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A particular model of interest-free bank: The case of JAK Bank in Italy

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Introduction

In the first chapter an overview of the principal modern forms being developed in ethical banking will be given, seen from a historical perspective and its natural origin being described and explained. The main focus will be on describing, in depth the case of Jak Bank. That is a particular kind of bank from an ethical, but also technical point of view.

Jak Bank is in fact a unique model of banks, characterized by values of mutuality and solidarity, typical of the cooperative bank with a new idea of "money" and "savings". It differs from the others, first because of the lack of interest on loans that offers a completely different perspective of the monetary system, and second for the creation of a network of solidarity among its members supporting each other in accessing credit. Borrowing money without paying the interest and not worrying about fluctuations in interest rates is, therefore, the initiative of the Swedish Jak Bank. It is an institution that has existed in Scandinavia since the 60s, and that offers an alternative credit product on the market, which's operating mechanism is completely disconnected from the logic that today govern the international financial system.

In the second part an analysis of the current financial situation and credit system in Italy and Sweden will be presented to better understand the background in which JAK has to face its challenges. Jak Bank proposes a kind of lending, where the only costs to be generated are those that are used to manage the structure of the bank, that is to pay employees and inquiring about the real guarantee of the borrower. These items of expenditure expressed and calculated in percentage terms of the loan, are very small in Sweden, currently standing at around 2.5% on a yearly basis. In addition, the cost of the loan is fixed for the duration of the repayment plan and is completely detached from market factors such as fluctuations in Euribor, which has created many problems to investors during the last years of financial turmoil.

The mission of the project is therefore to achieve banking entities that are promoting the circulation of money and the redistribution of wealth. The current economic and financial scenarios show how the traditional model induces, on the one hand, the decline in savings, on the other hand, a growing difficulty to repay the debt, given the high costs of funding. The consequence of this is the increase in inequality between wealthy people and people in economic distress.

In this thesis the role of banks in creating money and interest is described, with assumptions about interest effects on society that are relevant for the next part of the report about this different way of banking. The JAK Bank provides an important model for interest free saving and lending, that operates under some basic principles, such as: charging interest is inimical to a stable economy; interest causes unemployment, inflation, and environmental destruction; interest moves money from the poor to the rich; interest favors projects which yield high profits in the short term.

But the question remain, how can it be interest free? The answer lies within the simple and unique mechanism of the JAK bank. Instead of interest, savers are rewarded with interest free loans for themselves. Generally, most people are organized to provide themselves with loans based on their future savings and income and would rather have interest free loans than interest on savings.

The Jak bank basically works as people expect a bank to function: it takes in deposits from its members and lends these out to other members. Loans are backed by either collateral or guarantors. The JAK has very low default rate, because interest free loans are obviously much easier to repay and also, JAK requires its members to save in order to obtain the right to borrow, in this way creating a sort of commitment. Even the deposits are unpaid. The money lent by Jak Bank is the result of the collection made by the same bank among its members and depositors as, they can deposit their cash at the institute, but not receive remuneration on deposits held.

One member of the JAK Board and also being the coordinator of a local group of volunteers in Stockholm provided an idea and informed about how this curious system works.

After more than 40 years, JAK Medlemsbank now has more than 38,000 members throughout Sweden and 500 trained volunteers to support the local communities, with capital of 7 million Euros and a collection of well above 100 million, being reused in loans without interest. On the basis of these results, the association recently spread the model in other countries; today the Italian project is the one being relating the most to the Swedish bank model.

In the last Chapter, is thus described in depth JAK Bank in Italy, from its birth to its current and recent development. In the same way as JAK Medlemsbank, JAK Bank Italia proposes a project of social business "non-profit". The new-formed JAK Bank in Italy is inspired by and has its origin in the JAK MedlemsBank from Sweden, with the same values and Balanced Saving-and-Loans model. One of JAK Italia's main purpose is to build environmental awareness by encouraging the financing of companies that operate with the current criteria of eco-sustainability and eco-friendliness and re-investing its own resources in the territory. JAK emphasizes the concept of local community creating relationship among the members working in close connection with the territory.

In the last Chapter will in depth, the measures in granting of loans, the careful evaluation of the financing projects, and the creation of support networks of the newly-formed JAK bank in Italy be exhibited. In the following work will the main assumptions be illustrated according to the JAK Italia business plan, about future trends that the new-form has to face in coming years. Kindly, the Members of Jak Bank Italia provided to me an extract and a summary of the business plan redacted during the first years of start-up.

Chapter 1 - Emergence of ethical banking

1.1 Ethics in banking

An ethical bank, also known as a social, alternative, civic, or sustainable bank, is a bank concerned with the social and environmental impacts of its investments and loans.

Ethical banking provides direct finance through lending and risk capital to fulfill the financial needs of selected entrepreneurs, organizations and businesses; it's also supported by the existence of the European Federation of Ethic Finance and Alternatives. It has not developed as fair trade area as there not are codes and regulations to certify its own industry, as it still difficult to create a concrete definition that exactly distinguish between an ethical bank and a conventional one.

Regulated by the same authorities and the same rules as the traditional banks , ethical banks share a common set of principles, such as transparency, and they have social and/or environmental aims for the projects they finance. The modern forms of cooperation focusing on membership needs, such as the fair trade and microfinance movements, with economic and social values, are a step forward in the practice of brotherhood and solidarity in a global economic context. Conscious handling of money can be considered an important instrument for improving quality of human life; a neutral attitude to investment and lending is irresponsible, money leads to create added values in human, social and environmental field. Some of these values, identify also the basic rights such as: freedom of thought and opinion; equal rights at a political and juridical level; the freedom of association in a democratic society; the right to work ; a spirit of brotherhood, tolerance and cooperation in economic life.

While some mainstream banks have become aware of business opportunities in this sector, cooperative banks and new kind of social banks have started to co-exist.

Finally, when discussing ethics in banking one must also mention microfinance institutions that focus their effort in parts of the world where there is a high need for poverty alleviation.

Therefore, all the kinds of emerging ethical forms in financial sector will be described within this paper to show how essential needs can be more fulfilled through collaboration and mutuality in membership organizations.

1.2 Socially responsible investment (SRI)

Although difficult to establish the date of birth for ethical funds, the origins go back to the 17th Century, when the Quakers in the United Kingdom refrained from investing in industries that were morally opposed such as tobacco, alcohol, gambling and the slave trade. Later, in the 19th century the Methodist Church of North America began to avoid investing in “sin stocks “ issued by companies operating in sectors considered incompatible with their ethical standards. This negative ethical screening of investments is by today known as Social Responsible Investment (SRI).¹ In 1961 the Foursquare Fund was founded and later in 1971 the Pax World Fund and in 1972 the Dreyfus Third Century Fund. Still today, these funds represent the major U.S. Financial intermediaries operating in the field of social responsibility. (see note) The Pax World Fund was the first broadly diversified, mutual and socially responsible fund in modern time; it included securities belonging to companies not involved in the arms trade nor war-industry.²

The development in the 1980's led to investments supporting the South African apartheid regime being avoided and Friends Provident (UK) became the first financial institution to launch an SRI fund.

¹ Becchetti, L. e Paganetto, L. (2003), *Finanza etica. Commercio equo e solidale*, Donzelli Editore 2003

²www.paxworld.com

With help from Friend Providen (UK), the Ethical Investment Research Service (EIRIS) was established in order to provide a critical research and information on stock- listed companies, social, environmental and ethical performance. In the same time period in the United States, Amy Domini developed ethical screening advice services and the first ethical stock market index.

Most companies started to use some ethical screening of their social and ecological behavior so that asset managers can constitute diversified portfolios, primarily based on combined negative and positive ethical criteria.

Positive screening identifies companies that meet ethical guidelines and then being available for investment. The kinds of companies that proceed the screening are those with good employee rights and equal opportunities records and also those that promote human rights. Also receiving positive screening results are companies engaged in wholly ethical industries such as renewable energy, sustainable forestry or water management³.

Negative screening takes out those companies that do not meet the ethical criteria laid down in a fund's objectives. Companies that would be excluded here may be involved in alcohol / tobacco sales or production, gambling, pornography or manufacturing of weapons. Any company that is heavily polluting or contributing to climate change in other ways would also make the list, as well as those who do not take good care of their employees.

Engagement: Some funds 'engage' with the companies they invest in by using the fund manager's power as a major shareholder to push for improvement in the company's policies on human rights, the environment and corporate governance issues⁴.

There are essentially two factors that can reduce the economic performance of these ethical instruments: first the cost and second the return of the investments chosen by the fund.

³ Positive screening involves a best-in-class method

⁴ www.screening.nhs.uk

An ethical fund might probably cost more than ordinary mutual funds, because of its structure of costs, such as the ethics committee or external advisors. Regarding the second factor, some studies have actually shown that on the performance of ethical investment, in terms of variance, there is a “sacrifice” for the investors that choose an ethical fund, as there are limited choices of investment on a subset in the market portfolio. Briefly, if the traditional investor tries to minimize the risk for a given level of performance, the ethical investor should add to this classic approach a further restriction that imposes a zero quote of investment on stocks that violate the ethical criteria.

But if the ethical investments grow sufficiently, the potential profit of a socially responsible investor could be very similar to the traditional one. By applying ethical screening within investments, ethical funds, institutional investors, and pension funds are exercising influence on management and one can see that corporations gradually are responding with improved transparency, reporting and accountability. Better reporting, external social and environmental auditing, the elaboration of social and environmental guidelines in corporate governance codes, feedback by the screening analysts and regulations could lead to a system of permanent ethical upgrading by corporations. Socially responsible investment is of a totally different nature than ethical banking since it relates to the ability to influence company behavior through the provision of capital to stock-listed companies. Ethical banking, as described below essentially relates to direct financing and loans.

1.3 Microfinance banks

Microfinance is a banking method for people without access to finance, contributing to poverty alleviation through micro lending for income generating activities performed by the poor themselves. Microfinance institutions have the potential to develop into fully social banks and are helped with support structures such as Oikocredit, launched in 1975 by the World Council of Churches, the Triodos Microfinance Funds (1994 and 2002), ShoreBank and Shorecap International (1988 and 2003) and many other institutions. Apart from Grameen

Bank some of the most advanced microfinance institutions are Brac Bank (Bangladesh and Afghanistan), Basix (India), Aceda Bank (Cambodia), Mibanco (Peru), Findesa (Nicaragua), Compartamos (Mexico), Equity Bank and K-Rep Bank (Kenya) and Centenary Bank (Uganda).

The financing of poor people's entrepreneurship requires different methods, compared to traditional banking, mainly because of the different social structures and the predominance of individualism in those societies. So as long as microfinance institutions are able to integrate basic ethical values, and are able to connect local savings to local borrowing, there is potential for high quality development.

1.3.1 The Bank for the Poor

The most famous example of ethical bank is the Grameen Bank in Bangladesh, which in 2006 received the Nobel Prize for Peace, together with its mentor Muhammad Yunus.⁵

The prize was awarded for the efforts of promoting economic and social development by favoring the innovative programs such as microcredits.

In 1976, Yunus started a series of experiments lending to poor households in a village in Bangladesh; he found that borrowers were not only profiting greatly by access to the loans but that they were also repaying reliably, even though the villagers could offer no collateral. Realizing that he could only go so far with his own resources, Yunus convinced the central bank of Bangladesh, to help him set up a special branch that catered to the poor and soon Grameen went nation-wide. With group lending in place, the mechanism that essentially allows the poor borrowers to act as guarantors for each other, the bank could quickly grow village by village as funding permitted.

⁵ Armendariz, Beatriz and Jonathan Morduch (2010), *The Economics of Microfinance*

Grameen contract takes advantage of the client's close ties within their community, the loan contract involves groups of customers, not individuals acting on their own, because clients are most often too poor to be able to offer guarantee. The groups form voluntarily and all members are expected to support each other when difficulties arise. According to the rules, if one member defaults and fellow group members do not pay off the debt, all in the group are denied subsequent loans. This feature gives customers important incentives to repay promptly, to monitor their neighbors, and to select responsible partners when forming groups ⁶. The “joint liability” condition is the most celebrated feature of the Grameen contract. Grameen Bank is the proof of a new concept in banking and is based on the principle that every action must respond to the economic needs and help to create new ones.

1.4 Cooperative banks and credit unions

A cooperative is an autonomous association of people who voluntarily cooperate for their mutual social, economic, and cultural benefit.⁷ Cooperatives are typically based on the cooperative values of “self-help, self-responsibility, democracy and equality, equity and solidarity”.

These values explain their strong commitment to societal responsibility. Trust is the key in the relationship between a bank and its customers, because profits maximization isn't the primary goal for co-operative banks.

Clients can become members of co-operative banks with relatively small investments. As a result, they directly become involved in the governance, strategy and risk management processes. Customers and members of co-operative banks are represented in the bank's governance structure through participation on boards, membership councils, etc.

⁶ Fugelsang, Andreas and Dale, Chandler - Participation as a Process—What We Can Learn from Grameen Bank, Bangladesh, rev. ed. Dhaka: Grameen Trust, 1993

⁷ Statement on the Cooperative Identity- International Cooperative alliance

Co-operative banks generally have a long-term orientation, a high level of capitalization, stable incomes from retail business and a diversified credit portfolio. Thanks to their local roots, co-operative banks are able to face challenges and adapt to local circumstances. Their stakeholders resilient structure brings about efficiency, members control the co-operative at each level of the business, minimizing the organization's risk and gives immediate response to customers' needs.

Moreover, co-operative banks contribute to stability thanks to their closeness and proximity to their clients. Local co-operative banks are usually part of community, they have a good physical proximity, thanks to their dense networks of branches. Co-operative banks traditionally promote the entrepreneurship at the individual level and the development of their communities through cultural sponsorship and a participation in numerous social networks. Additionally, the mutual guarantee systems among co-operative banks provide a form of solidarity at two levels.

First, capital is made available for other people and companies that have an economic need, with the opportunity to support each other. Second, co-operative banking systems provide mutual guarantees in case of default. As local contributors, co-operative banks take initiatives, aiming to improve the clients' environment and provide financial services. Social commitment therefore means investing in the customer. In doing so, co-operative banks support them through financial funding, as well as access to their networks and unpaid services of employees, in order to facilitate the development of local communities.⁸

Many cooperative banks expanded their activities, but they lost their special social mission. These banks manage to successfully combine usual banking business with support to specific areas such as community development, the not-for-profit sector and environmental development.

⁸ www.co-operativebank.co.uk

Examples of such banks include Rabobank in Netherlands, Vancity in Canada Cooperative Bank in United Kingdom and Crédit Coopératif in France. A credit union is a member-owned financial cooperative, democratically controlled by its members, and operated for the purpose of promoting thrift, providing credit at competitive rates, and providing other financial services to its members. Many credit unions also provide services intended to support community development or sustainable international development on a local level. Credit unions operate alongside other mutual organizations engaging in cooperative banking, such as building societies. It differs from other financial institutions in the way that those who have accounts in the credit union are both its members and owners, and they elect their board of directors in a one-person-one vote system regardless of their amount invested. Credit unions see themselves as different from mainstream banks, with a mission to be “community-oriented” and “serve people, not profit”. In the credit union context, “not-for-profit” has not the same meaning as for a “non-profit” charity or similar organization.⁹ Credit unions are “not-for-profit” because their purpose is to serve their members rather than to maximize profits.

1.5 New social banks or private development banks

Over the last years, new social banks or private development banks have been created and new banks are being constituted. They see cooperation not as a mutual aid process between members but as a shift of interest towards the needs of other human beings in a local or global context. These impulses are also connected to those non-governmental organizations such as Amnesty International, Greenpeace and Friends of the Earth that play an active role in global and personal development process.

⁹ www.woccu.org

Ethical banks, spread throughout Europe, are now a solid reality and they are facing new challenges every year, such as poverty, unemployment, environmental protection, a more equal distribution of world resources etc. In 1974 the GLS Bank¹⁰ was founded in Germany, which was the first European ethical bank. With the ethical approach to banking the bank had, it has been an inspiration for many of the European social banks which have gradually developed over the last few decades.

The Dutch Triodos Bank (1980), founded in 1980, with headquarters in Zeist is a pioneer in ethical banking with branches in Belgium, United Kingdom, Spain and Germany, and it can be defined as the largest of Europe. Other important banks in ethics are:

- ShoreBank, (1973), USA
- Freie Gemeinschaftsbank in der Schweiz, (1984), Switzerland
- Merkur Bank, (1985), Denmark
- Wainwright Bank and Trust Cy, (1987), USA
- Alternative Bank Schweiz, (1990), Switzerland
- Cultura Sparebank, (1997), Norway
- Ekobanken, (1998), Sweden
- Banca Popolare Etica, (1998), Italy
- Charity Bank, (2002), United Kingdom
- ASN Bank (1960), The Netherlands
- Caisse d'Économie solidaire Desjardins (1971), Canada
- Unity Trust Bank (1984), United Kingdom

¹⁰ Gemeinschaft fuer Leihen und Schenken

- Bank für Sozialwirtschaft (1923), Germany
- Umweltbank (1995), German
- New Resource Bank (2006), USA

All together these banks are currently financing tens of thousands of projects with added social value mobilizing the savings of more than one million people and institutions. Still being relatively small, these institutions, have substantial growth rates, are professionalizing and consider themselves to be catalysts for social change. Despite cultural differences, variety in size, products and services, and stage of development, all of them have ethical and sustainable development elements at the core of their mission, ambitions and practices. The various European ethical realities in banking began a dialogue together in 1989 when the International Association of Investors in the Social Economy was founded. The aim was to create an opportunity for dialogue between all the organizations that dealt with ethical finance in the European horizon.

Among the ethical banks that arise after this time period, one in particular should be mentioned, the Swedish EKOBANK. An ethical bank open to those with initiatives in areas activity such as health, education and art. The bank has a policy of investing in social and durable economies. The ones which invest in the bank may influence the bank's crediting policy, determining the type of project they wish to finance. As a particularity is the fact that no shareholder can own more than 10% of the capital. In Sweden, together with JAK bank, the Swedish Ekobanken is the only kind of bank which allows its customers to know exactly what destinations amounts are being deposited at, being totally transparent.

Chapter 2 - Banking in Sweden and Italy

2.1 Banking in Sweden

According to the World Economic Forum in its Global Competitiveness Report 2012–2013 Sweden is the fourth-most competitive economy in the world¹¹ and is ranked fourth in the IMD World Competitiveness Yearbook 2013.¹² Sweden benefits from transparent public institutions and by having one of the most efficient government in the world. However, the financial crisis in 2008 had a severe impact on the global economy especially on the banking sector due to the interdependence of international financial markets. Thus, in the following sections will also be described the banking and financial situation that also represents the background where JAK was born and is still is facing its challenges.

2.1.1 The Swedish financial market

In Sweden, the financial sector play a significant part for the economy, with an efficient and reliable system for savings, financing, payment intermediation and risk management, the sector gives a considerable contribution to production, employment and welfare in the country. Banks, as well as credit institutions, insurance, securities and other companies within the financial sector manage this system together.¹³

Some of the functions the financial sector have is to efficiently channel savings in society to investment and consumption, for an example the households need to smooth out the consumption of various life stages and the needs for companies to finance investment.

In 2011, the financial industry accounted for 4.0 % of the total output in Sweden, expressed as in GDP. Around 85,000 people, or 2% of the total workforce, work in the financial industry.

Over the last ten years the financial sector in Sweden has seen a rapid development, where

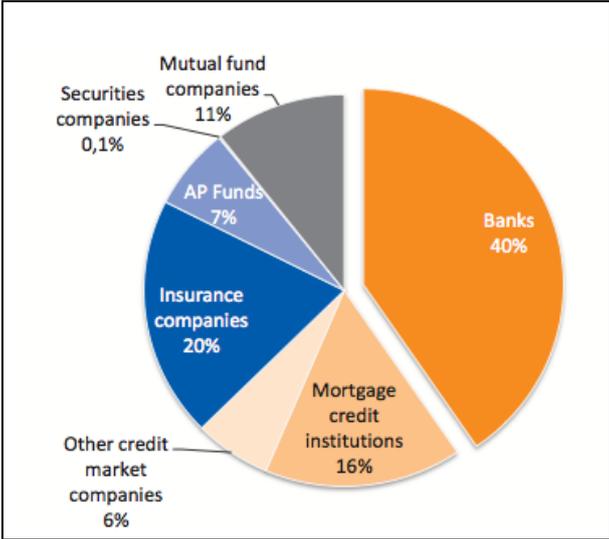
¹¹ Global Competitiveness Report 2012-2013
¹² World Economic Forum. 5 September 2012.
¹³ Sveriges Riksbank

new companies has entered in the market and Swedish banks have increased their activities abroad as well. Another important change has been the shift of activity between banking and insurance operations; nowadays all the large banks have operations within the life insurance sector and many of the large insurance companies have banks of their own.

Moreover, branch offices have become less important for bank customers' daily services and the customers tend to make normal bank services through either Internetbank or their cell phones. New technology has also smoothed the way for the establishment of new banks which has increased competition among banks.

Mutual funds and insurance savings have become some of the most important forms of household savings. Bank savings are still, however, the largest household saving type. At the same time, savings in bonds has lost its importance, while over 75 % the population saves in mutual funds.

Figure 1 - Players on the financial market



Source: Sveriges Riksbank, December 2011

The total sum of the financial companies' overall balance sheet in 2011 made up to SEK¹⁴ 14 830 billion, which can be seen in relation to Sweden's GDP in 2011 of SEK 3,490 billion.

The three largest groups of companies on the Swedish financial market, measured in total assets, are banks, mortgage institutions and insurance companies. The Banks share of the total assets of the financial market was 40% at the end of 2011. Private equity companies mediate risk capital by investing and taking a part of the ownership in companies. (Figure 1)

The Swedish Central Bank, *Sveriges Riksbank or Riksbanken*, directs the national monetary policy, supervising the financial system, while the Swedish Financial Supervisory Authority, *Finansinspektionen*, authorizes and monitors all the financial institutions in the country.

2.1.2 Structure of the Swedish banking system

There are four main categories of banks in the Swedish market: Swedish commercial banks, foreign banks, savings banks and co-operative banks. In December 2012, Sweden had a total of 117 banks and the number of commercial banks and foreign bank branches in Sweden has increased from 42 in 2000 to 66 in 2012. The increase can among other things be explained due to the fact that more foreign banks have been established in Sweden.

In addition, the number of Swedish commercial banks have increased, including new Internet- and telephone banks as well as securities firms and credit market companies that has become banks.

The largest Swedish commercial banks are: Swedbank, Handelsbanken, Nordea and SEB and these banks are important players on most segments of the financial market.

There are also savings banks that have been converted into joint stock companies, often seen with Swedbank as a shareholder together with another kind of Swedish commercial banks with a diverse business focus and ownership structure.

¹⁴ SEK Swedish Krona, the currency of Sweden

At first these banks were mainly focused on the retail banking market and distributed their products and services online and through retail stores. In recent years several new banks have a background in securities trading and financing business. The new established banks have in course of time increased the selection of financial products and many of these banks are today regarded as universal banks.

Foreign banks started to open branches in 1990 and then they have increased; in December 2012, they amounted to 29 and most of them focus on the corporate banking and securities market. The largest foreign bank is Danske Bank which at the same time is the fifth largest bank in Sweden.

There are numerous independent savings banks in Sweden; which in general are small and active in regional or local markets.

A co-operative bank, as economic association, has the purpose to produce bank services for its members. In order to use the bank services of a co-operative bank the customer must become a member by paying a member share. As already been mentioned in Chapter 1, there are two co-operative banks in Sweden, Ekobanken and JAK.

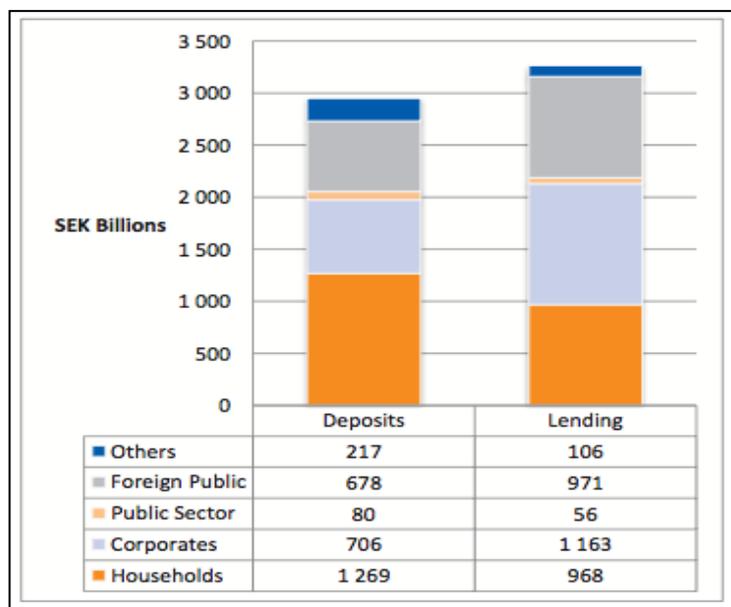
2.1.3 Banks function

Banks' core function and business purpose is to accept deposits and provide credit. In Sweden in December 2012, the banks' public deposits amounted to SEK 2,950 billion where 43% of these came from Swedish households, while 24% came from Swedish companies' deposits and 23% were foreign public deposits.

Since 2008, all credit institutions are permitted to accept deposits in accounts covered by the deposit insurance.

Lending to the public in Sweden takes place mainly through banks and mortgage institutions. Banks provide loans with different types of security, even the smaller ones without collateral which like mortgage institutions also provide loans secured on homes and other properties.

Figure 2 - Bank deposits from and lending to the public



Source: Sveriges Riksbank, December 2012

Lending to the public from banks amounted to SEK 3,264 billion in December 2012 and 36% of amount went to Swedish business, while households and foreign borrowers accounted for just about 30% each. (Figure 2)

The interest rates that banks use for their deposits and credits are strongly related to the interest rates prevailing on the money market and also on factors such as the borrower's creditworthiness, the risk in the undertaking, the banks' financing costs, the competition among credit institutions, and the competition between different save and loan forms.

The banks' average deposit and lending rates have shown a clear downward trend since the early 1990s and also the interest rates are in general still lower than in the previous period.

Another important function of a bank is to provide the means for payment: the Swedish payment system is represented by the Bankgiro, commonly owned by the banks. The Swedish payment system is technically advanced and has high efficiency so that payments can be made quick, safe and at low cost.

Moreover some banks try to reduce, redistribute and spread risks to corporate and retail customers, for example by offering trading in futures and options.

2.2 Banking in Italy

In the same way as the Swedish banking system was described the following part provides an outlook about the Italian banking system where the new JAK Italia association can find its place. The focus will also be on the current economic situation in Italy in order to better understand the impact on the financial sector which recently has become more attractive for the emerging new forms of ethical and alternative banks.

2.2.1 The economic situation in Italy and prospects for the future

The worsening of the sovereign debt crisis and signs suggesting a slowdown in international trade resulted in a negative growth outlook in both Italy and the euro area. This was progressively incorporated into the estimates made by international institutions and by private auditors. At the end of 2012, consumer price inflation remained slightly higher than the 3%.¹⁵ In the same period the production decreased; in fact, the economic activity, supported by the interchange with foreign countries, suffered from the strong weakness of households and firms expenditure. In the first half of 2013 Italy's GDP continued to drop, largely due to the fall of domestic demand; even exports declined.

Economic activity is expected to expand at a moderate pace from the end of the year, with a general growth of more than half a percentage point in 2014. In the short term, domestic demand will need to be a rapid payment of general government commercial debts. The recovery is related with the risk of a slowdown in the global economy together with the risks inherent in financial market developments.

¹⁵ According with Economic Bulletin forecasts almost 1% of CPI (Consumer Price Inflation) reduction reflects the increased indirect taxes introduced in 2011.

Risk premiums on government securities are highly sensitive to swings in market confidence, as has been shown recently by the wide fluctuations in the interest rate spreads relative to the German Bunds, mainly because of Italy's large public debt, weak growth prospects and strong level of uncertainty. Investors' confidence in Italian market is fragile and exposed to the changeable evaluations of analysts. A further drop in the economy would narrow the scope for fiscal policy measures and also have repercussions on banks' funding and hence on the availability and cost of credit to firms and households.¹⁶

Budgetary policies must continue to be responsible; reforms should be set within a comprehensive plan with aims clearly defined.

In July 2013 the ECB Governing Council announced that monetary conditions would continue to be accommodative for as long as necessary. The adopted innovative communication procedures expects official rates to be kept at or below their current levels for an extended period.

The Italian banking system has been under severe strain from the financial crisis, with the double recession and sovereign debt tensions. The banks' income-producing capacity has been reduced and in the absence of adequate response it could be further undermined by the persistence of the crisis or the occurrence of new adverse shocks.

2.2.2 Businesses and families

Firms' indicators don't show an imminent return to growth in economic activity and their operating profits are slightly dropped.

According to estimates based on national accounts, in the second quarter of 2012, non-financial companies operating profits - calculated as the ratio between gross operating margin and added value, measured over the twelve months ended in June - had slightly decreased. A further reduction was also on the self-financing capacity of firms due to an increase in net financial expenses.

¹⁶ Statistical Bulletin of Bank of Italy

The contraction of bank lending to businesses is still present: in August 2012, loans granted to non-financial companies marked a decline of 4.3% (compared to earlier year); the decline has affected all businesses, but more strongly the smaller ones .

The most recent qualitative surveys conducted among firms indicate increasing difficulties in accessing credit and tensions on liquidity.

Household consumption is affected by the protracted loss of purchasing power and the low levels reached by the trust, which in the summer months has stabilized lows. In the second quarter of 2012, household spending fell below 1% on the previous year, the fifth consecutive decline. The consumption of services decreased again, by 0.4%. The decline on purchases of semi-durable goods has increased, against an attenuation for non-durables; consumption of durable goods, sharply reduced from the spring of 2011, showed instead a recovery (0.8%).¹⁷

The decrease of available income affects household demand; expenses incurred by Italian families for debt service (payment of interest and repayment of capital) remained more or less unchanged and the rates on loans for house purchase and consumer credit are continuing to decline.

2.2.3 Banks

The 2012 tensions in the sovereign debt markets continues to affect the foreign collection of intermediaries, even though not as strong as in 2011. The credit conditions for businesses are have slightly been improved (respect the early period), by the decrease in spreads on government bonds observed after the new monetary policy measures taken by the ECB.

However, tensions remain, indicating a more heterogeneous transmission of monetary policy in the euro area.

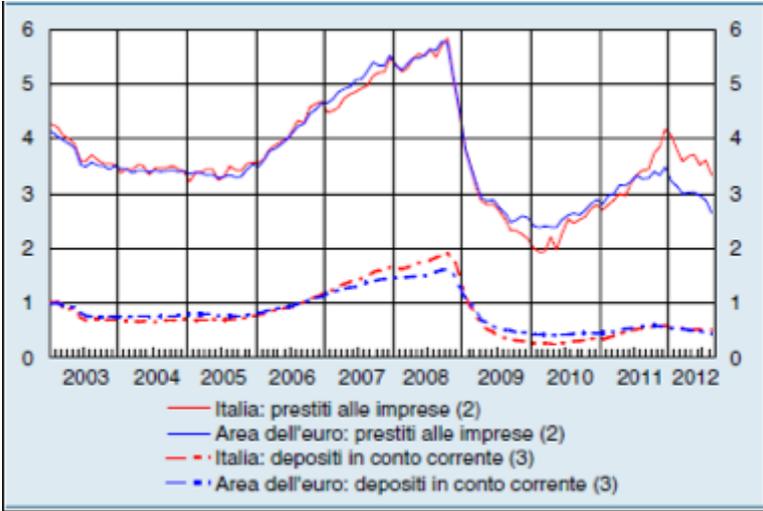
The retail funding remains a solid strong point for Italian banks; in 2012 the cost of borrowing had also increased slightly and the average interest rate applied to the firms and households accounts was more or less unchanged.

¹⁷ Based on the results of the survey conducted by the Bank of Italy in collaboration with Il Sole 24 Ore

A weak demand, linked to the contraction of investment and poor economic prospects for enterprises, weighed on the most recent trend of credit. The most updated investigations report difficulties in access to credit, where the cost that for the firms appears to still be higher than average of the euro area.

The persistent gap, also current in other countries exposed to the financial turmoil, still indicates the presence of heterogeneity in the transmission of monetary policy to the different economies. (Figure 3)

Figure 3 – Banking interest rate



Source: Bank of Italy, 2012

One can see a drop in the cost of loans to businesses and the rate on new loans to households to fall down, both for variable and fixed transactions. There is also apparent reduction of the APR¹⁸ on consumer credit.

In the first half of 2012, according to the consolidated quarterly reports of the top five banking groups, profitability, net of extraordinary items, has slightly decreased.

¹⁸ Annual Percentage Rate (TAEG or TAE). Regulated by Legislation 87/102/Cee

The return on equity (ROE), assessed on an annual basis, fell by about 1% from previous year, and, after taxes and extraordinary items, profit decreased by one-third.

At the end of 2012 the ratios of the five major groups continued to improve, mainly due to a reduction in risk-weighted assets. The financial leverage, measured by the ratio between the total assets and the core capital, was still significantly lower than the average for large European banks.

2.2.4 The financial market

A decrease in premiums for sovereign risk started in early September 2012, after the new monetary transactions for government securities, defined by the ECB.

Spreads remained at average levels and showed significant variability, associated with the persistence of a climate of high uncertainty.

In the same period, the premiums on credit default swaps (CDS) for the major Italian banks fell by 89 basis points to 470 points.

The general improvement of financial markets conditions also affected those shares. The expected variability, derived from the prices of options on stock indices, decreased significantly.

The rise in share prices covered all the main sectors of the Italian stock exchange.

The index of the banking sector registered an increase of 9%, similar to that of the general index.

In the third quarter of 2012 in the Italian Stock Exchange two IPO were made. At the end of September 2012, the list of the Italian Stock Exchange had 283 Italian companies, with a total capitalization of 345 billion (equivalent to about 21% of GDP).

2.2.5 The structure of the Italian banking system¹⁹

The structure of the Italian banking system is characterized by a large number of institutions. It has a differentiated distribution and in terms of number of institutions it's identified by small banks (mainly cooperative banks), but, in terms of collection and uses, it is instead defined by few and large banks. At the end of 2012, 706 banks were operating in Italy, 34 less than the previous year. In the course of 2013 7 banks (2 joint-stock company, a credit union and 4 branches of foreign banks) have begun to operate; 41 institutions ended out of which 35 as a result of operations of incorporation, merger or sale of assets and five because of liquidations and transformation into financial companies.

The number of bank groups is reduced to 75. In March 2013, 67 foundations held investments in banks' capital; they owned, jointly represent more than 50 % in 16 intermediaries, mostly smaller. Significant shareholdings, between 20 and 50%, were held by individual foundations in two of the largest banking groups (Banca Monte dei Paschi di Siena and Banca Carige) .

In addition, there are 33 536 branches, 14,005 post offices and 132 branch offices of the Italian Post Office, for a total of 5,898 municipalities served in the whole country.

Regarding to financial intermediaries²⁰, the total amounts is 201, where the majority of these consist in leasing, factoring and consumer finance companies.

Looking at the distribution by sector of the customer economic activity, the total loans are intended to households (€ 500 million) and non-financial companies (€ 900 million).

In terms of collection, however, the households account for almost 50 % of the total with 800 million € , followed by non-financial companies covering about 200 million € .

¹⁹ Statistical Bulletin of Bank of Italy, IV-2011

²⁰ art.107 TUB

Other useful data on which to focus is the number of lines of credit :

Table 1 – Different Bank Credit Lines

	TOTAL	From 30.000 to 75.000	From 75.000 to 125.000	From 125.000 to 250.000	From 30.000 to 500.000	From 500.000 to 1.000.000
TOTAL	4.183.483	1.428.814	913.116	849.004	297.030	151.727
One	3.596.630	1.402.068	849.537	726.577	175.248	57.345
Two	358.215	25.725	60.036	100.414	80.234	45.518
Between 3 and 4	167.223	1.012	3.510	21.717	39.168	41.721
More than 4	61.415	9	33	296	2.380	7.143

Source: JAK Italia Business Plan

The productive and financial banking scenario, as described above, shows the need for new models, ideas and approaches. It can be easily deduced that small banks, careful to the territory and to the needs of the customers, meet the approval of the population and can represent a new and alternative choice.

The Jak Bank Italia, which is going to be analyzed in Chapter 4, address their actions mainly to families and small businesses, offering the same conditions to all its members, independently of geographic location.

2.3 Ethical banks in Italy

The roots of Ethical Banking can be found in the rise of Saving Banks in the 19th century, where members were committed to enjoy mutually credits. After the unification of Italy , the creation of these credit institutions by the Catholic world, thanks to the parishes and charitable institutions, was the response to situations of economic needs. Later, Rural banks spread in the late 1800s, which were a kind of rural cooperative societies, mainly based on personal trust and modest land capital and operating farmers. Popular Banks and Rural Banks were based on the concepts of mutuality and cooperation. The first Banca Popolare was born in Lodi in 1964 thanks to a mutual agreement among multiple shareholders, in a form of popular democratic capitalism, where the power of control was independent from the amount of participation. ²¹

This context and background of modern society is fruitful in understanding the emergence of modern ethical banking concepts and practices.

2.3.1 MAG

In the 1970s Italy was facing a situation of public disorder: the rate of inflation reached very high levels and unemployment was also growing, caused by the strong energy crisis.

These years of turmoil were characterized by a great creative force, which aim were to change the financial system and also improve it by introducing new rules, where people became conscious of being governed by a financial system where banks were involved in military arms trafficking and responsible for fueling violent conflicts. In Italy , this led to the emergence and spread of self-managed savings : the MAG, mutual self-managed , or finance companies for mutual aid .

²¹Fazio A., Le Banche Popolari: alcuni elementi strutturali, problemi, prospettive in Atti del Convegno Banche Popolari tra competitività e cooperazione sostanziali, in un momento di trasformazione del mercato finanziario, Roma, 1986.

The first example of self-managed savings took place in Verona and was soon followed by other Italian cities in the north. A group of workers having lost their jobs, started a fundraising activity among members through deposits with interest, making each member participate in management with the aim to finance the activities of a cultural, social, environmental, ecological and solidarity cooperative.

In 1985 MAG 3 was founded in Padua, another association that collected savings through bearer passbooks and granted loans to cooperatives and associations.

This mutual self-managed organization had a different nature from MAG Verona, which was to offer solutions to the impoverishment of the Southern countries, derived by financial mechanisms. MAG 3 was created with the purpose of educating people in aspect to savings and consumer awareness.

2.3.2 Banca Etica

In Italy, the concept of ethical business has been implemented by the foundation of Banca Etica in 1999. It was defined as “ a bank, an initiative of social cooperatives, environmental groups , trade unions and fair trade shops”.

Banca Etica is described as an institution created with the main purpose of collecting savings and giving access to credits to firms with ecological and social projects or to those organizations struggling with obtaining loans from traditional banks, such as recreational clubs, scout groups, movements for the defense of human rights. The goal set by Banca Etica has since its foundation been to live for years to come, as the organizations slogan also shows: “a world more right , a better environment “. ²²

²² Salviato, F. and Meggiolaro M. –Ho sognato una banca. 10 anni sulla strada di Banca Etica, Milano, 2010

It is a bank that is based on the traditional function of a credit institution: revenues derives from the difference between the rates of interest paid by those who receive loans and the interest rates that banks must pay to savers who deposit their money . The agents that Banca Etica works for are the following: voluntary associations, foundations, NGOs, non-profit organizations and the social Cooperatives, which involves stakeholders in the health and social care, education, protection of civil rights , the protection of the culture and the environment and scientific investigation of the company.

Another aspect that distinguishes Banca Etica is its transparency: anyone that brings savings to the institute must issue the relevant information about the source, so that the bank can ensure the compatibility with the Statute of the Bank. Which excludes non-ethically responsible actions; transparency also concerns with banking activities that provide investors with the right financial investment for their money. From this point of view, the position that Banca Etica takes is clear: the bank refuse to support the war industry, it demands maximum transparency in the granting of loans and it issues specific ethical criteria for selecting investments.²³

²³ Through the Law 185/1990 which regulates the export, import and transit of war material, the activities of all the banks be allowed to conduct operations in support of the companies that invest in the arms industry are summarized in an annual report

Chapter 3 - The Case of JAK : An Interest-free Economy

3.1 The History of JAK

JAK began in Denmark during the Great Depression in the 1930's. The high unemployment and high real interest rates prevalent at the time led several farmers to get together and found the co-operative society in 1931. The society was named J.A.K., standing for Jord (Land), Arbejde (Labour), Kapital (Capital): the three foundations of classical economics.

J.A.K. considered the taking of interest to be a chief cause of economic instability, with inflation and high unemployment as a consequence. So they started three interest-free projects to prove that this idea could in fact also be practical.

Their first project was the issuance of an interest-free local currency in Sønderjylland. These notes were backed by real wealth (farm property) in contrast to the national currency and they were enthusiastically accepted by the cash-starved population. The Danish government saw its authority threatened and prohibited the experiment in 1933.

A second experiment, started in 1934, was an interest-free savings and loan system (andelskassen).²⁴ By saving together without taking interest, the organization was able to give interest-free loans in turns to all participants which were used to pay off expensive bank loans. The venture became quite popular but certain defects in the system together with strong opposition by the media and authorities forced the *andelskasse* to liquidate in 1938.

The third experiment was also started in 1934. It was an interest-free checking account system whereby members traded goods and services with each other without cash.

²⁴ Anielski, Mark - *The JAK Members Bank*, Sweden, Anielski Management Inc., January 2004

The accounts were simply adjusted up or down as the case may be. Money lying unused in the system was loaned out at low cost to members. Today, this is better known under the more recent and widespread Local Exchange Trading Systems (LETS). Also this experiment was stopped by the Danish authorities in 1935.

Few years later the first attempts, JAK started up a new interest-free savings-and-loan system with different rules and, after a period of rapid growth, it finally became licensed as a bank in 1958.

The system allowed people to save interest-free and then borrow a multiple of their savings. This worked well while deposits in the bank were growing, but as growth in deposits began to fall, the demand for loans became increasingly difficult to meet. In 1973 JAK was forced into a merger with Bikuben Bank. After the merger previous JAK members initiated several local JAK savings and loan systems, of which some of them are still operating today.

In 1965 a small group of people in Sweden, brought the idea of JAK from Denmark and formed their own non-profit organization. The purpose, spreading information about the effects of interest in the economy, remained the same as before. In 1967 the Swedish JAK had its first deposits accepted and it paid its first loans three years later.

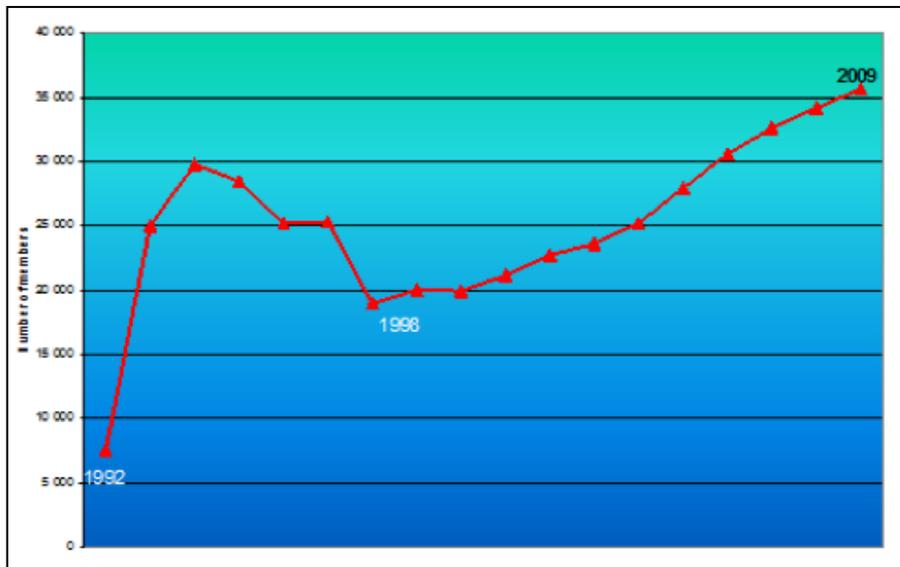
Between 1980 and the mid-1990s the JAK organization faced a rapid membership growth, which can mainly be explained due to the high interest rates and the heavy recession that affected the Swedish economy.

The recession led the organization to establish a new structure and it received a full banking license by the Swedish government on the recommendation of the state's Financial Supervisory Authority in December 1997.

This increased regulation of the bank and gave JAK more credibility as the government protected members' savings up to a certain level.

From 1997, membership grew by 1000 persons a year and the deposits by around 10% yearly. (Figure 5)

Figure 4 – Trend of members of JAK



Source: www.jak.se

Today, Jak Medlemsbank, with a social capital of about 7 million euro, has more than 38.000 members that take advantages from same traditional bank services, but without charging interest on loans, and the banking organization is supported by about 500 volunteers.

In the last years, JAK Model, has attracted people in many countries such as: United Kingdom, Finland, Belgium, Germany, Canada, Netherlands, Spain and Italy.

3.2 The Ideology of JAK

The JAK Bank does not believe in the need to charge interest on loans and credit, in which they believe has many negative and regrettable side-effects. JAK believe in a fair and sustainable economy to increase long-term prosperity for everyone. Through its savings and loan program and its efforts to spread information about the bad effects of interest on money, JAK is working actively to promote an economy that does not exploit people or nature.

3.2.1 The problem of the interest

The rate of interest has been a highly complex and important phenomenon since promoted long time ago. The practice of lending money with interest was met with hostility as far back as ancient Greece, and even Aristotle (384–322 b.c.) believed the practice to be unnatural and unjust.

Interest on money is one of the main obstacles to development of trade and business. In a situation of interest rate upsurge, the usurer group will get better off while manufacturers and other businessmen get worse off. In other words, money lenders take a greater part of profit shares of economic activities produced by manufacturers. The use of interest also has negative effects on society. It shows up in the prices of services and goods when producers add it to their prices to cover cost of interest on their loans.

In an interest economy, money is moved from those who have less to those who have more and thereby assets are concentrated in the hands of the few. Finally, since our modern monetary systems are debt-based and practically all money is debt that has to be repaid with interest, we face a situation with a money stock that is always growing exponentially. A proper assumption is that exponential growth at a certain time will reach a breaking point and as today there is exponential growth in both real and financial assets, including money, it has become a problem that needs to be solved.

This means that interest should be replaced by another mechanism to keep money in circulation. ²⁵Studies by the German economist Margrit Kennedy estimated expenditures on interest ranges between 30-50% of the prices of goods and services, which can be seen as an imposed indirect taxation of the population by the banks. ²⁶

²⁵ Creutz, H. , *The Money Syndrome: Towards a Market Economy Free from Crises*, R. Mittelstaedt, 2008

²⁶ Kennedy, Margrit - *Interest and Inflation Free Money*, Seva International, 1995

Moreover, the system of debt-money creates an “artificial scarcity” of money and it brings into a competition to get money that it's not still created. Therefore, money is like a treadmill that requires a continuous economic growth in order to sustain interest payments requested, even if the real standard of living remains high for all parts in a community.²⁷

Finally, an economy based on interests creates a situation where investments only occur in the highest profitable sectors and activities. In this way large-scale projects or high-yielding projects, like shopping malls, are considered more than important but lower-yielding projects as alternative energy, and ecological farming etc.

3.3 The Saving and Loan System

Over the time JAK saving-loan system has changed its version through various phases; in this thesis only the new and current model will be described.

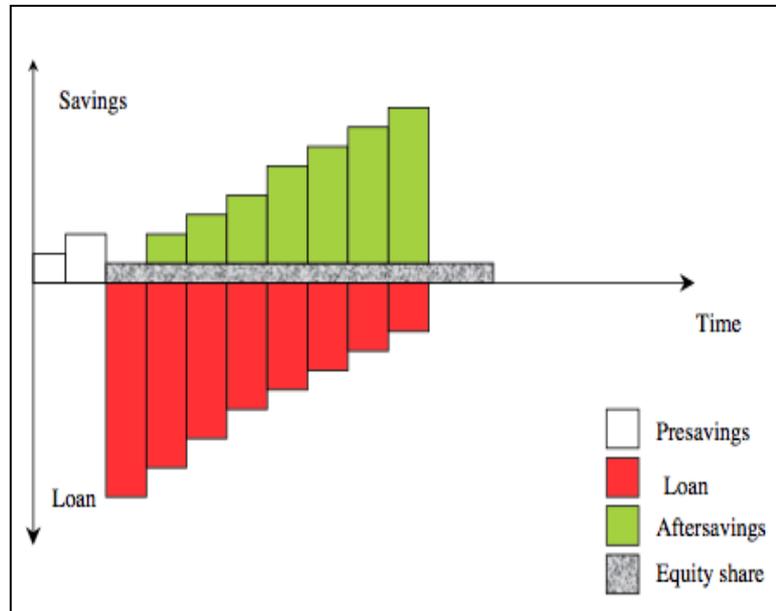
Basically, JAK can be synthesized as a mechanism that doesn't pay any interest on savings and doesn't charge interest on loans. As a cooperative organization every participant consents to share his own saving with the purpose to borrow from the others members without paying interest on those loans.

JAK gives its members the same right for all kind of loans: mortgage, car loan, home improvement loan or any other loan share the same benefit.

In this way, all the members, with a strong cohesion and confident climate, can benefit from the opportunity of obtaining a loan from JAK. The figure below shows the various stages in the JAK loan structure: from pre-savings (prior to the loan), to receiving the loan, to repaying the loan and building up after-savings, to replenish the liquidity pool for other members, to paying an equity share (membership fee).

²⁷ Lietaer, Bernard - *The Future of Money: Creating New Wealth, Work and a Wiser World*, Century, The Random House Group Limited, 2001

Figure 5 – JAK Savings-and-loan system



Source: www.jak.se

All loans have to be balanced by savings, this means that a certain amount of saving points that are borrowed have to be balanced out by an equal amount of saving points being saved. The saving can be done before the loan is taken and during repayment but the bank and the borrower will enter an agreement that the balance will be reached three months after the payment of the last installment. After that final installment the money that is saved during the loan period can be withdrawn.

3.3.1 Savings-and-loan model

At the beginning, every new member has to pay the annual *membership fee*, which is 250 Swedish Kronor (SEK \approx 28 Euros). Other members in the same family pay 200 SEK and children don't pay any fee. It consists in an equity share in the bank, representing one equal vote in the annual general meetings in which the Board is elected.

Moreover, if the member open a deposit account and no loan is taken at start, accumulation of pre-savings account will begin and the person will in this way earn pre-savings points. In the opposite scenario, if a member wants to borrow, will accumulate after-savings throughout the repayment period.

If the member already has *pre-savings*, the after savings is reduced in relationship to the amount of pre-savings. The after savings deposit is released for withdrawal when the produced savings points (during the loan repayment period) equals the used savings points.

If the member asks for a loan with *after-savings*, it means there were no previous savings in the bank, and every payment needs to provide the same amount of that repayment as saving. Therefore, the member is committed in regular repayments in order to amortize the principal over the loan period. Furthermore, in this situation JAK's management team has to evaluate the liquidity in the system in order to proceed the loan safely without risking a liquidity crisis.

In addition, the member is obligated to pay a refundable *Equity Deposit* of 6% of the loan value; it is the way that JAK has to fulfill the Equity requirements from the financial authorities.

3.3.2 Saving Points

Savings points are used to ensure the sustainability of the system. In JAK's accounts, instead of interest, the member matures saving points; the savings points system depends on how much a member has in the pre-saving period, before receiving an eventual loan, or in the after-saving period, when to repay the loan.

The "savings points" are accumulated in the process of "pre-saving", before applying for a loan, and used during the refund. The calculation of "points" is "corrected" by the saving factor, this parameter is usually between 0.8 and 1, whose function is to adjust the value in the case of low liquidity. The "savings points" are accumulated during the repayment period of loans, where the member maintains savings as deposit. Savings points have no convertibility into cash or any other property.

The member's deposits finance all loans, this main concept means that, the stock of loans can't exceed the member's deposits plus the equity of the bank.

The aim for every borrower is to achieve a balance between their own saving and borrowing.

For this reason, every member who takes a loan has to reach a minimum balance of 0 Saving Points before any bound savings can be repaid.²⁸

Briefly, as a way to measure savings and loans to its members, the fundamentals of JAK saving points are:

1. Every new member in JAK begins with 0 Saving Points.
2. When a member saves money in JAK he gets positive Saving Points. (+1SP)
3. When a member loans money from JAK he gets negative Saving Points. (-1SP)

Example

If a member saves 1000 Swedish kronor (SEK) in JAK during one month that person generates +1000 Saving Points, which gives three alternatives:

- a) If the member withdraws the 1000 SEK from JAK, he will still have +1000 Saving Points.
- b) If the person does not withdraw the 1000 SEK from JAK, then, during the second month, there will be 1000 SEK in the own account that generates additional 1000 saving points. So in total the member will have +2000 Saving Points (1000 from the first month and 1000 from the second month).
- c) If the member does not withdraw the 1000 SEK from JAK, he saves, in this way, 1000 more SEK in JAK; then, if the member has 2000 SEK in his account during the second month, it's generating +2000 saving point. In total there is, by the same logic, +3000 saving points (1000 from the first month and 2000 from the second month).

²⁸ De Anca, C. and Trullols, C., JAK Medlemsbank – Free Interest Banking in a changing financial system, IE Business School Publishing, 2011

Therefore, in order to reach a positive balance of points when member takes loan, one will have to make parallel with bounded savings during the repayment period. But, if one has already enough positive saving points when taking the loan, thanks to pre-savings, parallel savings will not be necessary. When the balance is, at least, equal to 0 one can withdraw the savings. The relationship between the saving points and monetary amount deposited can be express with the following formula:

$$P_t = P_{t-1} + [(D_{t-1} + V) * Sf]$$

where: P_t = Saving points D_t = amount of savings Sf = savings factor V = additional deposit

The JAK management and the Board of Directors determine the saving factor (Sf) and adjust it according to liquidity risk and the relationship between total deposits, in other words, the outstanding loans and current demand for new loans.

3.3.3 Loan Fee

The grant possibility will depend on the regular saving during the repayment period until the total savings points will be in balance with the points consumed by the loan. This means that when the loan will be fully repaid the debt will also be repaid, and there will be also an additional saving equal to the additional loan granted.

Loan Fee is used by the bank to cover the cost for development and administration of the savings and loan system. It could be also associated with an “interest”²⁹ rate, but is more technically equivalent to a charge for JAK’s annual operating costs with respect to loan services. Each loan is particular and the charge is expressed with a daily fee for all the money borrowed. The new banking regulations require the fee to be proportional to the amount of the debt.

²⁹ According to JAK member Oscar Kjellberg, in Anielski Report, the interest, i.e. the effective rate of interest, is nothing more than the internal rate of interest; if we looking for the discount rate, it makes the present value of loan and after savings payments stream equal to zero

This method replicates the conventional banks method, where the clients pay more interest at the beginning of the repayment period and less interest at the end. Until 2010 the cost of the loan was calculated as 1,5% of the initial amount of the debt multiplied by the repayment years. But from January 2011 the cost of the loan in JAK is calculated as 3% of the annual debt.

Example: for a loan of 10.000 SEK in a period of 10 years.

Until 2010:

$$\text{Loan Cost} = C * \text{Loan Amount} * \text{Repayment Period} = 1,5 \% * 10.000 * 10 = 1500$$

From 2011:

$$\text{Loan Cost} = \text{Loan Cost (First Year)} + \text{Loan Cost (Second Year)} + \dots + \text{Loan Cost (Tenth Year)} = 3\% * 9500 + 3\% * 8500 + \dots + 3\% * 500 = 1500$$

Where 10.000 is the initial debt, 9.500 is the average debt the first year, 8.500 is the average debt the second year, and 500 is the average debt the last year.

3.3.4 The Liquidity

The JAK accounting model is sensitive to liquidity, that is a critical factor to an healthy and stable system. All loans are internally financed by the deposits of the members and the equity of the bank. The equity deposit, that member has to pay, is kept by JAK as a reserve, thus satisfying its regulatory reserve requirement; members will receive the deposit, after the last repayment on the loan.

The relationship between savings and liquid assets need to be carefully managed and calibrated on a regular basis. To make the system more secure, JAK invests part of the savings in Swedish Treasury Bills; a solid reserve, which should constitute at least 20% of the value of the total pre-savings amount, as to insure against potential and unforeseen run on the bank or liquidity crisis.³⁰

³⁰ According to JAK's interest-free idea, this can appear a contradictory aspect, because Treasury bills offer interest.

The following summarize the key characteristics of this system:

1. JAK management will determine if loans can be granted in relation to:
 - the members financial security (liquidity and loan deposit);
 - the member's ability to repay the loan;
 - the supply of liquid assets in the bank.
2. Members, who are earning pre-savings points, are reducing the need to save during the loan repayment period. The bigger the accumulation of savings points before the loan, the lower the monthly payments during the repayment period will be.
3. Members, that have the entire pre-savings points available, can decide if the savings points shall be used for reduction of the payments during the repayment period, be given away to another member or be saved for future use.

3.3.5 Period of amortization

The average period of repayment of a JAK loan is approximately 11 years. The shortest loan period is 2 years and the maximum length is 30 years.

The amortizations times are relatively short considering that a majority of JAK loans are for housing purposes (home purchases, building and home improvement).

Longer periods of amortization are discouraged by JAK management, while there is an incentive to repay the JAK loan as quickly as possible: the longer the period of amortization, the longer one has to wait for the after savings to be available for withdrawal.

The goal is to keep the average period of amortization between ten and eleven years for all members.

3.3.6 Main differences with other banks

- ⤴ **Clients:** JAK Members Bank is members-based, cooperative enterprise with the same right “one share, one vote”.
- ⤴ **Bank System:** While conventional banks have a fractional reserve system, JAK is 100% reserve system. Loans are lent out on the basis of the total liquidity (savings) in the system, thus loans are 100% supported by member savings and liquid assets.
- ⤴ **Loans:** In conventional banks loans are issued on the basis of credit worthiness (assets that support the loan); moreover, loan repayments include the principle plus interest charges. In JAK, loans are issued on the basis of bank liquidity and the member’s income capacity to both save and repay the loan; only on the principal of the loan has to be repaid.
- ⤴ **Interests:** JAK doesn't charge interest on loans, recovering operating costs through an administrative loan fee; it doesn't pay interest on savings but does provide a means of earning savings points which are like interest income.
- ⤴ **Return:** Private banks have shareholders who receive returns in the form of share value and dividends that result from profits earned from interest rate spreads, user fees and other bank profits. JAK, instead, operates like a not-for-profit bank organization, where its member's return includes interest cost savings on all loans.

3.4 The Support Saving Account

The original balance model existing from 1970 is created for people who are saving in order to get a loan for themselves, a relative or a friend. Generally, about 15% of JAK loans goes to companies; the major part of JAK loans are direct to families, with a kind of “informal” support saving process, for example parents who give their saving points to their children or similar.

Support Saving Account instead, is a new instrument that JAK, introduced in 2001, designed for small companies and associations who can only afford the payment of the fee and the installments, but no more. These loans have to be balanced by savings exactly as the ordinary savings loan; the problem is solved because someone else is doing the saving. Often when a loan is needed to finance a project that is important for the community there are also people who are willing and ready to do the saving. The first step is to get a Support Receiving Account at the JAK Bank. Then the supporters can open Support Savings Accounts. These are their own accounts where they can make deposits in support of the project.

3.5 Local Branches, Marketing and International Connections

A network of about 700 volunteers, through 27 regional and local offices is involved in promoting the JAK model in the whole country and liaising among the members. The local representatives help other members make up their savings and loan plans and also organize exhibitions, study groups and action groups. The head office in Skövde connects the branch offices, not involved in banking system; their mission is to focus on a constant and open communication within members and the rest of the community.

The JAK Members Bank has been built up on the strength of its 38,000 and more members, who are all involved in a just and fair economy. JAK is for a just and fair economy; a sustainable economy that takes all environmental costs and gains into account and aims to increase long-term prosperity for everyone. Through its savings and loan program and its efforts to spread information about the bad effects of interest on money, JAK is working actively to promote an economy that does not exploit people or nature.

Miguel Ganzo, the Coordinator of the International Relations, affirms that JAK is more interested in investing its money in developing activities to spread JAK's ideals, more than spend money on advertisement and marketing projects.

Ann Marie Svensson, Manager of the Popular Education and Support to Volunteers, believes that one of the main reasons for JAK's success are the members themselves; in fact members are committed in planning activities and sharing knowledge, designed to spread the word on JAK's ideals.

The activities include: Web Courses, Local Courses, that are organized within the local groups in different cities in Sweden, and National Courses planned by the bank with "Axevalla folkhögskola", a school located near JAK headquarters, that usually occur twice a year at national level.

JAK schedules 2 JAK Schools per year. During JAK Schools, the active volunteers participate in the courses where they receive more information about JAK works, discuss different aspects of an interest-free economy and also meet other members from all over Sweden; in fact all the JAK members can take part, not only the active ones.

The Grus & Guld magazine (Gravel & Gold) covers all kind of topics related to ecology and alternative economies, in Sweden as well as abroad, which greatly attracts the interest of all members as well as other relevant people in the community. It supports all members' dialogues and seminars while active members also receive financial aid from their branch for their local activities.

JAK's goal is not an international expansion opening offices abroad; however, JAK members are interested to create a similar banking system and diffuse their ideas even abroad. Thus, JAK has developed collaborations with groups in other countries, such as the Ethic Financial Cooperative in Germany and the Cultural Association JAK Bank in Italy, which will be described in the next chapter.

JAK has also reached the international community with other strategies like the international newsletter, member participation in international conferences and events. Finally, JAK School has created English courses and the bank is collaborating in project translations such as the JAK book and the bank's financial annual report in English.

3.6 JAK Loan versus Conventional Bank Loan

JAK's key comparative advantage over other banks is that it saves its members interest charges on loans which conventional banks charge. JAK also offers the benefits of being a cooperative enterprise where members have one vote in decisions of board governance.

The figure below represents an example of JAK Loan Calculator to better understand the full costs and commissions that member has to pay. Through this scheme, it is possible to compare a JAK loan with a conventional bank loan to reveal the actual net savings in interest costs realized by a JAK member. It's possible to use the following scheme of the JAK calculator for any kind of loan: http://www.jak.se/sites/default/files/international/dokument/Loan_calcrensad2.xls

Figure 6 – JAK Loan calculator: a comparison to the traditional bank

Calculate your saving points		Scroll to get the loan you wish	
Saving factor	1,0	Loan equity deposit	€ 20.000
One single deposit	€ 10.000	Loan fee	€ 1.200
Monthly deposits	€ 100	Loan fee per month	€ 3.000
Time of deposit (months)	36	Repayment of loan per month	€ 25
Sum of saving points	426.600	After savings per month	€ 167
Add existing saving points	0	Payment per month	€ 167
Scroll for repayment period (years)	10	Payment per Q	€ 358
		Sum total of after savings	€ 1.075
			€ 20.000
Comparison between a conventional loan and a JAK loan			
Borrowers annual service fee	€ 40,00	Size of bank loan	€ 20.000
Estimated interest payment	4,00%	Cost of bank loan (annuity loan)	€ 4.764
		Cost per month	€ 40
		Payment per month	€ 206
		Cost of bank loan (straight loan)	€ 4.500

Source: www.jak.se

In this example, the costs of a € 20,000, 10-year JAK loan will be compared with the cost of a conventional mortgage bank loan of € 20,000, with a 10-year amortization period at the current 4.00% rate of interest.

In the case with the JAK loan, a Loan Equity Deposit of €1,200.00 has to be paid up front, refundable roughly 7 to 19 months (note) after the last loan repayment is made. The Loan Fees paid over the 10-year period is € 3000 and the monthly loan repayment is €167. The member also saves the same € 167 per month (assuming the member has no pre-savings in the account prior to receiving the loan; with pre-savings, the savings requirement would be lower by the amount of pre-savings). The member also pays the annual membership fee over the duration of the loan; according with the current exchange rate it's about € 278. The total cost of a JAK loan like this is thus € 3278. Without any pre-savings in advance of the loan, the member is also obligated to make monthly savings of €167. These savings accumulate over time but are not accessible by the member until 3 months after the last loan repayment has been made. At the end of the loan period (10 years and 3 months) the member would have a total of € 20,000 in savings available for withdrawal or maintaining a JAK savings account for financing a future JAK loan.

In comparison, the total expenses with a conventional 10-year mortgage bank loan are: interest alone bearing the cost of € 4,764 plus an estimated total annual banking service fee (associated with the loan) of € 400 gives a total of € 5.164. The scheme below illustrates clearly all the estimated costs for both kinds of loans:

Table 2 : Estimated Costs: comparison between a conventional loan and a JAK loan

Cost (loan fee) of JAK Loan	€ 3000
JAK Annual Membership Fee	€ 278
Subtotal JAKLoan Costs	€ 3278
Cost (interest) of conventional bank loan (annuity loa	€ 4764
Annual service fees	€ 400
Subtotal Conventional Loan Costs	€ 5164
Net Cost Savings with JAK Loan	€ 1886

Chapter 4 - JAK in Italy

4.1 The project in Italy: the Cultural Association JAK Italia and the Promoting Committee³¹

The new-formed JAK in Italy has its origin in the JAK MedlemsBank from Sweden. This chapter will illustrate how the project has evolved until the creation of the current JAK model in Italy and describing it from the point of view of values, objectives and targets and the technical one.

The project Jak Italia was born in May 2008 as a result of a service by Giorgio Simonetti broadcasting on an Italian TV program "Report". After a few weeks the first blog was born, having several people joining all over the nation, all interested in the Swedish JAK bank. Thanks to the growing interest and new people joining, the Cultural Association Jak Bank Italia was founded in Florence in September 2008, with the intent to replicate the Swedish bank model in Italy.

The first important meeting of the Association was the international conference held in Turin, where representatives from the Swedish Jak Bank, University of Turin, exponents of ethical finance and and Italian MAGs attended.

In the summer the same year, members from the Italian association participated in the Jak School and the workshop organized by Jak Medlemsbank in Denmark. The training they received and the entry of new members led the directors of the association to a first attempt to set up a co-operative working with the JAK model, in this way replicating the Swedish experience. In August of 2010, the statute of " Cooperative of Financial Mutuality JAK " was deposited at the notary and the first Italian JAK cooperative organization was born.

³¹Piano Industriale 2013 JAK Italia

But, before to be approved to operate as a bank, waiting for the regular bureaucracy, the revision of the Banking Act occurred, and abolished the type³² in which the cooperative JAK bank intended to refer to. As what happened in Denmark many years ago, it could seem like a defeat being turned into a new challenge: the creation of a real banking institution, evaluated under new regulations.

In 2011 members of the association drew up the business plan for the constituent Jak Italia Cooperative Bank, organized meetings throughout the country, participated in conferences at national level and implemented channels on the web to reach as many people as possible.

Moreover, during the summer of 2011, on the occasion of the second Swedish Jak School, the JAK Italia business plan draft was presented to the board of Jak Medlemsbank gaining broad consensus and creating support in terms of know-how, documentation and training. In this way, on 18th November 2011 they found the Organizing Committee for the establishment of the JAK Bank Italia, changing the institutional category assumed by the bank.

Today, the JAK Bank Italia activities are identified, by the article n.1, paragraph 2, letter f, and articles n. 1, 2, 4, 5 and 6, of the Consolidated Law on Banking (TUB).

The Committee proposed the aim of promoting the establishment of the "People's Bank Jak Italia Cooperative Society" with limited responsibility, in particular main tasks such as:

- the collection of data for the redaction of financial and economic budgets and their studies with the preparation of reports in order to prove the validity of the initiative;
- the technical and organizational support for the preparation and completion of all the requirements of the submission applications to the competent authorities for the establishment of the banking entity ;
- propaganda, collection of subscriptions of individuals and legal entities wishing to participate in the constitution of the Bank;
- the organization and coordination of the activities necessary to reach the formal constitution of the subject bank .

³² TUB (ex art. 113)

Currently, the Organizing Committee is made up of 22 members and the Cultural Association Jak Bank by about 250 members, but the organization is constantly evolving. In January 2013 an official letter of intent was signed in order to ensure the Jak Medlemsbank' support until 2015.

4.1.1 Cultural Association JAK Italia

The Cultural Association Jak Italia bank is currently composed by about 300 members, individuals and legal entities located throughout the country and organized, at regional level, with referents named Jak Point. The local contacts build the network of people and companies in the area as a basis for future work of the bank constitution, as well as to implement the assets of the association.

Organizing training sessions and to inform on the ground is the main methodology used for the diffusion; the objective is the diffusion of the project in order to promote the project and the adherence to its Cultural Association, that supports the Bank.

The Association also participates in the network "JAK projects" at international level, organized by the International Relations Jak Medlemsbank with the final event of two-year training at the headquarters in Sweden. From these experiences, the association, since its establishment, had the opportunity to study in depth the Jak model from both a technical and conceptual point of view.

The task of the Organizing Committee is instead the analysis of its implementation in Italy.

The relationship with Jak Medlemsbank and other experiences that are being developed in Europe and in the world, is one of the greatest strengths of our business, especially in terms of training and transfer of skills and know-how. Depending on the development of internal training, the cultural association organizes every six months training schools on the Italian territory. The volunteer members of the Cultural Association have also developed the website (www.jakitalia.it) mailing platforms, monthly newsletter and social networks. Figure 8 shows the financial statements of 2011 approved by the members on April 2012 with the single entry criteria:

Table 3 - Annual Report of Cultural Association JAK Italia

PROFIT AND LOSS ACCOUNT	
Dues	€ 3.045,00
Donations	€ 1.477,00
Total Income	€ 4522
Compensation to third parties	€ 3.775,20
Bank Charges	€ 153,95
Event-Fair “FA LA COSA GIUSTA”-March 2012	€ 480,00
Internet	€ 95,18
Reimbursement members	€ 672,80
Indirect taxes	€ 73,80
Total expences	€ 5.250,93
Operating result	- € 728,93
Operating profit of loss previous year	€ 3.242,81
Economic Result	€ 2.513,88

Source: JAK School Report 2013

Note about Report

Voice: Dues. The shares , which have a balance of € 3,045 , are composed of 49 renewals and 105 new members in 2011. Among the new members , there were 31 contributing members and 74 ordinary members. The social structure is made from 154 members to 31/12/2011 of which no. 32 women , 121 men and 2 associations .

Voice: Donations. The donations amounted to EUR 1,477 were 10 , including 2 very large amount .

Voice: Events. The balance of 480 Euros is on the membership fee (with its stand) to the famous fair economy.

Item : Legal expenses. The remuneration amounted to EUR 3775.2 and are due to the legal advice provided by the study La Scala in Milan for the preparation of the plan 's feasibility model Jak in Italy , with the end result of the identification of the banking model . The report was completed in November of 2011, so since then no charge is due.

Voice: Interest expenses and bank charges. This item consists of € 60 to account charges (all accrued for the account of Banco Posta) for € 11.52 from collection of fees for postal payment and € 82.43 for recessed PayPal fees .

Voice: Compensation to third parties. These outputs , for a total of € 672.80, are represented by travel expenses , granted as an extraordinary resolution of the Board of Directors, the shareholders who have held meetings or participated in meeting operational . The line drawn by the Governing Council of the Association provides that you do not disburse repayments to shareholders but rather seek to create interactivity tools remotely capable of ensuring the participation of even the most distant members .

Voice: Internet. The cost of € 95.18, are related to the domain licenses , valid for two years (2011-2013) for the website and email .

Voice: Indirect taxes . It is the stamp duty on account of Banco Posta € 73,80 .

Final conclusions. The year 2011 was characterized by a significant expense , and of an extraordinary nature , which has weighed on the financial management of the association. Accordingly, the negative financial result is due in large part to this. By eliminating this expense in 2012, the management of the association will be widely covered by the membership fees which , among other things , are continuously increasing .

4.1.2 The Organizing Committee

The Organizing Committee was founded by eleven members and activists of the Cultural Association Jak Italia; after the constitution, another ten members joined the Organizing Committee.

The daily business of the Organizing Committee is realized through the work by the of Board of directors, which meet monthly, and the members' meeting at least once every six months.

The Directory is composed by five members and is supported by the Board of Auditors, as provided by statute.

In the first six months the activities of the Committee has been focused on the drafting of the business plan approved by the members, on the resulting draft of the prospectus by the supervisory bodies and the redaction of all documents required. The organizing committee organized the conference with academic professors, business leaders and some representatives of Jak Medlemsbank that explained the project to an audience from the financial and economic world.

In the second half , the Organizing Committee started the revision phase of the business plan and the prospectus, the strategic planning of marketing activities, communications and media relations, as well as the consolidation of the organizational and management structure, that is necessary after all documents are deposited to the Supervisory Bodies.

The priorities for the current semester and the following one are: the implementation of communication activities already approved, the extension of the social structure and the creation of partnerships to provide its own organizational structure.

Table 4 – Budget of Organizing Committee

	IV trim. 2012	I trim. 2013	II trim. 2013	III trim. 2013	IV trim. 2013	I trim. 2014	II trim. 2014	TOTAL	III trim. 2014
Legal Expences	15.000 €	35.000€	0	0	0	0	50.000€	100.000€	10.000€
Notarial Expences	0	1.000€	0	0	0	0	0	1.000€	30.000€
Audit	0	5.000€	0	0	0	0	0	5.000€	15.000€
Communication	0	0	15.000€	15.000€	15.000€	15.000€	15.000€	75.000€	5.000€
Other public expences	0	0	0	10.000€	15.000€	15.000€	15.000€	55.000€	5.000€
Operating Expences	0	0	10.000€	15.000€	15.000€	15.000€	15.000€	70.000€	5.000€
Total	15.000€	41.000€	25.000€	40.000€	45.000€	45.000€	95.000€	306.000€	70.000€

Source: JAK School Report 2013

The table above (Table 4) illustrates the budget of the estimated expenditure by the Organizing Committee during 2013 and the current year

- the data during the quarter of 2014 are related to the expenses of the banking entity;
- legal fees are based on precise estimate;
- other expenses are estimated on market values.

The costs concerning the III quarter of 2014 are related to the formation stage of the banking entity.

Finally, although the first year of operation is not completed yet, I illustrate the first partial report at September 2012, pending the final draft report in December 2012:

Table 5 - Annual Report of Organizing Committee

PROFIT AND LOSS ACCOUNT	
Endowment Fund	€ 10.500,00
Sponsor Event May 2012	€ 5.897,42
Other contributions from the members	€ 4.500,00
TOTAL INCOME	€ 20.897,42
Legal costs	€ 6.050,00
Notary fees	€ 1.052,40
Interest Payable	€ 204,46
Commission	€ 33,69
IPSOA compensation event 9 May 2012	€ 6.655,00
Reimbursement of expenses to third parties	€ 140,00
Reimbursement members	€ 98,13
Graphic materials	€ 53,47
Total expences	€ 14.287,15
OPERATING RESULT 30/09/2012	€ 6.610,27
Transfer account	€ 500,00
OPERATING RESULT (2) 30/09/2012	€ 6.110,27

Source: JAK School Report 2013

Note about Report

Voice: Endowment Fund. The shares refer to the payment of the endowment fund of € 10.500 required by statute by the 21 members of the committee (values at September 30, 2012).

Voice: Other contributions from the members. This item is composed for the most part by the contributions made by the cultural Jak Bank of Italy.

Voice: Legal costs . Relating to advance payments for the performance of the general council, the law firm Loconte & Partners .

Voice: Notary fees. Relating to the expenses of the organizing committee .

Voice: IPSOA compensation. On the organization of the conference of the official presentation of the Organizing Committee .

Voice: Reimbursement of expenses to third parties . Related to partial reimbursement for travel and lodging expenses to the speakers .

Voice: Reimbursement members. Related to traveling expenses in favor of the president of the organizing committee on the occasion of Alternative Investments Forum of Bari This is the only expenses donated to members view this exceptional event .

Voice: Graphic materials . Relating to the printing of brochures of the organizing committee .

Voice: Transfer Account. It is the sum credited to the account unavailable for subscription to cover costs initial opening and future management of account for the period of inactivity on this account .

4.2 Features of JAK Bank Italia

The new JAK Bank Italia revolutionizes the way of banking and lending in Italy. In fact, as already mentioned, the distinctive feature of JAK is the lack of application of interest on loans and the stock.

The JAK Bank in Italy, inspired by JAK Medlemsbank, is essentially the identical kind of cooperative with the same values of trust and solidarity, as previously described in Chapter 3. The project's promoters are convinced that the newly-formed JAK Bank may be a suitable

support for the development of the local and national economy, based on the principles of efficiency and competitiveness, as well as on a model of reciprocity in which, as already mentioned, the members share their savings at low cost with the other members and their families.

The *object* of the activity is to raise funds from the public and provide credit in its forms. In the limits of the rules, the bank can exercise all the operations and the banking and financial services, as well as any other transaction connected with achievement of its purpose.

It is important to emphasize that JAK Bank Italia operations of direct funding and financing of the members, excludes any form of activity in the financial markets and derivatives.

JAK Bank Italia want to offer to its members all the products and services that a retail bank does. At the same time it develops its activities with a particular focus on the small and medium-sized enterprises and households, providing them an appropriate assistance, proposing to become their trusty bank. In particular, the activity of the newly-formed Bank is involved on the classic credit intermediation and it gives priority to the deposit and the current account forms. In the first five years more complex forms such as bonds, repurchase agreements and certificates of deposit are not provided.

Regarding the *target* audience, the business primarily directs to families, cooperatives and artisans business, including non-profit realities; professionals and companies, mainly micro enterprises. On the other hand, JAK Bank Italia doesn't consider the corporate market with large enterprises and large institutional investors. The banking system works through home and phone banking and other mobile devices, electronic payment systems and any other support for remote interaction.

This choice appears necessary in order to limit the management complexity, reduce costs and it is also congruent with Jak Medlemsbank model. The JAK Bank Italia head office is in Milan and the structure and equipment are designed to provide, in addition to an adequate level of security , an example of efficiency , ecology and ergonomics.

It is possible to summarize JAK Bank Italia essentially as:

- a bank for small and medium-sized businesses, professionals, artisans, individuals and families, characterized by transparency and fairness in the relationships maintained with its members;
- an innovative bank in the relationship with the customer, thanks to its social orientation, committed in making effective forms of economic-financial democracy and mutual exchange between the partners;
- a structure based on an interest-free system, in which citizens can deposit their savings, making them available to all other members and contribute to the spread of a conscious use of money;
- a bank " non-profit ", with its members as shareholders and where "dividends" give the opportunity to take a loan at low cost;
- a virtuous and sustainable system where members are also protected from inflation, since the loss of purchasing power is compensated by the possibility of receiving funding at a reduced cost.

4.2.1 JAK Bank Italia activities

JAK Bank Italia intends to focus its activities through the following:

- financial education, promotion of savings, aware credit, the circulation of money, access to the banking system ;
- creation of support networks among members, bear the education and culture and also eco-sustainable activities, promotion of access to credit and autonomy of individuals;
- building strong relationships with businesses, workers and professionals, with a particular regard to the innovative entities, orientated towards a greater environmental sustainability and the development of operating conditions in order to facilitate initiatives for individuals working in the “third sector”.

In practice, it may be possible thanks to the help members, not only in the financial aspect, but also in terms of consulting, training, and through the close collaboration with the Cultural Association Jak Bank Italia, which is placed properly as Jak Bank Italia support association.

One of the peculiarities of the Jak Bank Italia is the presence of one or more regional associations, related to the bank entity, with the task of encouraging the creation of networks and synergies between the partners, implementing the economic and financial formation of the members and educate them in a conscious use of the money.

4.2.2 The Support Network

As described in the previous chapter, JAK Medlemsbank uses the savings and loan system, characterized by a cost of financing kept below market rates, in which the cost of funding is indexed to cover the development and management costs, because it doesn't need to generate additional profits.

The newly-formed Jak Bank Italia proposes the same alternative model of social support in the financial field. The balance of savings and loans in the bank, provides an opportunity for members of the same network or community to support each other, without a real transfer of money, but simply through saving points. Members can help each other:

- Opening a bank account in JAK and depositing in the money; a member can accumulate savings points that can be donated to other members, relieving the repayment of the loan; there is no risk for the money deposited.
- Helping a partner in the post- savings; when the accumulated savings points are not sufficient to obtain a loan, the Bank proposes to the member, alongside the classic repayment plan, a plan of accumulation. The purpose is the accumulation of savings points to get even with those consumed by the loan. This further accumulation plan can be supported by other JAK members, without any risk for their money.

4.2.3 Commissions on funding in JAK Bank Italia

As mentioned, the commission on funding is used to cover the development and management costs for the savings and loans. Unlike the interest rate that is an exogenous variable with an exponential growth curve, the commission is an endogenous variable in the system and depends on the amount of the costs, the number of members and their deposits and loans. In other words, it is comparable to the Internal Rate of Return (IRR), which resets the net present value of loans and savings post. The commission on loan is applied to the nominal value of the total sum paid, multiplied by the years of repayment and divided in monthly quotes, without the application of the compound interest mechanism. The commission on funding is calculated according to a logarithmic function, in order to simulate a curve with a trend of natural growth:

$$P * \{ \ln [\exp (k) * (\exp (1/2 k)^T)] \} / 100$$

where: P = amount of funding K = constant of parameterization (3.75) T = time in years

In the standard scenario, the constant of parameterization is defined in order to achieve a level of profitability that can completely restore the capital and reach the break-even point by the second year and zero losses of previous years in the fourth year. It will be adjusted in relationship with efficiency reached and future investment plans. In the following table are indicative values of commission on funding exposed in order to better understand the operating mechanism.

The annual commission on funding is estimated at 2.4%, assuming a return of the funds in an average period of 5 years. Therefore, applying the constant of parameterization in the logarithmic function (as described above) and increasing the payback period, the annual fee decreases and tend to assume more constant values, tracing the evolution of the logarithmic curve. On the other hand, plans with a timing of return less than 5 years, will have a higher annual fee.

Table 6 – Example of Annual Commission on funding

Funding	Time	k	k/2	Total commission	Annual Commission	Annual Commission (%)
€ 1000	1	3,43	1,715	€ 51	€ 51	5,15%
€ 1000	2	3,43	1,715	€ 69	€ 34	3,43%
€ 1000	3	3,43	1,715	€ 86	€ 29	2,86%
€ 1000	4	3,43	1,715	€ 103	€ 26	2,57%
€ 1000	5	3,43	1,715	€ 120	€ 24	2,40%
€ 1000	6	3,43	1,715	€ 137	€ 23	2,29%
€ 1000	7	3,43	1,715	€ 154	€ 22	2,21%
€ 1000	8	3,43	1,715	€ 172	€ 21	2,14%
€ 1000	9	3,43	1,715	€ 189	€ 21	2,10%
€ 1000	10	3,43	1,715	€ 206	€ 21	2,06%
€ 1000	11	3,43	1,715	€ 223	€ 20	2,03%
€ 1000	12	3,43	1,715	€ 240	€ 20	2,00%
€ 1000	13	3,43	1,715	€ 257	€ 20	1,98%
€ 1000	14	3,43	1,715	€ 274	€ 20	1,96%
€ 1000	15	3,43	1,715	€ 292	€ 19	1,94%
€ 1000	16	3,43	1,715	€ 309	€ 19	1,93%
€ 1000	17	3,43	1,715	€ 326	€ 19	1,92%
€ 1000	18	3,43	1,715	€ 343	€ 19	1,91%
€ 1000	19	3,43	1,715	€ 360	€ 19	1,90%
€ 1000	20	3,43	1,715	€ 377	€ 19	1,89%

Source: JAK School Report 2013

4.3 The organization of JAK Bank Italia

In this section, the main economic assumptions relating to the newly established JAK Bank in Italy will be analyzed, contained in the business plan. It is essential to remember, and to emphasize that this ethical and cultural project is not expected to remunerate the capital invested by members; there are no dividend payments to members and also no interest on deposits are provided. Membership status is necessary, but not sufficient, condition for the granting of loans.

- The JAK Bank Italia is focused only to members. In the starting years, the average value of loans, aimed primarily at families, is in limited amount in order to allow a strong reduction of the potential risks of insolvency.
- The Bank will operate under a light business structure, where the efficiency is mainly characterized by direct deposits and the granting of loans, with a low level of fixed assets and with a strong use of outsourcing.
- In the five years the bank is expected to achieve a net inflow of about 62 million Euros; total deposits, including savings of posts, will be about approximately 70 million.
- The collection is based on the deposit and the current account (at least in the first five years). In addition to direct funding in the short term, there will be also a medium-to long-term form represented by "post savings ."
- In the first five years, investments are assumed to be equal to 90 % of the collected amount, net from required reserves. The cash savings from the capital will be used as a cash reserve to cover possible losses.
- The new bank could be able to create its own market, offering favorable terms compared to the average of the market and, at the same time, benefiting from the strong link with the territory .
- Overall, labor costs and other administrative costs were compared with the average cost of other cooperative banks or equivalent and the cost assumed by the newly-formed Bank is lower. This because the new bank will operate under a simplified structure of costs and in a very strict policy of containment cost during the startup.
- Board of Directors or the Executive committee' members, sharing the basic ethics at the base of the project, ensure their active participation (as already happens in the Swedish model of reference) with their remuneration, that is significantly lower than the market average. Furthermore, administrators have no expenses reimbursement.

4.3.1 JAK Bank Set-up

The initial social capital is set at € 11,000,000, divided into 110,000 shares with a nominal value of € 100 each.³³ The expected number of subscribers is 5,750. The minimum value of each share has been assumed in order to allow a management of the social base and, thus, access to most of the individuals. Each member of the newly-formed bank can't hold shares for more than 0.5% of the share capital. The kind of members involved, as being mentioned in previous paragraphs are divided into three different categories: families, cooperatives and artisans business; professionals and freelancers; companies, such as micro enterprises. Below the minimum and average subscription forecasted and the composition of the social capital at the end of the year, assuming that there are increases in the social structure in next five years.

Table 7 – Minimum amount of subscriptions and social capital

MINIMUM AMOUNT OF SUBSCRIPTION	Minimum Amount of Shares Subscription		
	Number of shares	Value	Minimum of amount
Families	10	€100	€1.000
Cooperative and artisans business	20	€100	€2.000
Freelancers and Companies	30	€100	€3.000
SOCIAL CAPITAL	Initial Capital of Subscription		
	Number	Average Amount	Total
Families	4500	€1.500	€6.750.000
Cooperative and artisans business	500	€2.500	€1.250.000
Freelancers and Companies	750	€4.000	€3.000.000

Source: JAK School Report 2013

Prudently, the minimum amounts are maintained at low levels, according with the model's philosophy, although it can't be identified by definition of "diffuse shareholding". On the one hand, the objective is to fractionate the company structure with small subscription monies, on the other hand is to ensure, through the minimum subscription, the participation in the project. Furthermore, it is assumed that families constitute the majority of applicants, in fact, such persons may be more interested in this kind of bank even from a cultural point of view, while the other types of members probably join because of credit, rather than for the project itself.

³³ Data estimated in 2012 in the start-up of JAK Bank Italia

4.3.2 The Structure

The organizational structure, besides corporate bodies (Board of Directors, Executive Committee, Board of Statutory Auditors and Internal Audit) is composed of two areas: the Savings and Loans Area, divided in the "Savings and Loans" and "Relations with Members", and the Administration, EDP and Accounting Area; as a hierarchical structure, both of the two areas are dependent on the CEO, and are also connected by two helper functions, IT and Risk Controller .

At the top of the structure is there the *Board of Directors*, consisting of 3 to 7 members, with all the professional requirements, nominated for three years by the members' meeting in accordance with the regulations adopted. The Board of Directors is vested all the powers of ordinary and extraordinary administration, except those reserved by law to the members' meeting. The Board of Directors defines strategies, the organizational structure and the governance of the entire process.

The *Executive Committee* consists of a number of members from 3 to 5, selected by the Board, among the members. It has a role in supervising the operation of the bank and strategic functions.

The *Board of Auditors* has the responsibility to control, helping to ensure the regularity and legality of the business management, the compliance with the rules, as well as to preserve the autonomy of the banking firm. In addition , as required by the Bank of Italy³⁴, it has also the function of the Supervisory Board.

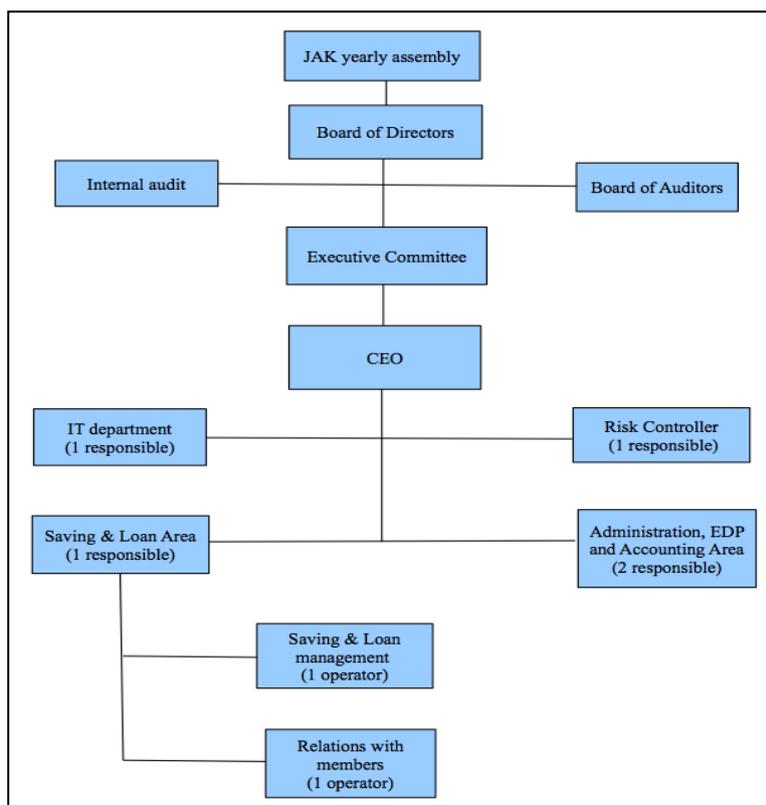
The activity of the *Internal Audit*, which is configured as a third-level function in monitoring, is being outsourced. It has to control the regularity of operations and evaluate the effectiveness of the overall system of internal controls. Internal Audit brings to the attention of the Board of Directors possible improvements to the policies of risk management, measuring instruments and procedures.

³⁴Required by the law D.lgs n. 231/2001, relating administrative responsibility: prudential supervisory regulations for banks - system of internal controls, information systems and continuity - September 2012.

The figure below shows the operational structure in the start-up phase of the constituent JAK Bank Italia:

- a Chief Executive, who is assigned the task of manager;
- two operators in Administration area, one senior and one junior ;
- a manager for Risk Control;
- a Head in the Savings and Loan division, two operators to Savings and Loan and Relations with members areas.
- an officer senior to the IT area .

Figure 7 – JAK Italia governing structure



The *Chief Executive* is responsible for the operation of the Bank in accordance with the Board directions, in order to ensure an effective and efficient system of internal controls. Defining operational policies, it implements the resolutions from the Board of Directors and the Executive Committee and has the overall responsibility of the newly-formed Bank's management. The Chief Executive determines structure' duties and tasks and it participates in the meetings with the Board and Executive Committee.

The *Administrative Area* is assigned to two operators, one senior and one junior, with experience in general accounting, with the task of ensuring the administrative and accounting management of the Bank. They collect and analyze data for the redaction of the annual budget and managing accounting books and related documents.

Savings and Loan Area is formed by a responsible person, who monitors the work of two subordinators, and two operators in “Relations with the members” and the other in “Savings and loan management”. The latter operates in the granting of loans.

The *IT Department* has as main function to ensure the proper features of hardware and software, the equipment and the telecommunication lines, which together create the technological infrastructure necessary to provide all services.

The function of *Risk controller* is entrusted to an officer that carry out an attentive inspection of financial and operational risks.

Finally, the *compliance function*, as second level control function, is outsourced; but internally is identified one responsible person for the compliance, where the suitability is subject to a periodic review by Internal Audit.

The clerical and managerial structure pays are below the market average , especially for the figures of the framework and managers, as expected by the spirit of the bank.

4.4 Deposits and Loans

According to the JAK Bank Italia Business plan, redacted during the last year, and data from Statistical Bulletin by Bank of Italy, it is possible to estimate the amount of deposits and loans for the next five years.

4.4.1 Deposits

The deposits is differentiated not only by traditional parameters (such as demand deposit, medium and long-term deposits, direct and indirect deposits), but also in "pre saving", which is configured as a direct (or sight) collection, and "post -saving ", which depend on the kind of loans is defined as a direct funding in the medium-to long- term³⁵. At least in the first five years, there are no other forms of direct deposits (such as certificates of deposit, repurchase agreement) and indirect. The elaborated data on future deposits is realized on the hypothesis of low level of commitment, both for families and for other types of subjects. Only after the third year, there will probably be an increase, even if minimal, on the values of the collection. Two fundamental elements are necessary: attracting a large number of members but, at the same time, limit the admission for people in financial distress. In other words, the aim is to keep the pre-savings accounts to an acceptable level as system's guarantee. Therefore, a "pre-saving" period of three months is required to the new members, that could be derogated in extreme necessary cases, in accordance with the Board of Directors.

4.4.2 Loans

The total amount of loans is assumed to give to small and medium-sized companies operating in the local territory. As already mentioned, the acceptance of loans applications is responsibility of the Savings and Loans Area, the CEO or the Board of Directors, depending on the size of them.

³⁵ The term "direct" deposit, means customer deposits in the form of Savings accounts, Certificates of Deposits, Circular Checks and the issuance of bonds; instead "Indirect" means holding of securities or other valuables administrated by the management. Demand (or sight) deposit, as in the case of the current account, can be refunded at the request of the depositor at any time.

It is based on several factors, such as:

- liquidity in the system as a whole;
- the extent of the sums "pre save", then the " save points " accumulated ;
- the ability to repay the shareholder, even before the guarantees provided, and the location of the same on other indebtedness, present or past ;
- evaluation of projects or activities related to the request for funding for people legal.

The expertise and the precision, involved in assessing funding applications, represent a fundamental and strategic element for credit and operational risk management.

Moreover, operators, according to non-profit targets of JAK Bank, aren't interested in granting loans that are not actually in line with the real ability to repay the members.

The subscribed capital, net of the realized investments, is available in JAK Bank fund as a reserve of cash or invested in financial assets with low risk.

The structure of the balance sheet, is in this way, ensuring the solvency and liquidity to the company. Loans are then funded with the sole liquidity obtained from the deposits, net of legal bank reserves required by the Bank of Italy and a large reserve, equal to 10% of net available, which is the amount used to fund JAK (net of bank reserve requirements).

The Bank does not provide new forms of interbank debt . Loans are financed only by cash, obtained from the deposits, net of the reserve requirement by the Bank of Italy .

Maintaining an operating margin is designed to support any mismatches between revenue and expenditure, especially during the start-up phase, in which many variables can affect flows actually activated.

Loans are calculated without the use of leverage fractional reserve, they can' t go beyond 90% of the net available and with leverage between 2:1 and 10:1. Financial investments are only executed on Treasury bonds or similar and at the interbank; the JAK Bank Italia doesn't operate in the financial markets .³⁶

³⁶ According to JAK's interest-free idea, this can appear a contradictory aspect, because Treasury bonds offer interest.

4.4.3 Financial investments

As mentioned above, the financial liquidity available, not used for members, is invested in low risk assets, such as Treasury Bills. It is not expected to use high profitability investments, given the risk of these operations and the need for liquidity reserves. A minority share is invested in assets held for trading and measured at fair value³⁷, a majority share in financial assets held for sale or loans to banks “at sight”. Finally, it is expected that a percentage, as cash on in hand, may be fractionated in other banks. Given the market situation, it is considered preferable to differentiate financial investments in short, medium and long term assets. The figure below shows the distribution of financial investments by type, estimated for the first five years of JAK Bank Italia.

Table 8 – Distribution of financial investments

Financial Investments	First year	Second year	Third year	Fourth year	Fifth year
Cash	€ 791.127	€ 885.521	€ 1.188.743	€ 1.407.014	€ 2.182.220
Treasury Bills or similar	€12.000.000	€12.800.000	€13.500.000	€14.800.000	€18.000.000
Loans to banks “at sight”	€ 1.600.000	€1.650.000	€1.900.000	€2.900.000	€3.400.000
Total	€ 14.391.127	€ 15.335.521	€16.588.743	€19.107.014	€23.582.220

Source: JAK School Report 2013

³⁷ The term fair value is defined as a rational and unbiased estimate of the price of a good or service, taking into account factors such as the shortage, the utility the risk, the cost of production or replacement, ie, of all those elements that the theory of value used to determine the price of a good.
The **D.lgs. n. 38/2005** imposes the application of the IAS/IFRS to the individual financial statements of listed companies, banks and other supervised financial institutions

4.5 The Profit and Loss Account

The following data are illustrated in order to better understand the economic sustainability of the project. Cost and revenue entries, unlike traditional lending institution, are simplified according to the type of operation described above. The economic objective of JAK, in fact, is merely to cover development and management costs, thanks to the contribution of the members. At the same time, cost entries are affected by a simple structure, in terms of organization and workability.

4.5.1. The revenues

The revenue items can be summarized in this way:

- commission on services;
- commissions on funding;
- interest on financial investments.

Commission on services, in order to be transparent and to retain members, consists of annual fees necessary to support the structure in a single *all-inclusive* item. With the exception of stamp duty³⁸, the annual costs represents a low amounts, below normally applied quotas, and are differentiated according to the type of partner.

The charge of stamp duty, is not applied in current accounts and deposits of individuals with an annual average balance up to €5,000. Based on the data collection of the JAK business plan, individuals therefore should dispense with it in the first four accounting periods. The management cost of the current account or deposit is significantly lower than the national average.

³⁸ For the year 2012 is confirmed the previous tax statements of current account amounted to € 34.20 per year, if the customer is a natural person. The legislation introduced, in addition, the exemption for the following cases: current accounts with the average value of annual stock not greater than 5,000 €; accounts belonging to customers with minimum pensions, allowances and social pensions.

From a survey on the cost of current accounts conducted by the Bank of Italy³⁹ the average cost for managing a current account stood to € 110 per year at the end of 2011, recording, however, a slight drop compared to earlier years, due to lower costs for holding securities portfolios, payment of interests, dispatch of statement of account and notices of transparency.

Table 9 - Operating Expenses

Operating Expenses	First year	Second year	Third year	Fourth year	Fifth year
Families	4.600	4.800	5.050	5.550	6.350
Cooperatives and artisans business	510	530	550	610	680
Freelancer and companies	770	800	840	960	1.160
Operating Expenses on families	€ 25	€ 25	€ 25	€ 25	€ 25
Operating Expenses on Cooperatives and artisans business	€ 35	€ 35	€ 35	€ 35	€ 35
Operating Expenses on Freelancer and companies	€ 50	€ 50	€ 50	€ 50	€ 50
Total annual operating expenses	€ 171.350	€ 178.550	€ 187.500	€ 208.100	€ 240.550

Source: JAK School Report 2013

This decline has however not affected some important types of fixed costs, such as fees, and variables, such as charges for transfers and handwriting expenditures. Lower client activity also contributed to the decline. Fixed costs amount to approximately € 70 per year, and among them, only the basic fee amounts of about € 40.

³⁹ Source: Bank of Italy, Survey on the cost of current accounts, October 2011; in the above analysis 175 banks and Bancoposta have been analyzed.

This analysis relates to a current account for low workability individuals and it does not compute expenses for stamps or for the payment of competence.

Loan assessment charges are calculated by an average rate lower than 0.5% and, for simplicity of calculation, given the non-significant increase in average loans, it does not change in the first five years.

It is assumed that the loans are one third of the sum of associates for each year. It is expected that the actual cost for each operation may vary from 25 to 50€, according to the type of partner and required funding. Therefore, the cost charged on the member is almost exclusively function of expenses' coverage.

The commission on funding, as already described in paragraph 4.2.3, is used to cover the costs for the development and management of saving and loan system. By varying endogenous variables (amount of deposits and loans, number of partners, cost structure), the commission on funding is "adjusted" downward or upward, but without generating positive or negative effects on ongoing funding.

If, on one side, lending rates are calculated in order to cover the operating costs (in the medium term), borrowing rates are not applied on current accounts and deposits (not assuming other types of deposits, at least in the first five years).

Table 10 - Commission on funding

	I YEAR	II YEAR	III YEAR	IV YEAR	V YEAR
Commission on funding	€ 301.962	€ 618.783	€ 696.870	€ 888.288	€ 1.211.286
Commission rate	2,40%	2,40%	2,40%	2,40%	2,30%
Beginning of the year	0	€ 25.163.470	€ 26.401.819	€ 31.670.644	€ 42.353.390
End of the year	€ 25.163.470	€ 26.401.819	€ 31.670.644	€ 42.353.390	€ 62.975.870
Average	€ 12.581.735	€ 25.782.645	€ 29.036.231	€ 37.012.017	€ 52.664.630

Source: JAK School Report 2013

In this way it is possible to reduce competitor's market share through the cost of financing policies, although JAK Bank Italia doesn't offer a competitive range of services, given the absence of some services, such as ATM and POS, checks and credit cards. A reduction of the commission can be expected, when profits placed at reserves will offset the losses in the initial years.

From the analysis of published data on the Statistical Bulletin of the Bank of Italy⁴⁰ emerge that average values of interest rates on bank loans are above the European average.

Specifically, for the consumer credit, APR standing on a value slightly above 10% for term transactions in the productive sector standing on an average value of about 6% and, finally, for the purchase of dwellings standing on an average value of 5% (data related to new transactions).

The commission on funding assumed, therefore, appears significantly lower than the market average, especially considering the type of use expected. In other words, this results in a positive difference ranging between 3.6% and 7.6 % (when excluding real estate loans). In economic terms, considering the assumptions set out above in relation to the average amount of loans and the average duration of amortization plans, members will enjoy a significant advantage, able to compensate for any loss of value from inflation, both on funding and on subscribed share capital.

Finally, with regard to returns from financial investments, that is the social capital, net of fixed assets, required reserve (2%) and part of funding that is not intended to be used (10%), an investment portfolio diversified by maturity is made up, as well as by type, in order to ensure balance between the liquidity and investment needs.

Treasury Bills returns, in fact, are calculated as the average of variety assets, aimed at differentiating investments, through an assets portfolio diversified by maturity.

⁴⁰ Source: Statistical Bulletin of the Bank of Italy, the third quarter of 2012.

Table 11 – Return on financial investments

FINANCIAL INVESTMENTS	I YEAR	II YEAR	III YEAR	IV YEAR	V YEAR
Cash Liquidity	€791.127	€885.521	€ 1.188.743,00	€ 1.407.014,00	€ 2.182.220,00
Treasury Bill	€12.000.000	€12.800.000	€ 13.500.000,00	€ 14.800.000,00	€ 18.000.000,00
Loans to bank at sight	€1.600.000	€ 1.650.000,00	€ 1.900.000,00	€ 2.900.000,00	€ 3.400.000,00
TOTAL	€14.391.127	€ 15.335.521,00	€ 16.588.743,00	€ 19.107.014,00	€ 23.582.220,00

INTEREST ON FINANCIAL	I YEAR	II YEAR	III YEAR	IV YEAR	V YEAR
Treasury bills	3,00%	3,00%	3,00%	3,00%	3,00%
Loans to bank at sight	0,45%	0,45%	0,45%	0,45%	0,45%
Interests on financial	€ 367.200,00	€ 391.425,00	€ 413.550,00	€ 457.050,00	€ 555.300,00
Treasury bills	€ 360.000,00	€ 384.000,00	€ 405.000,00	€ 444.000,00	€ 540.000,00
Loans to bank at sight	€ 7.200,00	€ 7.425,00	€ 8.550,00	€ 13.050,00	€ 15.300,00

Source: JAK School Report 2013

It may be considered reasonable the assumed rate, although it may be subject to strong variations in coming months, given the current market volatility.

The value of 3% is, therefore, strongly conservative given the Treasury bills average returns published by the Bank of Italy in December 2012 ⁴¹that indicate an average value of about 3.97%, calculated as the average gross yield on fixed income government bonds, with a residual maturity included between 1 and 20 years. The returns generated by a “sight loans” from banks are calculated according to Euribor average value at six and twelve months, (data from December 2012).

⁴¹ Source: Bank of Italy, Treasury bonds returns, December 2012.

4.5.2 Costs

The cost items can be summarized as follows:

- costs for staff and corporate bodies;
- administrative costs;
- other costs.

Regarding to the costs for personnel and corporate bodies it is necessary to highlight that, respecting the limits imposed by referential CCNL⁴² and by contractual adjustments expected until 2014, redaction of these values was signed by the parties in January 2012.

In line with the philosophy of the project, for each staff category, including the executive one, JAK Bank has remained broadly in line with the minimum requirements of the CCNL; and it has also been applied a proportionality criteria where a maximum ratio of 1 to 3 exists between the lowest and the highest level of payment.

As already described, the Bank initially has 8 employees staff, including the CEO and two managers and five employees, while, starting from the fourth year, the personnel is expected to increase in accordance with the increases in other variables.

The remuneration for the members of the Board of Directors and of Board of Statutory Auditors shall be maintained at low levels due to the peculiarities of the project.

An increase is expected in headcount of 1 unit in the fourth year and 1 additional unit in the fifth year, both at the level of professional area.

The structural data related to personnel are estimated by comparing the values of Jak Medlemsbank (December 2012), considering that the workability of the future JAK Bank Italia is in line with the Swedish one, and with other equivalent lending institutions such as small cooperative banks (BCC) or People's Banks with a single branch, but taking into account the fact that, in this case, the workability of the newly-formed Bank is reduced in terms of available services.

⁴² CCNL is the national collective labor agreement

With regard to the comparison with Jak Medlemsbank, the higher levels (in terms of number of personnel members) are due to the greater complexity determined by Italian law and to the complexity of the start-up phase.

It should be noted that the increase in the value of lending and funding per employee derives from the value of average loans, rather than from the increase in business structure that, as seen above, is significantly lower than the increase of lending and funding values.

All expenses are as follows:

Table 12 – Total costs for the personnel

Total costs for personnel	First year	Second year	Third year	Fourth year	Fifth year
Personnel	€ 433.125	€ 441.788	€ 450.623	€ 499.033	€ 549.199
Social bodies	€ 98.200	€ 98.200	€ 98.200	€ 98.200	€ 98.200
Total	€ 531.325	€ 539.988	€ 548.823	€ 597.233	€ 647.399

Source: JAK School Report 2013

Administrative costs, although they are made up of similar entries to those of other equivalent banking institutions, are reduced in accordance with the "essential" idea of JAK, the absence of branches and simple management in general.

Mainly, IT costs and consulting fees bear the most. It should be noted, finally, that the establishment costs cannot be capitalized, as required by IAS law, and they are therefore included in the income accounting in the first year.

Table 13 – Total Costs

Total Costs	First Year	Second Year	Third Year	Fourth Year	Fifth Year
Total Administrative Costs	€ 491.561	€ 356.795	€ 370.051	€ 394.940	€ 437.079
Total Costs for the Personnel	€ 531.325	€ 539.988	€ 548.823	€ 597.233	€ 647.399
Total Operative Costs	€ 1.022.886	€ 896.782	€ 918.874	€ 992.173	€ 1.084.478

Source: JAK School Report 2013

Finally, with regard to other expenses, in addition to fiscal outputs, is highlighted the costs resulting from the credit deterioration. The percentage of impaired loans is calculated taking into account the specificity of JAK model, the type of lending and deposits, maintaining a prudent approach.

The value tends to increase over time, but it is estimated that it will not exceed 1%, due to peculiarities of the banking model and the importance of the loyalty with its members.

Table 14 - Impaired loans

	First year	Second year	Third year	Fourth year	Fifth year
Impaired loans	€ 125.817	€ 132.009	€ 190.024	€ 275.297	€440.831
% impairment on loans	0,50%	0,50%	0,50%	0,50%	0,50%

Source: JAK School Report 2013

This value is estimated to be consistent with the analysis of the average values of the uncollectible accounts of the other major reality of ethical finance operating in Italy, according with data provided by Jak Medlemsbank and the evaluation of the values published in the Statistical Bulletin of the Bank of Italy for the third quarter of 2012.

The data evaluated by the Bank of Italy⁴³ show that, with regard to consumer households, new uncollectible accounts in relation to outstanding loans amount to 1,3% nationally.

On one hand, the percentage of Swedish bank bad debts, amounting to an average value of about 0.4% in the last five years, has been assumed as a reference for the kind business structure, on the other hand, the data recorded by the ethical finance experiences in Italy, in recent years, allow to ensure consistency and sustainability with the estimate, particularly regarding the allocation of loans.

In particular, it should be repeated that the newly-formed JAK Bank, granting loans to members based on their actual ability to repay, makes an accurate and detailed analysis of the economic and financial situation. Finally, the creation of support networks facilitates members in distress so that their position can be restored before credits are considered definitively uncollectable.

In addition to what stated before, the Bank adopt the Equity share, a guarantee instrument for credit risk: the member pays, as security deposit, a sum equal to 3% of the loan.⁴⁴

This amount is refunded to the member at the end of repayment plan.

The equity share may be recorded in "Other liabilities".

⁴³ Bank of Italy: Regional Economies

⁴⁴ The Equity Share in JAK Medlemsbank is, instead, equal of 6 % of the loan amount, as described in Chapter 3.

The values are assumed reliable although they may be subject to change in the future. In addition, starting from the fifth year, having absorbed the losses of previous years, it is expected to refund a portion of the interest earned on financial loans. In line with the core values and philosophy of the project, this share is estimated to increase gradually in order to achieve the full realization of interest-free individual.

By aggregating data set out above it appears to be an economic situation that sees the achievement of a break-even point in the fourth year. In the JAK business plan worst and better scenarios are also elaborated that show a shift in achieving the economic result from the second to the fifth year.

It is possible, therefore, to synthesize what has been exposed in the following table:

Table 15 - Profit and Loss Account

PROFIT and LOSS ACCOUNT	First year	Second	Third year	Fourth	Fifth year
Interest margin	€669.162	€ 1.010.208	€ 1.110.420	€ 1.345.338	€ 1.766.586
Net commission	€248.051	€ 1.268.793	€ 271.701	€ 300.634	€ 346.418
Intermediation margin	€917.213	€ 1.136.784	€ 1.382.120	€ 1.645.973	€ 2.113.004
Adjustment	€ 125.817	€ 132.009	€ 190.024	€ 275.297	€ 440.831
Net operating result	€ 791.395	€ 1.136.784	€ 1.192.097	€1.370.676	€ 1.672.478
Administrative costs	€ 1.022.886	€ 896.782	€ 918.874	€992.173	€ 1.084.478
Adjustment on tangible assets	€ 22.000	€ 22.000	€ 22.000	€ 22.000	€ 22.000
Adjustment on intangible assets	€ 27.000	€ 27.000	€ 27.000	€ 27.000	€ 27.000
Other taxes					€100.000
Operating costs	€ 1.071.886	€945.782	€967.874	€1.041.173	€1.233.748
Gross profit	- € 280.491	€191.001	€ 224.222	€ 329.503	€ 438.695
Taxes		- €61.407	- € 72.088	- € 105.935	- € 141.040
Net Profit	- € 280.491	€129.594	€ 152.135	- € 223.567	€ 297.654

Source: JAK School Report 2013

4.6 Risk and guarantees

Consistently with the recommendations of the Basel Committee, the new provisions on prudential supervision are based on the "three pillars" already defined in the new Accord on Capital of 2004. The first pillar introduces a capital requirement to cover typical risks of banking and financial activities: credit and counterpart risk, market risk and operational risk; the second pillar requires banks to adopt a strategy and a control process on current and future capital adequacy (business risk, reputational risk, compliance risk, strategic risk, etc..). The third pillar introduces the obligation on public disclosure regarding capital adequacy, risk exposure and on general characteristics of related management and control systems.

4.6.1. The first pillar

Credit risk, in reality, is not only confined to the mere possibility of the insolvency of counterparty, but also the simple deterioration of creditworthiness can be considered as a manifestation of credit risk. As mentioned earlier, this risk will be limited, due to the creation of stable support networks, the loyalty building of members and the transparency that will characterize the future Bank.

It should be noted that, in order to cope with the risk of credit impairment, in addition to having a system of guarantees, mandatory by law, is fundamental how credit is granted. It is actually commensurate to the ability of savings and repayment of the member, not the guarantees given.

Given the choice of risk-free assets with respect to financial investments, given the lack of activity in foreign exchange and foreign currency, and given the assumptions not to operate in the financial markets, market risk is reduced compared to traditional institutions credit.

Finally, the JAK model predicts the existence of an innovative tool called equity share, or "guarantee fund". A member who requires a loan will have to pay, as guarantee deposits and until the extinction of the amortization plan, an amount equal to 3% of the financed fund.

This tool does not only offer a guarantee on credit risk, but allows, as we will see shortly, to increase the basis for the calculation of the solvency requirement prompted by supervisors.

Operational risk does not present particular differences compared to traditional lending institutions, although it may be considered limited because of assets' "simplicity" that the future the Bank will put in place.

4.6.2. The second pillar

Based on the total of the risks described above, it is needed to meet a minimum capital ratio of 8%. Most of the major problems encountered in recent years by the banks, especially large ones, are concerned specifically with this capital requirement. It is derived from the ratio of regulatory capital (share capital, net of losses and fixed assets) and the risk-weighted assets. In other words, it measures the stability of the subject, comparing the "capital" with the assets, that is, financial investments and lending, the funding granted.

This restriction is to avoid that, against the minimum share capital, it is possible to grant credit without limitation.

With regard to the level of financial leverage, we can observe a capital ratio significantly better than the market average and well within the limits imposed by the requests of Basel Accord.

In the fifth year, at the close of the start-up phase with a situation similar to that of the regime, the value of the capital ratio is more than the double of minimum required.

It should also be noted that the final decisions about the extent and duration of the loans will be taken by the competent bodies of the future Bank in accordance with a careful and regular assessment on system and the individual member liquidity, as well as the other variables mentioned in previous chapters.

Table 16 -Capital Ratio

NET ASSETS	I YEAR	II YEAR	III YEAR	IV YEAR	V YEAR
Social Capital	€ 11.100.000,00	€ 11.280.000,00	€ 11.505.000,00	€ 12.055.000,00	€ 12.925.000,00
Actual Loss	-€ 280.491	€ 129.594,00	€ 152.135,00	€ 223.567,00	€ 297.654,00
Previous Loss	€ 0,00	- € 280.491	- € 150.897	€ 1.238,00	€ 224.806,00
Intangible assets	- € 108.000	- € 81.000	- € 54.000	- € 27.000	€ 0
Supervisory assets	€ 10.711.509,00	€ 11.048.103,00	€ 11.452.238,00	€ 12.252.806,00	€ 13.447.460,00
Solvency Coefficient	I YEAR	II YEAR	III YEAR	IV YEAR	V YEAR
Surveillance assets/total assets weighted	32,10%	31.49%	27.96%	22.97%	17.65%

Source: JAK School Report 2013

The newly-formed Jak People's Bank of Italy will be particularly attentive to the repayment capacity of members and any financing will be considered individually.

Liquidity will be regularly and consistently evaluated to determine the extent and duration of loans: regulatory bodies evaluate and fine tune the relationship between funding, especially one consisting of "pre savings", and the consistency of the loans in order to determine the amount of new loans. The amount of "pre savings", as mentioned, will be a key element in managing the sustainability of the balanced savings and loan system.

One of the main liquidity risks involved in the model is, in fact, in the scenario in which all members, old and new, or a large percentage of them decide not to carry out pre savings over the mandatory limit of three months. However, not so much attention should be paid on the possibility that an excessive requests for new funding is generated, but on the possibility that the savings grow less than the loan requests.

It is considered reasonable to hope that the majority of members deemed necessary to pre-save in order to obtain a loan on better terms. Then there will be a trend, from some members, to keep the amounts in storage, without specific goals as well as accumulate savings.

These considerations arise from the extensive experience of Jak Medlemsbank.

It is believed, however, that the members may be induced to carry out pre-saving for the following reasons:

- to improve the conditions of the loan;
- to reduce "post saving" quote;
- to accumulate savings in order to feed Savings and Loan system, within the optics of mutuality which is one of the foundations of the model;
- to donate savings to other members needed to obtain a loan or contextual future.

Conclusion

The recent economic crisis, particularly in Italy, and the financial scandals in current years have contributed to emphasize a need of greater ethics in not only business but also in banking management. Ethical banking processes, services and money are, in fact, possible and exploitable instruments for the society. Over the last 40 years we have seen a rise and development of new kind of banks that focuses on cultural, social and ecological projects. Using ethical and economic criteria to decide which projects to finance or not, these banks show a higher level of transparency in their actions. Some of them are classical private companies with stakeholders, while others are cooperative banks; the biggest reality of ethical banking in Italy being Banca Popolare Etica.

In the analysis I illustrated the case of JAK Membersbank in Sweden, an alternative ethical bank, whose main function is to provide members with interest-free savings loans. JAK is a special kind of cooperative that redefines the business of banking and lending of money; in fact, its most particular feature is that it doesn't charge interest on loans nor pay interest on savings. The JAK interest-free bank, born in Denmark at the beginning of the 1930s, and then replicated by a group of Swedish people in 1960's, has today become a co-operative of about 38.000 members. Sweden, already well known as a highly democratic country benefiting from its high standard of living, is home to the largest number of JAK branches and members.

JAK Bank is a unique model in itself: a virtuous and sustainable system characterized by values of mutuality and solidarity, typical of the cooperative bank with a new concept of "money" and "savings". The bank, opposed to the idea of charging interest for loans and instead decided to use a model of reciprocity where members share their savings that makes no-interest loans available to other members and their families. The essence of the model is that each member becomes a borrower. This cooperative aspect of JAK is a remarkable feature that distinguishes it from all other banks.

Moreover, JAK Bank, address primarily to families, micro and small enterprises and it aims to raise local resources in order to support and develop the territory; this interesting feature being shown in the strong relationship between JAK management and the local community.

On the contrary, JAK has to deal with increasing restrictions and new banking regulations imposed by the EU. For instance in its *accounting system* in 2007, when JAK had to adopt to the statutory IFRS accounting standards, specifically the IAS 39, regarding the “fair value”. This standard, changed JAK’s financial statements, because before its entry, JAK didn't calculate the amortized cost of their loans and didn't register interest expense over the relevant period. Moreover, JAK’s procedure for fee calculation found a limit: with this new law requiring a calculation of the payment proportionated to the debt, instead of charging a flat fee every year as JAK used to do. Furthermore, there is also an implicit inflation risk in its system: if savings are required when taking a loan, the value of the amount saved can decrease over time, given that money could be invested elsewhere. Finally, JAK investment in Treasury Bills, as guarantee system, can be considered a controversy to its basic interest-free idea.

During my experience in Stockholm, I had the possibility to interview Johannes Kretschmer, member of the board in JAK, who also use to participate also in several meetings organized by JAK Italia. I also met with Johan Thelander, the coordinator of the volunteers of JAK Stockholm, which is one of the most active local groups right now. Meeting with him gave me an insight idea on how JAK works as a grassroots movement. Both of them were very helpful to my project: as they described to me how the bank works, what kind of loans to finance and what activities being promoted. They also described the organization of JAK School and its current renovation in the system as well as the imminent introduction of the credit card.

The movement of interest-free banks has grown a lot in the last 10 years and today there are projects going on in Germany, Finland, Spain, Holland, Kenya and France. Some of them are already running a saving-and-loans activity, while others are still working in the structures that are needed to start.

A few years ago the project arrived in Italy and spread quickly throughout the country; today, the Italian project is the one being relating the most, among these, to the Swedish bank model.

In this report I described in depth JAK Bank in Italy, from its birth to its current and recent development. In the same way as JAK Medlemsbank, JAK Bank Italia proposes a project of social business "non-profit".

The first project, officially born in 2008 with the creation of the Cultural Association JAK Italia, was built thanks to the commitment and perseverance of people aware of the need and urgency of a radical change in the current economic and financial system and the importance of a profound cultural change. The aims are to create *economic and financial sustainability* through minimum profit, in order to ensure the survival and development in the medium to long term by opposing to the profit maximization.

Moreover, JAK's objective of *minimizing the cost* of loans implies that price, which members are required to pay to the bank to borrow, is the appropriate fee to support the operating and risk costs of the bank, allowing a high reduction of financial charges to customers with regard to traditional bank loans. A further topic, where newly-formed JAK Italia is involved, is to the development of *environmental awareness*, the promotion of financing eco-sustainably and eco-friendly businesses, and supporting the credit to the *local economy*. JAK Italia, as well as JAK Medlemsbank makes attempts to offer its members all the products and services of a retail bank, and at the same time develop its activities with a focus on the segment of small and medium-sized businesses and households.

Throughout this dissertation I have illustrated the main assumptions taken into account by the JAK Italia business plan, about possible and potential evolution that the new-formed bank has to face in the current and following years. Kindly, the Members of Jak Bank Italia have provided me with an extract and a summary of the business plan redacted during the first years of start-up.

The market risk and concentration risk, although they are properly weighed and provided cover, represent the limits that are, on the one hand, the absence of transactions in financial markets, and on the other hand, the extreme fractionation of loans in the society. Also credit risk constitutes a problem. The JAK model, as analyzed, provides a system that measures "ex ante" and support members in bounding the losses. But, in order to borrow, one has to become a member first and deposit money, encouraged to accumulate savings points.

Furthermore, since JAK does not have profit targets, it will not be affected grant loans to members of amounts greater than the member capability to repay; this represents a sort of good guarantee. However, fractionation and the reduced size of the sums lent represent a sort of guarantee as prudent management and allow a limited impairment of credits: analyzing the situation of the major Italian banks, it can be seen that the bad credits and losses are more related to the large loans.

In this work I described how in the event of insolvency or difficulty in repayment by the members, JAK will work with extensions, reviewing the financing plans, requesting support from other members in terms of "savings points", and finally using the guarantees provided, designed as collateral for other members co-debtors. It should also be noted that, according to the JAK business plan, a portion of costs deriving from credit losses is considered, adequately covered by revenues without risk or payback on members.

In summary, protection measures in the entry, granting of loans and sustainable small entities, careful evaluation of the financing projects, strong loyalty by members and the creation of support networks form the strong basis of the newly-formed JAK bank in Italy.

JAK Members Bank model, therefore, can be considered as an international benchmark for "sustainability banking" where individuals, businesses and communities are committed in sustainability and thus improving quality of life.

On the basis of the JAK Italia project appears clearly the need to change radically the current economic and financial system, spreading a new model in which values, culture and individuals play the main role.

Currently, JAK has been facing new and important challenges, among them the new banking regulations at EU level, new financial and services demands of their clients and the general financial turmoil caused by the crisis.

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