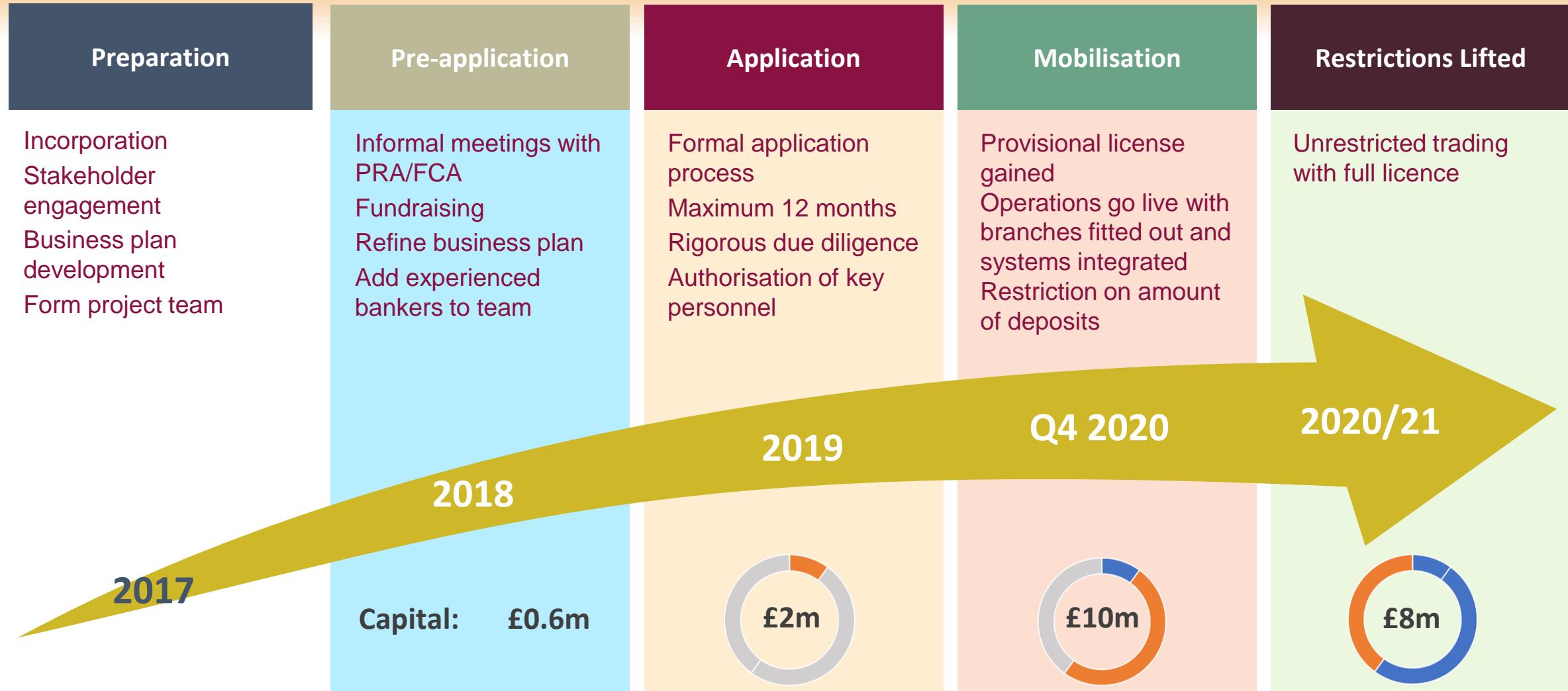
Employment growth

Sales growth

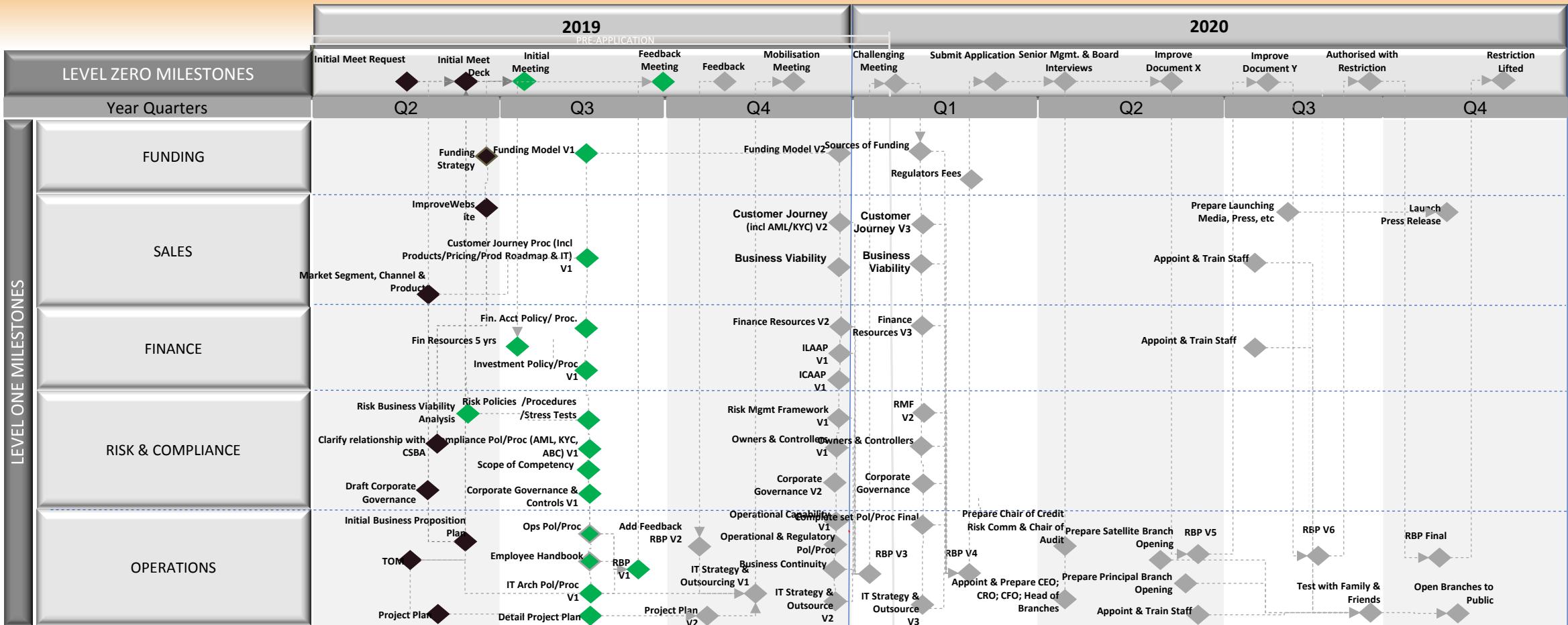
Diversity of entrepreneurs

Increased local spending

Timeline for banking licence and launch



Roadmap to Bank Licence



◆ Milestone on target

◆ Milestone Needs Re-planning

◆ Milestone at Risk

◆ Milestone Date not Confirmed

◆ Milestone Completed

Investment Offer



Investment in AM will support BCC's 2018-2023 Corporate Strategy to use BCC assets "to generate a social and financial return", and to "raise money in a fair but business-like way" as well as the Inclusive & Sustainable Economic Growth Strategy aim to "identify a pipeline of investments to develop inclusive and sustainable economic growth".

RETURNS	Financial	<p>We anticipate an initial annual dividend of 7.5% by year 5, with future increases related to share of profits. As we expect a high and growing dividend yield, moderate share price growth is likely over the medium term.</p> <p>Impact investors (such as local councils) can choose to recycle financial returns into further social impact in debt, poverty alleviation or financial capability and training.</p>
	Economic	<p>Supporting local enterprises, business rates and employment.</p> <p>Boosting economic resilience during recessions, protecting jobs and incomes.</p> <p>Inclusive growth: spreading opportunities for locally driven business and employment.</p> <p>Recycling more spending and savings back into the Bristol economy.</p>
	Social & environmental	<p>Tackling financial exclusion and problem debt.</p> <p>Improving financial capability and wellbeing.</p> <p>Restoring trust and building civic participation.</p> <p>Improved environmental and social performance.</p>
EXIT ROUTE	Trade with approx. 90,000 members projected by year 9 on an ethical share trading platform such as Ethex and SSX.	

Three levels of investment return



Round 1 investment - Pre-application

Two free shares for every share purchased which we estimate equates to circa 20% IRR.
Investment used to build initial team and start licensing process.

Round 2 investment - Application

One free share for every share purchased which we estimate equates to circa 15% IRR.
Investment to finalise licensing, test systems, build bank team and first branches and HQ.

Round 3 investment – Mobilisation and launch

One share comes with circa 7.5% dividend.
Investment drawn down day after license gained.
Operations go live with branches fitted out and systems integrated.

2018-19

Capital: £0.5m

2019



2020/21



Local authority investment - precedents



The legal basis and case for local authority investment in local banks has already been established by a number of precedents.

In all cases the primary objective is to improve social and economic outcomes. Also yields a stream of income which can be applied to the council's strategic objectives.

Approximately 90% of the required investment does not need to be drawn down until a provisional licence has been granted by the regulators. Given that the process of obtaining a licence is extremely rigorous and involves assessing business and financial viability, expertise of executives and Board and testing of operating procedures and IT systems, we believe this investment is lower risk than would be the case in most business start-ups.

Bank	Authority	Notes
Hampshire Community Bank	Portsmouth BC £5 million	Base case 6% and lower case 4% return over ten years. Capex funded by unsupported Prudential Borrowing Due diligence costs £25,000 from MT Resource Strategy Reserve. 'Spend to save' project
Hampshire Community Bank	Winchester £250,000 Test Valley £500,000	Capital receipts reserve. Using economic development powers under the general power of competence in S1 Localism Act 2011
Redwood Bank	Warrington BC £30,000,000	Bank will open a northern regional office in Warrington. Shortlisted in 'Innovation in Finance' category of 2017 MJ Local Government Achievement Awards
Cambridgeshire Building Society	Cambridgeshire LA Pension £15m	Investment
Cambridge and Counties Bank	Cambridgeshire LA Pension £12m Trinity Hall Cambridge Uni £12m	Joint owners of the Bank at 50% each. The Council also has another £12m non-equity investment.
Greater London Mutual	Four London Boroughs - £2-£5 million each	Staged investment 10:50:40 dependent on progress. First branches opened within investing Boroughs

Progress up to May 20th 2019 and next steps



Progress

- Avon Mutual registered with FCA
- Built a NED board of experienced senior bankers and two full time executives plus part time support from two others
- Run numerous engagement events and spoken at many other events across the region
- Stakeholder mapping, engagements and movement building ongoing
- www.avonmutual.org website launched
- Successfully raised first round £450,000 investment from Stroud Council, two local foundations and local individual impact investors
- BCC currently planning on £100k investment and Wiltshire CC on £50k taking us to our target of £600k by end July
- Currently meeting with Leaders, CEOs and FDs of all the regional Local Authorities and VCs and FDs of the regional Universities, churches and others to explore investment in our second (£2m) and third (£18) rounds with a great deal of interest already

Next steps

- Starting banking license meeting with PRA in June
- Finalising regulatory business plan
- Developing and initiating brand and marketing strategy
- Rolling out social media and communications outreach
- Recruitment of CEO by end 2019
- Raising a second round investment of £2m