A REPORT FROM SOVEREIGNMAN.COM

WORLDWIDE BANKING REVIEW 2016

A BLACK PAPER

SOVEREIGN MAN

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PART I. OVERVIEW

- Why you need to audit your current bank
- What key numbers to look at when selecting a bank
- Why modern banking is crippled and must (and will) change
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When you move to a new place, how do you normally choose where to bank?

Do you base your choice on convenience of location? Checking account fees? A marquee name? Is it something you think you need to give much thought to? After all, aren't all banks the same, anyway?

No, they are not. You'd think, for example, a "too big to fail" bank would have learned its lesson back in 2008, right? And surely it would have enough money - and have submitted to enough embarrassing public slaps on the wrist - to be responsible to its customers.

Unfortunately, that is not necessarily the case: Recently, one of the largest banks in the world, Wells Fargo, admitted to secretly creating millions of fee-generating bank and credit card accounts without its customers' knowledge or consent.

According to the US Consumer Financial Protection Bureau, the bank told employees to push households (Wells Fargo's clients) into using eight in-house products.

In response, employees, knowing they'd need to hit those sales targets to get their bonuses, opened more than two million deposit and credit card accounts for their customers.

Typically, they would create a new account for a customer, then transfer funds from his existing checking account… without ever once asking permission.

The retail bank is paying a $185 million fine, plus $5 million to the duped customers, and it says it fired more than 5,000 employees over the practice.

But this story encapsulates much of what is wrong with modern banking.

Modern banking is a black box. There is little-to-no transparency. And once they have your money, you have no idea what they're going to do with it, how they will invest it, or, in a crisis, if you'll really get it back.

The modern banking system is not built to protect your assets, to grow your wealth, or even to safeguard what you loan the bank. You, the client, are *not* the bank's priority.

And that is why we're updating our worldwide banking report from 2015. Because now, more than ever, you need to be highly selective about where you allow your money to live. There are no perfect banks out there, but there are "safer" banks… just as there are disastrous examples, as personified by Wells Fargo.

To give you a sense of what banking should be like, we'll take a quick peek at history: As we've written before in our Black Paper on the Future of Finance, the fundamentals of the modern banking emerged around 600 years ago.

In Renaissance Italy, prominent families operated the first banks in prosperous nation-states such as Florence and Venice. (The Italian word "banco," or bench, describes how "banking" physically started.)

Those early banks took in gold and silver for secure storage and charged a small fee for doing so — just as any other secure storage facility does today.

The first banks then typically issued something called a "bank note," and the person holding the note could claim the gold when he needed it again.

Eventually, these bank notes, much lighter and more portable than physical gold and silver, became the currency in circulation.

Banks also became involved in lending activities, thus fueling commerce. They loaned out money to merchants who traded all over the world, and they charged a percentage as a reward for the risk taken. If banks made too many bad lending decisions, they went under.

Back then, good lending decisions were an imperative. Reputation (not regulation) was everything. And if you were a banker unable to repay depositors' gold? You might have lost your head.

(Incidentally, the oldest bank in the world still in operation today, Banca Monte dei Paschi di Siena, is Italian. You can read more about it in the Italy section of this report).

As you can see, banking used to be somewhat straightforward. No longer is that the case, and that's important to understand. So before we get into the nitty gritty analyses of banks the world over, we'll quickly go over why we must be so wary -- and we'll spell out how to make safer choices.

Metrics that prove the dangers of modern banking

Modern banks seldom resemble their Italian predecessors.

These days, modern bankers are little more than unpaid spies of the government. Customer assets seldom are protected with care; instead, they are usually invested in questionable - or even dicey - instruments. And rarely are reckless plays with your money punished; in fact, taxpayers, and increasingly a bank's own customers, are more or less *required* to bail out their dodgy banks.

Moreover, the entire modern banking system is based on the fractional reserve system, in and of itself an inherently precarious arrangement.

What *fractional reserve* means:

1) People deposit their savings in the bank in the hopes of earning miniscule interest rates;

2) The bank turns around and lends out the vast majority of that deposited money… or the bank invests it in other financial instruments (sometimes sound, more often reckless or even toxic) in an effort to make a profit.

In other words, banks keep only a small fraction of depositors' money in "reserve" to hand back to their clients when they want to make a withdrawal or transfer money elsewhere.

Banks therefore rely on the statistical probability that their depositors won't all show up at once and demand their money back.

That's why it's important to examine a **bank's liquidity**; it's a measure of its fractional reserve practices.

We here at Sovereign Man go farther, looking into what we call **"conservative liquidity."** We define that as all the bank's cash held in their own in-house accounts, plus all its cash held at the country's Central Bank (mandatorily or voluntarily), plus (rarely) some of the bank's other highly liquid cash-like instruments.

In other words, conservative liquidity is the amount of cash that the bank can access with near-100% certainty under any market conditions.

Here's why conservative liquidity is so important: Under normal market conditions, when the bank urgently needs liquidity, it can reasonably expect to receive short-term loans from other banks (e.g. overnight lending).

But if there's a systemic shock, banks' continuance of providing liquidity to each other is far from a guaranteed thing.

Recall that back in 2008 and 2009, banks and financial institutions were nearly crippled. Raising any cash at all was a Herculean feat. Interbank lending, in fact, nearly came to a complete halt.

And that kind of major crisis is exactly why **"conservative liquidity"** is so important. It helps you calculate whether your bank will weather a major storm on its own.

Unfortunately, many of the banks we have examined proved to have little more than *one percent* conservative liquidity.

That means that if only 1% of customers made a run on the bank, the institution would go under.

That's why we say we're not in Italy anymore. (Even Italy isn't in Italy anymore.) Modern banking practices reveal a shocking sense of disregard for basic common sense.

In addition to having very limited liquidity, many Western banks also maintain very low levels of **capital**, or **solvency**.

We often refer to this as a bank's margin of safety. Just as it's a good idea for individuals to set aside a rainy day emergency fund, a bank with a strong margin of safety should set aside substantial reserves so that, even if the *value* of its assets decreases substantially, the bank would still have enough other assets to cover customer deposits.

Many banks have a negligible margin of safety… and very few people realize it until it's too late.

Banks can and do go bust. Even in the richest countries. Remember IndyMac Bancorp, Bear Stearns, AIG, Washington Mutual, Countrywide Financial, Fannie Mae, Freddie Mac, and Lehman Brothers?

Were lessons learned?

A few. But not as many as you'd think. (See the Wells Fargo example above.)

And that's just the banks. Then there are the macro financial systems themselves, helmed by the Central Banks, the sovereign governments, and truly pathetic debt-to-GDP ratios. Even today, the US financial system — as well as those of many other Western countries, especially in Europe — is far from robust.

The good news is that modern technology is transforming many of the more archaic and dangerous aspects of the financial system. Peer-to-peer (P2P) platforms and the blockchain both are helping to create such a huge transformation that in ten years, banking as we know it will cease to exist.

But for now, we're stuck with what we have… which means that we still must rely on traditional banks for many of our most basic financial services.

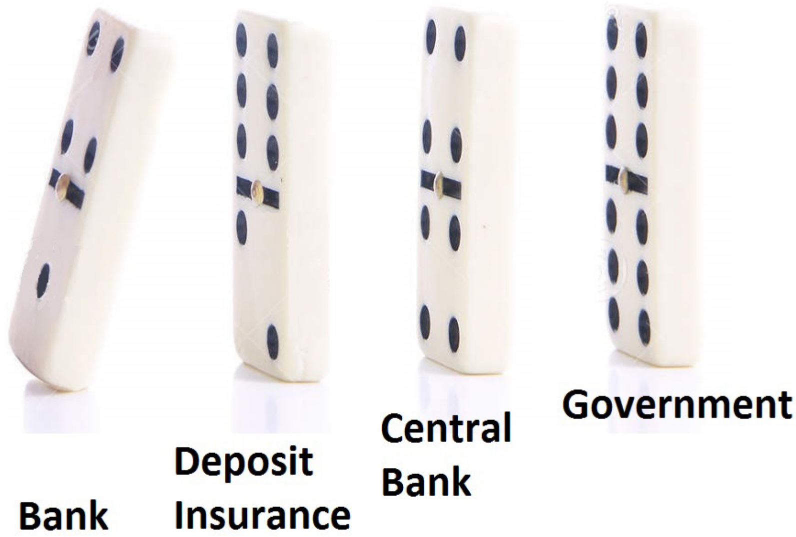
And that, again, is why we are here today, to **help you identify relatively safe banking options among those that currently exist.**

What makes a good, sound bank?

We view the pillars of any banking industry as a series of domino pieces that can either stand upright or fall in a rather spectacular fashion.

Visualize them like this:

Bank -> Deposit protection scheme (if applicable) -> Central Bank (if applicable) -> Country (Government)



The sizes of these domino pieces are rarely comparable: Sometimes when the first one falls, the next piece in line may be larger… and therefore has a chance of staying upright.

Or, the next piece might be similar or smaller in size, falling with no resistance.

Look at what happened in the US in 2008: When the first piece (the banks) started falling, it didn't take long for the FDIC and US Federal Reserve to start teetering.

But the government piece — which we calculate to be about the size of Jupiter — stood strong.

It took a lot of bailing out, creating mountains of new debt and relentless money printing, but the government piece stood.

When you read the actual bank analyses, you'll see that we often refer to those various dominos and other metrics. The following is a primer to help you understand our view of risk analysis and decipher what we're saying.

The Bank Domino - (How to Choose a Bank)

The bank piece is obviously the most important one. If it doesn't fall, it won't knock down the others.

You want to choose a bank with as many of the following characteristics as possible:

A healthy bank has a high capitalization, or solvency, ratio, so that if some of its assets go bad and become unrecoverable, the bank still has enough funds to cover its depositors and creditors.

How do you figure this out? You look at *total assets* and the *bank's equity*.

Here is an example of the balance sheet of a smaller bank that we do not cover in this report:

Bank of Saint Lucia International Limited

Consolidated Statement of Financial Position
As of 31 December 2014

(expressed in United States dollars)

	2014 $	2013 $
Assets		
Cash and cash equivalents (Note 5)	218,566,967	258,477,551
Investment securities: (Note 7)		
- Held-for-trading	21,169	66,034
- Held-to-maturity	143,196	581,292
- Available-for-sale	112,571,532	97,324,243
Loans and advances to customers (Note 6)	8,280,855	15,254,286
Property and equipment (Note 8)	290,666	162,312
Other assets (Note 9)	943,020	387,721
Total assets	340,817,405	372,253,439
Liabilities		
Deposits from other banks (Note 10)	247,111	293,220
Due to customers (Note 11)	326,675,529	358,637,399
Due to related party (Note 12)	-	6,910
Other liabilities (Note 13)	640,371	399,738
Total liabilities	327,563,011	359,337,267
Equity		
Share capital (Note 14)	5,000,000	5,000,000
Unrealised loss on investments	(485,091)	(57,420)
Reserves (Note 23)	3,448,463	2,342,781
Retained earnings	5,291,022	5,630,811
Total equity	13,254,394	12,916,172
Total liabilities and equity	340,817,405	372,253,439

- The "**total assets**" of the bank include cash, financial instruments, loans it has made to individuals and to companies, and the like.

In this case, the bank's total assets are around $340 million. (That sounds like a lot of money but actually renders it a relatively small bank.)

- The "**total equity**" of a bank represents **what the bank is really worth**. Equity equals the bank's assets minus all of its liabilities, and it generally includes the bank's share and paid-up capital, its reserves and its retained earnings.

By dividing a bank's equity by total assets, we can determine its **solvency, or capital ratio**.

The higher the ratio, the safer the bank.

In the case of this bank, the capital ratio is 3.9% (13,254,394 / 340,817,405 = 0.039), which is a very low number. We'd prefer something greater than 10%.

Does this automatically mean that this particular bank is unsafe? Perhaps, but to answer that question decisively, we need to analyze other aspects of its balance sheet.

A healthy bank holds a high percentage of its customers' deposits in cash, or in assets that can be redeemed instantly, without major price fluctuations.

Liquidity is key. A liquid bank is able to withstand a bank run and a minor panic. A liquid bank is able to honor all withdrawal requests without delay, because it has the available funds on hand.

This requires the bank to maintain a high cash balance. It also requires that the investments it makes are liquid.

Generally speaking, loans (mortgages, car loans, etc.) are much less liquid than, say, 3-month government bonds.

It will take a bank about a nanosecond to liquidate a government bond. Loans, on the other hand, need to be recalled or collateralized in complicated transactions. They are very much NOT liquid… especially if everyone else is selling at the same time.

So a liquid bank has a fairly low **"loan-to-deposit ratio."** The fewer loans outstanding relative to total deposits, the more "liquid" a bank tends to be.

A low loan-to-deposit ratio indicates that a bank has plenty of high-quality liquid assets to withstand a bank run.

Back to our real life example:

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As of 31 December 2014

(expressed in United States dollars)

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To broadly determine this bank's total liquidity, let's look at the following two items on its balance sheet:

- **"Cash and cash equivalents"** in the asset column. This can include the physical cash it has in its own accounts and in accounts at other banks (domestic or foreign), as well as government bonds that can be sold relatively easily.
- **"Due to customers"** in the liability column, which is the total amount that it owes to its retail depositors.

If we divide the two, we get the following:

$218,566,967 / $326,675,529 = 66.9%

Important note – 66.9% here is what we at Sovereign Man call the bank's **total liquidity ratio.** That includes all cash-like instruments that bank owns; they are held in the bank's vault as physical cash, in the bank's own accounts, as well as in the accounts of Central Banks and other financial institutions.

We consider total liquidity to be a much less important metric than conservative liquidity when analyzing the safety of the bank.

Why?

Under normal market conditions, when liquidity is not a problem, a bank can reasonably expect to get most of its money back from other institutions relatively quickly.

However, in the times of a liquidity crunch (think 2008-2009), cash resources are in short supply and demand is high. Banks have a hard time getting their money back, which means *you* have a hard time getting your money out of the bank.

Remember that **conservative liquidity is the amount of cash that the bank can access with near-100% certainty under any market conditions**. Total liquidity involves more counterparty risk.

Nevertheless, in this particular case, a total liquidity of 66.9% is an extremely high number by any standard, and if the bank can manage to get at least some of its money back, it will likely be able to withstand a bank run.

The conservative liquidity of this particular bank would be a much smaller number; determining it would require a detailed analysis of the bank's annual financial report. (That annual report is where a bank usually explains where its money is being held.)

Because determining conservative liquidity takes so much digging, **we've done the work for you and performed exactly this kind of analysis for each of the dozens of different banks we'll talk about below.**

A healthy bank maintains adequate (or even excess) reserves in its own accounts and with its country's central bank.

The technical term for this is the "reserve ratio." Additionally, it can be instructive to look at the home country's statutory reserve requirements for its entire banking system.

Some banking systems impose much higher reserve requirements on banks than others. In Lebanon, for example, banks are obligated to keep 15% of all deposits with the country's central bank when those deposits are held in foreign currencies. The requirement goes up to 25% if the deposits are held in Lebanese pounds.

Other systems are less conservative.

In the United States, reserve requirements can be as low as zero for smaller banks. Larger banks are obligated to keep 10% of all personal accounts in the form of cash, or with the Federal Reserve.

In Canada, there is no statutory reserve requirement at all.

This means that **all Canadian banks, and many US banks, are essentially *not* required to maintain even a single penny of their customers' deposits on reserve**.

A healthy bank doesn't engage in excessively risky lending or investment behavior; this helps protect its assets.

A good way to check for this is to look at the bank's "**nonperforming loan (NPL) ratio**"—both current and historical. (A nonperforming loan - NPL - is one that is close to being in default, where the debtor has not made his scheduled payments for at least 90 days.) The ratio we're looking at, in this case, is the number of NPLs over total loans. Clearly, you want that percentage to be low.

In addition, it is a good idea to examine the **bank's business model**. What kinds of investments do they favor?

A community bank that specializes in making short-term, secured mortgage loans to doctors and dentists for example, will likely be preferable to one that uses its depositors' money to invest in toxic derivative instruments.

Remember the term *subprime mortgage*? And how banks were bundling them into complex packages and selling them as derivative instruments? Those were enormously risky investments, and the inevitable defaults caused numerous banks to become insolvent, sparking a global financial crisis.

Derivatives are what Warren Buffet famously called "time bombs, both for the parties that deal in them and the economic system".

We agree with him to such an extent that when analyzing particular banks for you, **we dug deep into each one's financial reports: We calculated each bank's derivatives exposure**, then compared that number to the bank's total assets.

When calculating derivatives exposure, we prefer to use the **"notional value"** (total or gross value of all derivative contracts) reported on the bank's books. In our opinion, notional exposure gives us a much better idea about a bank's total exposure than does **"net exposure"**, which is calculated by netting out offsetting exposures.

To make the difference really clear, note that net exposure is typically *one hundred, or even up to one thousand times lower* than the notional value of all derivatives contracts.

All American, and most other banks around the world report a net exposure. The problem with reporting a net exposure, in our opinion, is that in case of a major financial crisis, amid panic and bankruptcies, net exposure is a useless metric.

How on earth can Bank A be sure that Bank B will be able (or willing) to honor its obligations on a derivatives contract? Once Bank B fails to pay Bank A, Bank A's net exposure instantly becomes worthless. It is Bank A's notional or gross exposure that will matter the most in this case.

Note that some banks do indeed use derivatives wisely, mostly for hedging risks (say, currency exchange or interest rate risks). But others may use them for profit trading and other risky behaviors.

We consider a derivatives exposure of more than 10 times the bank's total assets to be exceedingly high. (Yes, you read that right; those time bombs really are that big.) We'd like them to be less than 5 times the bank's total assets.

A much smaller derivatives exposure, of course, is far preferable.

Banks should not engage in reporting and accounting tricks.

The fact that we have to even say that tells you all you need to know about modern banking.

Big American banks are notorious for cooking the books and massaging data. They often use loop-de-loop accounting methods to hide their financial condition.

One popular trick is tweaking how they categorize their bonds for accounting purposes. A bank can choose to classify a bond as "**Available for Sale**" (**AFS**) or "**Hold to Maturity**" (**HTM**).

AFS bonds are exactly that—they're sitting on the shelf ready to be sold in a heartbeat if the bank needs to increase its liquidity. They therefore must be reflected on the balance sheet alongside their latest market valuation to date.

But bond prices, just like stock prices, move up and down. Bond markets can be, and indeed often are, volatile.

So when bond prices fall, the bank's capital falls. So do its profits. And when that happens, a bank will often reclassify its bonds as HTM.

HTM means that the bank will stick with this bond forever and ever until the bond matures. An HTM bond therefore doesn't need to be marked up and down the way an AFS bond does.

So you can see why a bank would reclassify from AFS to HTM: Magically, its losses disappear.

More worrisome is that governments and governing bodies often are on board with this kind of practice.

They even encourage what we'll call "bendy" definitions of liquidity. According to The Bank for International Settlements' (BIS) Basel III set of banking recommendations, banks are supposed to hold sufficient **high-quality liquid assets** to cover total net cash outflows over **30 days**.

At first blush, that statement might come across as a sound recommendation. But there are two major problems with it:

1) During a financial crisis, and a probable bank run, 30 days' worth of cash and liquid assets will be exhausted well before the time frame is up; and,

2) What exactly can be consider a high-quality liquid asset?

Those Basel III recommendations are basically pointless. And you'll love America's definition of high-quality: On April 1, 2016 (yes, April Fool's Day) the US Federal Reserve issued a ruling stating that municipal bonds are considered liquid and risk-free instruments… *even the municipal bonds from bankrupt cities.*

So if a bank holds munis from Detroit or Baltimore, such investments would pass muster as "risk-free" under Fed guidance.

Today, instead of holding subprime mortgages and pretending that they are risk-free, banks are now holding subprime government bonds and doing the same.

The government approves of and encourages this. And that should worry you.

The Deposit Insurance Scheme Domino

You may also want to bank in a jurisdiction where there is some sort of government or industry-backed deposit insurance or compensation scheme.

Still, do not place too much hope in any such system… even in the FDIC.

In some jurisdictions, these schemes are backed by a body that's actually solvent, credible, and good for the money.

However, the reality in much of the Western World is that deposit guarantees are worth very little. Most of these deposit insurance schemes are undercapitalized, and the governments backing them up are insolvent.

In the event of a crisis, they simply aren't a good bet to back up your money.

Most of these schemes around the world are funds, paid into by the home government and participating banks. In the best-case scenarios, these funds hold a few cents on the dollar in eligible deposits. But in most countries, this number is much smaller. Yes, we're talking about **fractions of a cent**.

The Canadian Deposit Insurance Corporation (CDIC), for example, has a reserve of less than *one half of one cent* (0.44 to be precise) on every eligible Canadian dollar, according to its latest financial statement.

After looking at dozens of different deposit insurance schemes around the world, we conclude that such a system might work… but generally only in the case of, say, a single bank failure. But if there's widespread collapse due to a systemic financial crisis, then the whole thing implodes – it doesn't matter if we're talking about Canada, the USA or Hong Kong.

Therefore, we deemed analyzing such schemes a rather useless exercise for majority of the jurisdictions. Those systems will not save you in case of a systemic financial crisis (at least, not without a central bank's or government's help).

Additionally, we believe that insurance schemes do more damage than good.

First of all, due to a false sense of security that such schemes create, depositors tend to ignore how their banks lend and take risks. This is known as 'moral hazard' within the industry.

Secondly, large banks fully understand that the existence of deposit insurance schemes gives them a free pass. If they become insolvent, the choice facing the government is between: 1) repaying all customers via deposit insurance and letting the bank fail, or 2) rescuing the bank through an "injection of capital" (a bailout).

In practice, it will always be far cheaper — and safer — to rescue a bank than to let it fail. Knowing that, banks take bigger risks than they responsibly should.

The Central Bank Domino

Most countries around the world have central banks (e.g. the Federal Reserve in USA, the European Central Bank in EU, the Bank of England in UK), or in some cases, a regulatory body supervising and governing the banking sector (e.g. the Superintendency of Panamanian Banks, the Andorran National Institute of Finances).

There are two main points that we need to consider when analyzing a central bank:

Is the country's central bank or regulatory body an efficient and conservative regulator?

There are all sorts of regulatory and prudential supervision standards that banks around the world are supposed to adhere to.

The Bank for International Settlements in Basel, Switzerland, which we mentioned earlier, is the de facto central bank of the world's central banks. It publishes detailed rules on capital adequacy requirements, known as the Basel Accords.

Most advanced economies have folded these regulations into their banking systems.

But each individual country's central bank will also mandate its own rules and regulations regarding reserve, liquidity, and capital adequacy ratios.

And, as with anything, some countries are stricter and more conservative than others.

When you are shopping globally for a bank, seek out one operating in a strict jurisdiction.

(We'll detail some of your choices in Part II of the report.)

Is the central bank itself solvent?

In this case, we are mostly interested in the central bank's ability to support local banks if they get in trouble.

If one of the "too big to fail" banks in the country has solvency issues, the central bank will try to protect it; the central bank therefore must have enough resources to do that.

And since any central bank is essentially just another bank, its financial position can and should be analyzed.

However, since central banks are just a continuation of the government itself, it is much more important to have a solvent government. If the central bank's domino piece falls, the burden will shift to the next and last domino piece in the row – the government.

The Government Domino

And finally, we come to the most important domino piece (after the bank itself, of course).

When analyzing a jurisdiction in greater detail, we like to look at its **government's public debt-to-GDP ratio.**

This is important to note, because if all the other dominos fall, you'll still have a chance of financial survival if the government domino stays upright and protects depositors' savings (by bailing out the banks).

That's exactly what happened in the US during 2007-2009. A number of institutions started to buckle under, but the US was still considered a "AAA borrower" and was able to take on a lot of debt to save its banks.

And that's exactly what did NOT happen in Cyprus in 2012-2013. By the time Cypriot banks started crumbling, the country's financial condition was already so precarious that no one was willing to lend them even a single Euro more.

The lesson? The financial position of the government of the jurisdiction where you bank is hugely important.

Additional risks

Even if you do your due diligence and deem each domino piece sturdy, that's still not an ironclad guarantee of safety. Many additional risks may endanger your savings.

Here are some important points to keep an eye on:

The size of banking sector relative to GDP of the country

In the case of major trouble in any specific country, it's much easier to bail out a relatively small banking sector than a large one.

Iceland, for example, fell victim to its overblown banking sector: A perfect storm broke out in 2008, and the total assets of Iceland's local banks turned out to be a whopping 11 times the country's GDP.

There's no way Iceland could have bailed out its banks. Its Central Bank immediately found itself incapable of serving as a lender of last resort.

Iceland's government racked up mountains of new debt, but even that wasn't enough. Its banks went bust, and millions of depositors and investors were cut off from their deposits for several years. Some are still waiting for their money.

The lesson: When it comes to the financial sector, size does matter.

There's no magical cutoff number, but it's important to consider whether the size of total deposits might be too big for any given country.

That said, some countries are very conservative and much better at financial regulation than the others, so even a very high number of total deposits vs GDP may not present a significant risk.

"Bail in" legislation

Financial institutions in the European Economic Area (EEA) are now subject to a new set of regulatory requirements designed to prevent taxpayers and governments from bailing out banks.

So instead of *taxpayers* bailing out banks, *the banks' own depositors* will be required to do so.

In the event of the next European banking crisis (which is a question of "when" rather than "if"), it will be the creditors of these financial institutions (the bank's depositors) who will foot the bill.

All 28 European Union nations are already operating under the new rule, and Norway, Iceland and Lichtenstein (also members of EEA) are required to enact corresponding legislation by the end of 2016.

This is truly worrisome. Europe is in no position to bail out any of its major banks, let alone to save the entire industry during a major crisis.

And Europe is not the only jurisdiction to codify bail-in legislation; Canada, too, recently made it mandatory. And given that Canada now officially has no gold reserves, the country is left even more vulnerable.

Caveat depositor…

What else to keep in mind when opening foreign bank account

Account maintenance fees

Be aware that in many instances foreign banks charge account maintenance fees.

Remember, that's how the banking used to be; traditionally, banks charged their clients for services. If they're offering "free checking," then that could mean they're making money by doing, say, some prop trading on the side.

Charging for maintenance generally is not a bad sign. In fact, it usually means that the bank makes money in a more conservative manner… not by investing in toxic derivatives or making NINJA (no job, no income) loans.

When applying for an account, don't forget to ask about maintenance fees.

Account inactivity rules

Banks generally want to see you as an active client.

That's typically not a problem when you bank in your home country – you constantly use your account to pay bills, directly deposit your salary, and process debit and credit transactions.

However, the situation might be different if you're just "stashing" savings abroad.

Account inactivity rules vary greatly from bank to bank, and periods vary from a few months to several years.

Typically, a bank wants to see some kind of money movement at least once during a certain period of time. ATM withdrawals, or any kind of account debit or credit operation, qualify.

If you haven't been active, usually a simple call or email reactivates the account. You just don't want to let it run dormant over a long period of time (typically several years). In that case, you run the risk of losing your savings altogether.

Make sure you clearly understand the account inactivity rules.

Foreign account reporting

Be aware that if you are a US taxpayer, then once you open a foreign bank account, you might need to file FinCEN form 114 (also known as the FBAR).

You're required to file it if during the course of the calendar year your foreign account balance reaches $10,000 USD or more (or the equivalent in any foreign currency). If you have multiple foreign accounts, and their combined total hits $10,000 or more even once over the course of the year, then you also have to file

Here is an SMC alert where we go into great detail about how to file the form.

At Sovereign Man we often hear from subscribers who are concerned about filing an FBAR, thinking that it might put them on some sort of a list with IRS.

Do we think the filing requirement should deter you from opening a foreign bank account?

Absolutely not.

In fact, the only time you should be concerned is when you have a foreign bank account with $10,000 or more and you *don't report it.*

We have yet to see a single person who has gotten in trouble for correctly reporting what they own.

And if you are still concerned, you may want to consider opening a foreign bank account and depositing less than $10,000. (There are banks that have no minimum initial deposit requirement.)

If the account never reaches the $10,000 mark over the course of the year, it will not fall under the FBAR reporting requirement.

That kind of account will serve as insurance. When you realize that your home country is becoming an increasingly dangerous place to hold your savings, you will have an account in a safer jurisdiction, already set up and ready for you to use.

Are we recommending all of the banks we discuss?

We are not in the business of recommending most banks, because we fundamentally disagree with most modern banking practices.

Yes, we can comfortably recommend a very short list of banks and jurisdictions.

As for the rest, we consider them more options than recommendations.

Still, there are bad options, good options and much better options. If you have to bank, which most of us do, then it's important to choose the best of the lot. We're listing what we currently believe to be each country's best option among the banks willing to work with foreigners.

You still have to do your due diligence. Ultimately, choosing the right bank comes down to choosing the right bank for *you*. You have to be comfortable with its practices, its balance sheet, its jurisdictions, its investments, its liquidity, etc.

Depending on your needs and requirements, some of the banks we discuss in our banking update may be right up your alley. Others may not be.

We have worked hard to provide as much objective information as possible. Your job is to take your subjective desires and requirements and match them up against the list to the best of your ability.

There is no perfect bank. But the one to whom you entrust your money right now is probably much less perfect than one you might discover abroad. Study this primer. Study the list. Call the banks you're interested in. Ask questions. Be insistent.

The important thing is to arm yourself with as much knowledge as possible… and that you take action. Staying smart and nimble is the ultimate way to guarantee your freedom and protect your assets, no matter what is going on in the world.

PART II. JURISDICTIONS AND BANKS

Note that the absolute majority of the banks listed below are not presented as *recommendations*; rather, they are reported as *options* for those who wish to bank in the relevant country.

In the second part of this report, we list all the analyzed jurisdictions in alphabetical order. For your convenience, we also categorize them in the chart below using several important criteria.

By clicking on the name of the bank, you will be taken to the relevant section of the document.

Initial minimum deposit requirement (personal account)		
Less than US$10,000	**US$10,000 – US$50,000**	**More than US$50,000**
ANZ (New Zealand) – NA*	The Bank of Nevis (Saint Kitts) – US$10,000	DNB Bank (Norway) – EUR100,000
DBS (Singapore) – NA*	CSB Bank (Cook Islands) – US$20,000	Santander (Chile) – US$140,000
MCB Bank (Mauritius) – NA*	Multibank (Panama) – US$20,000	HSBC (Singapore) – ~US$150,000
Andbank (Andorra) – NA*	DBS (Hong Kong) – ~US25,000	Citibank (Singapore) – US$200,000
St George Bank (Australia) – NA*	Barclays (UK/Isle of Man) - £25,000	Raiffeisen Privatbank (Liechtenstein) – EUR250,000
BMO (Canada) – NA*		Kaiser Partner Privatbank (Liechtenstein) – CHF1 million
TBC Bank (Georgia) – NA*		
Butterfield Bank (Bermuda) - $100		
HSBC (Hong Kong) – ~US$645		
Citibank (Hong Kong) – ~US$1,300		
NBAD (UAE) – ~US$2,700		
Standard Bank (Isle of Man) - £4,000		
*Some banks charge a monthly fee if your account balance falls below a certain level.		

Personal presence requirement for account opening	
Required	**Not required**
Andbank (Andorra)	St. George Bank (Australia)
BMO (Canada)	Butterfield Bank (Bermuda)
Santander (Chile)	CSB Bank (Cook Islands)
TBC Bank (Georgia)	Standard Bank (Isle of Man)
DBS (Hong Kong)	MCB Bank (Mauritius)
HSBC (Hong Kong)	DNB Bank (Norway)
Citibank (Hong Kong)	The Bank of Nevis (Saint Kitts and Nevis)
Kaiser Partner Privatbank (Liechtenstein)	Barclays (UK/Isle of Man)
Raiffeisen Privatbank (Liechtenstein)	
ANZ (New Zealand)	
Multibank (Panama)	
DBS (Singapore)	
HSBC (Singapore)	
Citibank (Singapore)	
NBAD (UAE)	

Notable examples of CD interest rates offered by the banks			
Bank	**Jurisdiction**	**Interest rate offered on a 12-month term deposit**	**Currency**
ANZ	New Zealand	3.25%	NZD
Barclays	UK/Isle of Man	0.25%	GBP
		0.1%	USD
Butterfield Bank	Bermuda	0.35%	BMD
CSB	Cook Islands	1.39%	NZD
DNB Bank	Norway	0.8%	NOK
HSBC	Hong Kong	0.15%	HKD
HSBC	Singapore	0.25%	SGD
Multibank	Panama	3.25%	USD
MCB	Mauritius	2.58%	MUR
		0.845% ($5k-100k)	USD
		1.4% ($10k-$100k)	AUD
		7.3% (>R50,000)	ZAR
NBAD	UAE	1.3%	AED
Standard Bank	Isle of Man	0.6% (£50k-£100k)	GBP
		0.25% ($50k-$100k)	USD
		5.85% (R1 – R2.5 million)	ZAR
St George Bank	Australia	3%	AUD
TBC Bank	Georgia	4.25%	USD
		9.5%	GEL

Before we move on to the actual analysis, note the relevance of the colors you'll see.

Green means that the financial and other conditions subject to our analysis (of the central bank, government, bank itself, etc.) are of relatively *minimal* concern and uncertainty.

Yellow indicates that the financial and other conditions subject to our analysis (of the central bank, government, bank itself, etc.) are of *moderate* concern and uncertainty.

Red indicates that the financial and other conditions subject to our analysis (of the central bank, government, bank itself, etc.) are of *high* concern and uncertainty.

White means no analysis was performed.

Please note that we did not evaluate some of the Deposit Insurance schemes for reasons described in Part I of the document.

ANDORRA

Currency

The Euro is the official currency of Andorra.

If you have been a reader of Sovereign Man for some time, you know our opinion about the euro. It might be the second most traded currency in the world after the US dollar, but it is in much worse shape.

While the US dollar is backed by nothing more than an "I owe you *what*?" the euro is essentially backed by a "*Who* owes you *what*?" since the shaky union of several very different European nations is terrible collateral.

As you can see from the graph, the euro has been steadily sliding against the USD since 2008 (beginning its downturn right after the euro hit its all-time high).

Today, the euro has declined more than 35% against the dollar. And with future of the euro area and the European Union looking bleak, we think this will likely intensify.

Then there are negative interest rates. Instead of encouraging people to save, many European counties actually punish them by charging them for keeping money in the bank.

Generally speaking, holding your savings in euros may not be the best choice right now. Consider opening USD-denominated accounts instead; all banks in Andorra offer them to their clients.

Jurisdiction

Deposit Insurance Scheme	Central Bank	Government	Additional Risk Analysis
Up to 100,000 EUR per depositor	Institut Nacional Andorrà de Finances carries regulatory function only.	41.1% debt to GDP (2012)	- Possible bail in legislation - High deposits to GDP ratio

Andorra is a tiny principality in the Pyrenees Mountains sandwiched between France and Spain. For those who have significant resources, it remains a solid place to bank.

It's generally not possible to open a bank account without visiting Andorra (which is absolutely gorgeous by the way, an excellent skiing destination, and a short trip from Barcelona).

Andorra's banks are well capitalized and liquid, and therefore should be able to withstand a major financial shock.

Retail banking is generally not available for foreigners, which is why we say Andorra is a more appropriate option for those with significant resources: The only viable option for foreigners tends to be private banking services (wealth management).

Institut Nacional Andorrà de Finances (INAF), Andorra's Central Bank, has regulatory functions only, and therefore in case of a banking crisis, the burden of saving the system will fall entirely on government's shoulders.

As of 2012 (the latest data we were able to find), the Andorran government was in relatively good shape, with 41.1% debt to GDP. That should give them room to borrow more if necessary.

That said, there are risks with Andorra.

The country is so tiny that in case of any bullying (fair or not) from the EU or US, it would be hard pressed to fight back.

For example, recently, a branch of the US government accused the longstanding Banca Privada d'Andorra (BPA) of money laundering. Within days, and with little objection from the INAF, BPA was shut down.

Andorra simply did not have the muscle to fight back. The outcome in a similar situation might have been different in larger countries such as China, Russia, or even Switzerland or Singapore.

Also, while the official statistics were not made available to us, the total deposits across the banking sector are much higher than the country's entire GDP. As we explained in Part I of this report, such an asymmetry brings additional risk in the case the government become responsible for saving a failing banking sector.

Another negative is Europe's recently enacted bail-in legislation. Technically, Andorra is not a part of the European Economic Union (EEU), but practically, it very well might pick up its neighbors' bad habits.

A banking option for non-residents

If you choose to bank in Andorra, we suggest looking into **ANDBANK**.
It's definitely more of a private, wealth management bank than a retail, transactional one.

ANDBANK Group

Solvency	10.9%
Cons. liq.	1.9%
Total assets	$5.7B
Total liq.	26.9%
Deriv/TA	1x
Pers. presence	YES

According to the bank's financial statements from 2015, it has a solvency (capital ratio) of 10.9%. In today's banking system, that counts as a solid number.

However, what we call "conservative liquidity" (see Part I for explanation) goes down to just 1.9% when we take into account only the cash that the bank has in its own accounts and with the Central Bank.

Low conservative liquidity is a problem we see across the board with most banks around the Western world, so it's not limited to Andorra. Modern banks rarely hold on to their own cash, which creates a certain counterparty risk. You might not get your money back when you most need it.

ANDBANK's total liquidity is 26.9%, which is a good number, but as you may imagine, there's no way to tell how much the bank would be able to get back promptly in case of a financial panic.

What the crisis of 2008/2009 showed us is that in times of a severe liquidity crunch, banks do not like to part with the very little cash they have on hand.

That's a reality, and we need to understand the risk.

Low derivatives exposure definitely works in ANDBANKS's favor.

ANDBANK accepts customers from overseas, including the United States.

They are FATCA compliant. There's technically no minimum deposit size. But there's a very hefty annual management fee of 1,000 euros to maintain an account, so this wealth management solution is not for everyone.

That said, almost everything at this bank is negotiable. They really do try to accommodate their customers' needs, so if you have a special situation, don't hesitate to ask.

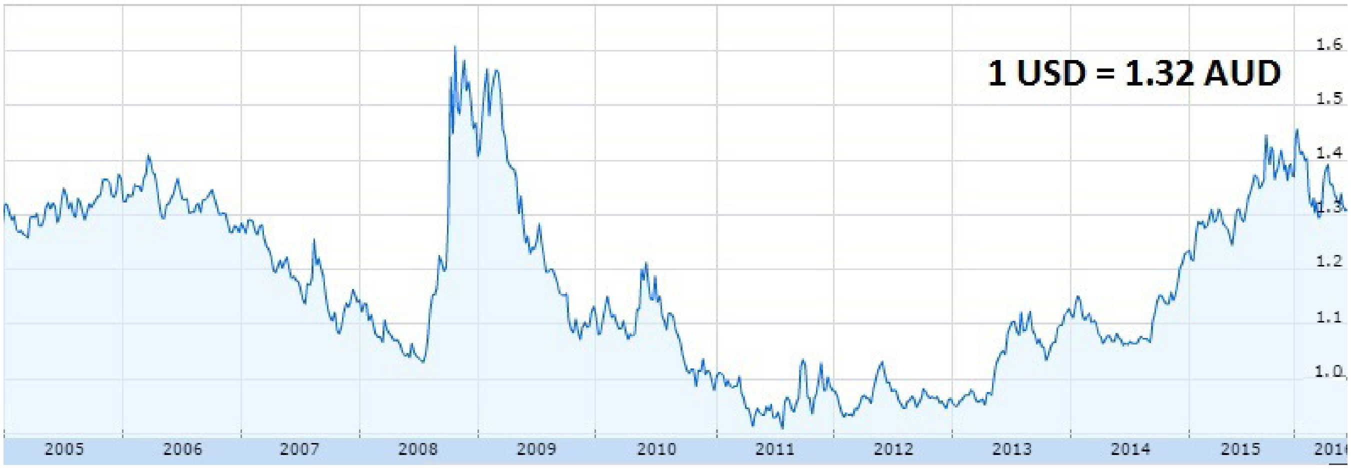
In order start the process, please contact ANDBANK directly.

Tel: +376.739.011 (ask to speak to an International Private Banking representative).

Web: http://www.andbank.com/en/contact

AUSTRALIA

Currency



The Australian dollar (AUD) is the official currency of Australia.

Australia is an export-oriented economy, with most of its exports going to China. That means that the global slowdown over the past couple of years has punished the AUD.

It's possible that the worst is over for the Australian dollar, although such things are notoriously difficult to predict. The AUD already has appreciated since the end of last year and will likely continue to do so as long as commodity prices do not take another serious dive.

Taken together, there's an argument to be made in favor of diversifying some of your currency holdings into the AUD.

In any case, if you decide to bank in Australia, you need to be a believer in the Australian dollar, since, as a general rule, you cannot hold anything but Australian dollars in a personal bank account there.

Jurisdiction

Deposit Insurance Scheme	Central Bank	Government	Additional Risk Analysis
A$250,000 (~US$185,000) per person per qualified institution	Reserve Bank of Australia's solvency is 15.2%	36.8% debt to GDP	- Total deposits are 97% of GDP - Possibility of declining RE prices

The Australian banking sector is dominated by four major banks, all of which remain very profitable.

They are the National Australian Bank (NAB), Commonwealth Bank (CBA), Australia and New Zealand Banking Group (ANZ) and Westpac (WBC). Combined, they are also known as the "four pillars" of Australian banking, with Australian regulators rejecting any merger attempts.

Please note that there is no mandatory capital reserve requirement with the Central Bank in Australia. Banks are free to decide how much cash to hold on hand as a percentage of deposit, i.e., free to determine how safe they want to be.

And most of them are rather safe. No depositor in Australia claims to have lost money during the 80 years since the Great Depression.

Among all the major banks in Australia, ANZ is probably the most liquid one, with a total liquidity ratio of 14.4%. Liquidity goes down to 8.2% when accounting only for cash in their own accounts and balances with the Central Bank; this is still a reasonable number by Western standards. ANZ's capital ratio is 6.1%, which is not much, and which is in line with the Australian banking sector.

The Australian Central Bank's and government's finances are in better shape than those of the richest OECD countries.

The Australian government also provides a deposit guarantee scheme of A$250,000 per depositor via the Authorized Deposit-Taking Institution (ADI).

As for potential risks, softening real estate prices might be a red flag in terms of banking in Australia. Australian housing has been on the rise again since 2013, having appreciated more than 30%. That's a huge move in just three years.

That means Australian banks have loaned out billions of dollars' worth of mortgages. (The situation is obviously the same in any Western country where mortgages, rather than cash, are a standard way to purchase a dwelling).

In the case of a serious housing crash, the loan portfolios of all major banks will deteriorate significantly, potentially bringing on solvency problems.

A banking option for non-residents

Westpac Banking Corp (St.George Bank)

Solvency	5.4%
Cons. liq.	3.1%
Total assets	$645B
Total liq.	5.2%
Deriv/TA	4.6x
Pers. presence	NO

The Big Four banks tend not to deal with foreigners who do not intend to move to Australia. But many SMC subscribers have been able to open accounts with Westpac's subsidiary, St. George Bank.

This is a bank that we're definitely presenting as an option, rather than a recommendation, because its fundamentals run counter to what we like to see. Westpac Banking Corp (St. George Bank's parent company) is neither very solvent nor liquid.

Its solvency of 5.4% leaves much to be desired.

Its conservative liquidity (for cash in their own accounts and balances with the Central Bank) of 3.1% is more or less a standard number for a Western bank.

But what is most worrisome is its total liquidity (conservative liquidity plus money deposited with other financial institutions). 5.2% is a low number.

St. George is definitely not ideal, but it does pay 3% interest on 12-month deposits (much higher than most Western banks pay these days). And if you want to capitalize on an AUD play, then this might be an option for you.

Find more information on interest rates here:

Web: https://www.stgeorge.com.au/help/interest-rates/fixed-term-deposits

For all the bank's caveats, it's also important to remember that Australian's government is in good financial shape and will likely bail the bank out in case of any serious trouble.

Technically, you don't need to go to Australia to open an account; the bank does so over the phone for non-residents. (Hang up and try again if the person at the call center says that it's not possible.)

There is a catch: You will not be able to make any withdrawals from your account, or get your debit or credit cards until you have physically visited a St. George Bank branch to present sufficient identification documents (usually a passport and a driver's licence).

That's obviously going to involve a trip to Australia.

Tel 1: +61.13.3330 or

Tel 2: +61.2.9553.5333.

BERMUDA

Currency

The Bermudian dollar has been pegged to the US dollar at a one-to-one ratio since 1972.

Holding your savings in Bermudian dollars today is akin to holding US dollars.

Jurisdiction

Deposit Insurance Scheme	Central Bank	Government	Additional Risk Analysis
Up to US$25,000	Bermuda Monetary Authority's solvency is 22.1%	42% debt to GDP (2013)	- Total deposits are 374% of GDP - Perceived as a tax haven

Bermuda is a British Overseas Territory in the North Atlantic Ocean about 650 miles east of South Carolina. (It's not in the Caribbean.)

Bermuda boasts a very high-income economy, thanks in large part to its robust financial services industry. With GDP per capita of around US$80,000, it is one of the richest countries on Earth, on par with Singapore and ahead of Norway.

Bermuda is considered a tax haven by those who disparage offshore financial services, but it nonetheless enjoys a much better reputation than most other islands providing similar services.

Bermuda's Monetary Authority has also proved to be a very efficient regulator; it serves as a reference for most offshore centers in the Western hemisphere.

Google, Apple and many other multinational companies are using Bermuda's corporate tax code to their advantage, savings billions in taxes every year. Tourism is another economic driver.

Still, its economy has been contracting in recent years, and Bermuda's government debt has increased significantly over the past ten years, to 42% of GDP (2013 figures). This is still a respectable level for the Western world.

A banking option for non-residents

Butterfield Group	
Solvency	7.3%
Cons. liq.	5.3%
Total assets	$10.3B
Total liq.	24.9%
Deriv/TA	0.3x
Pers. presence	NO

One bank that works with non-residents in Bermuda is **Butterfield.**

Butterfield in Bermuda was founded in 1858 and it also has a strong presence in the Cayman Islands, another financial center with an excellent reputation. Additionally, Butterfield offers wealth management solutions in Switzerland, Guernsey and the Bahamas.

Its finances are adequate.

Butterfield Group's capitalization rate stands at 7.3%, and conservative liquidity across all jurisdictions is 5.3%.

Ideally, we would like to see much higher numbers. Still due to Butterfield's historically nontoxic lending and investment behavior, the bank would likely fare well in case of a crisis.

The bank requires a minimum deposit of only $100, and account maintenance fees are minimal (US$2 and can be waived if Internet banking is used).

The best part is that opening an account does not require your personal presence.

Banking staff tells us they welcome US citizens. To start the process and receive the latest list of application requirements, call the following number. Their English-speaking customer service team members have been very responsive during each of our calls.

Tel: +1.441.295.1111 (extension "6" to speak to a customer representative.)

Web: http://www.bm.butterfieldgroup.com

CANADA

Currency

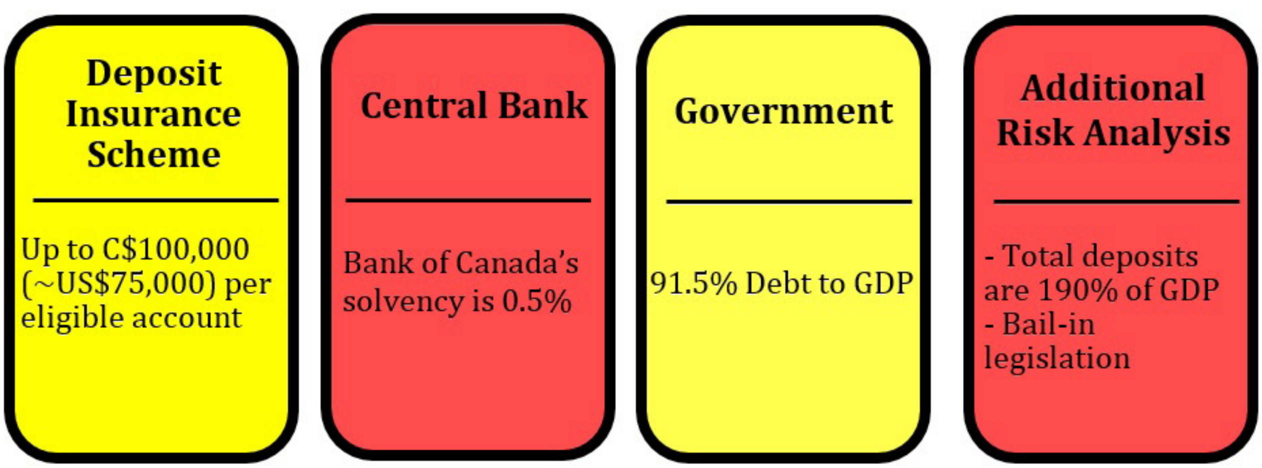
As recently as 2013, Canadian dollar (CAD) was more expensive than the American one.

And, just as with Australia and its dollar, Canada's dependence on resource exports has caused the CAD to weaken over the past couple of years.

Despite a remarkable performance in 2016, the CAD is still about 30% cheaper than it was a few short years ago.

Canada's main exports are crude oil and refined oil products; the price of oil is what influences the CAD exchange rate. Once oil prices recover, the CAD could become strong again.

Jurisdiction



See our latest alert about Canada for details on banking in Canada.

Generally speaking, Canada is *not* a good banking option.

There are almost C$3 trillion in deposits across the eight largest Canadian banks, according to the Canadian Bankers Association. That's almost twice the country's GDP. If this piece falls, it will be hard to prop up.

The Canadian Central bank is the least capitalized one in the Western world, and the country's government is heavily indebted (though it is still considered a prime borrower and could likely borrow much more if needed).

Much worse: Canada has formally codified bail-in legislation… meaning *depositors*, not just taxpayers, will bail their own banks out in case of a crisis.

Still, we ourselves have opened a business account in Canada because doing so can serve you well if your business has customers worldwide and transacts sales in USD.

Generally speaking, it's important to see Canada not as a place to park large sums of savings over time, but as a transactional banking jurisdiction… and a (very) temporary shelter for your money.

A banking option for non-residents

Bank of Montreal Financial Group

Solvency	6.1%
Cons. liq.	9.2%
Total assets	$486B
Total liq.	10.9%
Deriv/TA	7.2x
Pers. presence	YES

Our recommendation in Canada is **Bank of Montreal (BMO)**.

BMO's capital ratio is 6.1%. Frankly, this is not high, and is on par with the average capitalization in the Canadian banking sector. The bank has adequate conservative liquidity of 9.2% (cash in their own accounts and with the Central Bank).

In order to open an account, you can call the BMO hotline at +1.877.266.4442 to set up an appointment at the branch that works best for you. Personal presence to open the actual account is mandatory.

The list of required documents at the time of our visit to BMO was incredibly short – just two pieces of identification (for any nationality). However, do not forget to double-check that before heading to Canada.

Tel: +1.877.266.4442

Web: https://www.bmo.com/main/personal

CHILE

Currency

Like the Australian and Canadian dollars, the Chilean peso (CLP) has been punished by the slump in commodity prices over the past few years. The price of Chile's main export, copper, dropped from $3.70 per pound in 2013 to $2 in 2015. As a result, the Chilean peso has lost over 40% of its value against the USD since 2013.

This decline is one of the steepest among all resource-oriented economies… which essentially means that the Chilean peso is on sale and likely to appreciate again.

Accounts denominated in USD also are widespread in Chile, so you won't just be limited to holding pesos if you open an account there.

Jurisdiction

Deposit Insurance Scheme	Central Bank	Government	Additional Risk Analysis
90% of first UF120 per person (up to ~US$4,200 in 2016)	Central Bank of Chile's solvency is negative 7%	17.5% debt to GDP	- Total deposits are 63% of GDP

We often talk about Chile in our alerts: Sovereign Man is headquartered there, and quite a few of our SMC subscribers have chosen Chile as their home base. (It is fairly easy to become a Chilean resident.)

When it comes to banking, however, it's virtually impossible for a non-resident to open an account in Chile.

Additionally, it's not easy to open a bank account there even if you are a permanent resident.

In fact, **most Chileans do not have checking accounts.**

Banks here are incredibly picky – they won't open an account for just anyone. They have refined their selection process and really want to get to know a potential customer before opening any doors to them.

These doors are very difficult for non-residents of Chile to get through. That's why we only recommend banking in Chile if you're actually living there or spending a significant amount of time in the country.

Income plays a deciding role, too: Banco Itaú (a Brazilian bank operating in Chile), for example, is frank about the fact that they want to see monthly incomes of at least 1,200,000 pesos (~US$1,800) to approve a standard checking account.

As for other factors you should consider, note that Chile's Central Bank technically is insolvent (and has been so for at least ten years). If it were a normal commercial bank, it would have gone under a long time ago. But in this case, the entire Chilean government is backing it.

The finances of the Chilean government, on the other hand, are still very sound. Its debt-to-GDP ratio of 17.5% grew slightly in recent years, due to the slump in copper prices and the downward pressure of China's economy, but that percentage still is very low by global standards.

Overall, the Chilean banking system, owing to its conservative nature, is liquid and reasonably capitalized. Bottom line: if you can open an account in Chile, hold on to it; the banks there are conservative and relatively safe.

A banking option (for residents only)

Santander Chile

Solvency	8%
Cons. liq.	4.2%
Total assets	$51B
Total liq.	11.9%
Deriv/TA	5.5x
Pers. presence?	YES

As we have mentioned, opening a bank account in the country can be extremely hard.

One exception to the rule could be opening a premium Select account with Santander – the largest bank in Chile.

Santander will consider opening an account with Select status if you:

a) Have at least temporary residency in Chile, AND

b) Are willing to make an investment of about US$ 140,000 in a mutual fund or a term deposit with Santander. The good part is that you can withdraw the money shortly after your account is open.

They will also require you to prove the legality of your money's origin, as per anti-money laundering laws. Among other things, documents showing the sale of the property will work. So would your tax returns from the past three years or so.

If you hold temporary residency status in Chile, and would like to explore the Santander Select option, please write us directly at clients@sovereignman.com – we will put you in touch with an executive at Santander Select.

Santander's solvency (its equity versus total bank's assets) is 8%. Its latest total liquidity numbers are 11.9%, declining to 4.2% when considering cash in their own accounts and with the Central Bank. These are adequate numbers, and considering the strict lending standards in Chile, we are comfortable recommending banking with Santander.

Overall, the country's banks are stodgy, conservative institutions and show no signs of difficulties due to bad loans, despite the obvious downturn in the economy.

COOK ISLANDS

Currency

The official currency in the Cook Islands is the New Zealand dollar (NZD). Please refer to the section on New Zealand for more information, as well as for our take on the NZD.

Jurisdiction

Deposit Insurance Scheme	Central Bank	Government	Additional Risk Analysis
Currently not available	Regulatory functions only	22% debt to GDP (Aug 2014)	- Government's low financial prudence (near bankruptcy in 1996)

The Cook Islands is a self-governing island country in the South Pacific Ocean in free association with New Zealand.

This small South Pacific island nation is best known for its extremely tough asset protection laws governing Cook Islands trusts. But the Cook Islands isn't just an excellent asset protection jurisdiction; it's also a viable alternative banking destination.

Only four main commercial banks operate in the Cooks. They are Australia and New Zealand banking group (ANZ), Westpac Banking Corporation (Westpac), Bank of the Cook Islands (BCI), and Capital Security Bank (CSB).

As a whole, the Cook Islands banking system is highly liquid. The four banks collectively hold cash equivalents of roughly a third of their total customer deposits. That's well above most Western banks.

Therefore, it is unlikely that the Cook Islands' banks will go under. And if a crisis does occur, note that the government domino is currently solid, with just 22% debt to GDP ratio.

That is a big and (and much improved) change from the mid-1990s: At that time, public debt had spiraled out of control and required an IMF emergency loan.

Obviously, we would like to see even more financial prudence from a jurisdiction that positions itself as an offshore financial center. However, it appears officials there have learned their lesson.

The Cook Islands Central Bank bears regulatory functions only.

A banking option for non-residents

Capital Security Bank (CSB) 2014 data	
Solvency	1.5%
Cons. liq.	32.9%
Total assets	$0.29B
Total liq.	61.3%
Deriv/TA	N/R*
Pers. presence	NO

*N/R – not reported

CSB, which we have reviewed and mentioned frequently in *Sovereign Man: Confidential*, specializes in opening accounts for non-resident individuals and corporations. It's also the banking arm of the Southpac Trust Company.

CSB is a small bank by any measure, and it engages in only limited lending activities. In fact, the only lending the bank allows is against your own collateral already held by the bank. That is, you can borrow your own money.

Please note that the latest data that we have been able to acquire stems from 2014. Back then, the bank's conservative liquidity was an outstanding 32.9%. That is a very good number and what we typically see at a smaller, conservatively run bank.

The bank's solvency of 1.5% is definitely subpar. We would still like to see a much higher number.

Part of CSB's "problem" is that it is a bit of an iconoclast, a small bank far removed — both physically and philosophically — from the US and Europe and the modern banking practices. If you lose the relationship with your overseas correspondent bank, you essentially are locked out of the global financial system.

And that is exactly what has happened to CSB bank over the past year. Their correspondent bank has unilaterally ended its relationship with CSB.

Luckily, they got it all resolved and established a relationship with a different correspondent bank.

We spoke to John Evans, operations manager at CSB, who assured us that the bank is operating normally today.

But due to the threat of being locked out of the system, the bank's financials have likely worsened more than our most recent data shows.

Keep that in mind, and it that doesn't turn you off, continue reading.

Most of CSB's customers are non-residents of the Cook Islands who want to tuck away some rainy day money. But they pay for that privilege: Because the bank does not generate income from loans or wild bets on securities, CSB generates its profit from charging fees.

Wire transfer fees, for example, are quite high (100 USD/EURO/GBP/CHF for a transfer below $1 million), so this is not the right bank for someone who needs transactional banking. Instead, it's more appropriate for someone who is concerned about asset protection.

You can choose to open your account in USD, or in one of many traditional currencies.

Rules for accounts held in USD vs. in other currencies differ significantly, so we have grouped them separately.

USD accounts:	**Non-USD accounts:**
Account minimum: $20,000 Account opening fee: $500 Maintenance fee: $50/month "Below minimum balance" fee: $100/month	Account minimum: $20,000 (equivalent in the other currency) Account opening fee: $0 Maintenance fee: $0 "Below minimum balance" fee: $100/month

You may want to consider opening a USD account only in case you are planning to stash away at least $50,000, otherwise your maintenance fee as a percentage of an account size will be unreasonably high.

Accounts denominated in other currencies currently require no opening or maintenance fee; in those cases, accounts of a more modest size can be established.

There is no need to travel to the Cook Islands to open an account with CSB.

CSB is currently only paying 1.39% on 12-month New Zealand dollar time deposits (CDs) and 1.1% on such deposits denominated in Australian dollars. That is lower than you would get in New Zealand or Australia, so if you are interested in holding NZD or AUD and generating a better return on your cash, you might want to consider banking in one of those countries.

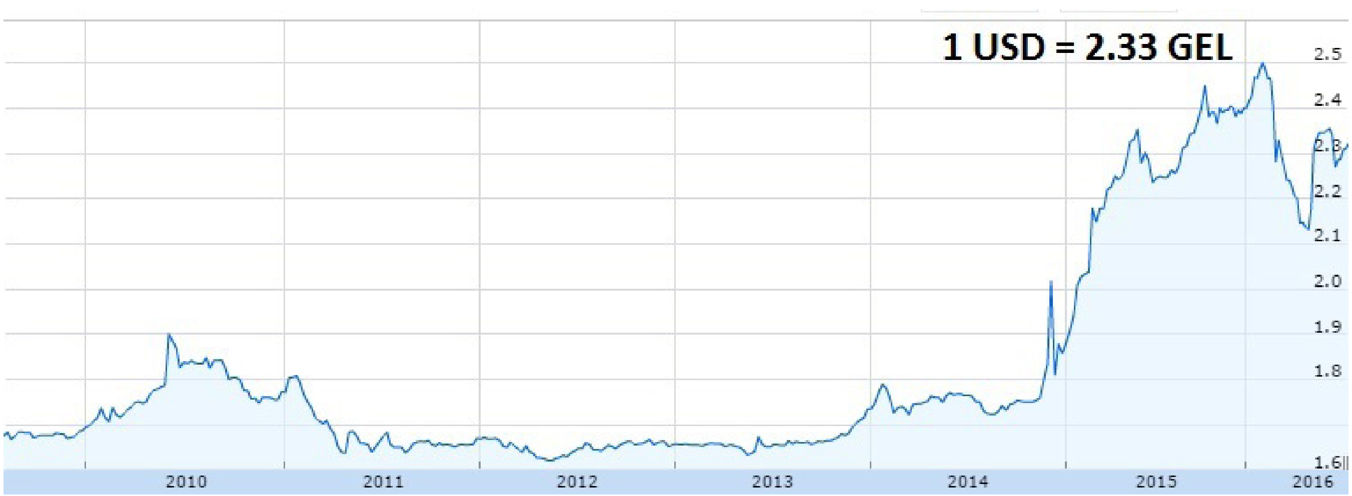
The latest interest rates on CDs, and information on some of the currencies CSB currently offers can be found here: https://www.capitalsecuritybank.com/rates/Deposit-Rates.pdf

Web: https://www.capitalsecuritybank.com/

Tel: +682.22505 or direct number in the US +1.641.847.5077

GEORGIA

Currency



Before we delve into why you might consider Georgia, let's talk about the Georgian lari (GEL), which has been negatively affected by several factors in recent years.

Nearly all currencies have declined against the USD, so that certainly has played a role. But the bigger issue is the performance (and trickle-down influence) of its giant neighbor, Russia, whose ruble has declined 50% due to both the oil price slump and Western sanctions.

The ruble's drastic depreciation has put pressure on the currencies of all of Russia's regional trading partners. From the Armenian dram to the Kazakh tenge to the Georgian lari – all have had to devalue to stay competitive.

Keeping some savings in Georgian lari may prove to be lucrative in future, but is definitely far from a sure thing.

Still, stay with us… Georgia might be worth a second look.

Jurisdiction

Deposit Insurance Scheme	Central Bank	Government	Additional Risk Analysis
Currently absent	National Bank of Georgia's Solvency is 4.1%	36.8% debt to GDP (2013)	- Conflict-prone region - Total deposits are 32.5% of GDP (2014)

Georgia is a country with a deep and rich history.

The first recorded Georgian tribes date back to the 13th century BC. Over time, they were conquered by the Mongols, the Persians, the Ottomans, and most recently, the Russians.

Georgia's most practiced religion is Christianity, which makes it (together with neighboring Armenia) an enclave of Christianity among predominantly Muslim neighbors.

During the Soviet era, Georgia boasted the highest GDP per capita among all states comprising the Soviet Union, rivaled only by the Baltics (Latvia, Lithuania and Estonia).

After the collapse of the Soviet Union, however, Georgia became embroiled in a nasty civil war, leading to a drastic decline in its people's overall standard of living.

Since the end of the war, however, the Georgian government has cut red tape and trimmed the fat. Scores of government paper-shuffling employees have been fired, and unnecessary tariffs and business obstacles have been abolished. Those reforms have made Georgia one of the more attractive countries in the world in which to do business.

As the result, the economy has grown dramatically, developing a safe and liquid financial system along the way.

There's clearly a lingering perception of risk about Georgia, given that it's still a developing country with a relatively short track record of success. It is also located in a region where unrest is a common. Georgia's recent clash with Russia over the South Ossetia region is just one example.

Georgia's current government has chosen to be much more accommodating towards Vladimir Putin; still, it remains committed to keeping the country business friendly.

Total deposits across the banking sector, when compared to country's GDP, are low, making it relatively easy to bail out Georgia's banks.

Bottom line: geopolitics makes banking in Georgia not without a risk.

Still, the risk, as you will see, could come with an attractive reward.

A banking option for non-residents

TBC Bank

Solvency	17.6%
Cons. liq.	21.9%
Total assets	$3B
Total liq.	28.8%
Deriv/TA	0.1x
Pers. presence	YES

When we started recommending TBC Bank in Georgia many years ago, the country was still relatively unknown even by the lovers of geography, let alone by investors.

The country's banking system was in urgent need of investment capital, and banks were offering up to 10% returns (in USD) for Certificates of Deposit (CDs). CDs in Georgian lari paid even better.

Word got out about Georgia's ROI, and foreign cash and investments poured in.

Today the returns are not as lucrative, but TBC Bank still offers up to a 4.25% interest rate on a 12-month CD denominated in US dollars. That's still one of the best rates of returns you can find in the world today for such a product.

Here are the bank's most current CD rates: http://www.tbcbank.ge/web/en/web/guest/deposits

If you hold cash in the local currency, you can get 9.5% for a 12-month CD. Obviously, that is a much more speculative bet.

As for TBC's bona fides, banks in Georgia generally are very liquid and well capitalized.

TBC's capital as a percentage of total assets (capitalization) is 17.6% - by far the highest capitalization among all the banks we have analyzed preparing this report.

TBC's cash on accounts as a percentage of total customer deposits (conservative liquidity) is a very healthy 21.9%.

These are very strong numbers relative to the rest of the world.

TBC recently went public on the London Stock Exchange, with 9.9% of shares trading on the LSE. The bank is also owned in part by the European Bank for Reconstruction and Development (12.4% share), the International Finance Corporation (6.2%) and the Dutch development bank FMO (4.4%).

That is a huge vote of confidence for TBC, and it suggests that TBC does not engage in the kinds of questionable banking practices that sometimes occur in lesser-known jurisdictions.

You do need to make a personal visit to Georgia to open an account, and you'll need to take your passport with you to the branch.

We recommend that you visit the main branch of TBC bank, located at 7 Marjanishvli St in the capital of Tbilisi. There you will be guaranteed to find an English-speaking agent who can help you.

And before heading to beautiful Georgia, don't forget to contact them to double-check the TBC's latest account opening requirements:

Tel: +995.32.227.272

Web: http://www.tbcbank.ge/web/en/web/guest/contact-us (We successfully used the chat function on the website.)

HONG KONG

Currency

We have mentioned numerous times that Hong Kong dollar (HKD) today represents probably the best alternative to the US dollar.

Presently, being pegged to USD, it is as good as the US dollar (1 USD = 7.8 HKD).

But although the USD's future prospects are uncertain, the HKD won't likely go down with the ship when reality eventually catches up with the US government's horrendous financials. At that point, the Chinese will likely re-peg the Hong Kong dollar at a much lower rate, or even set it free.

In the latter case, we expect HKD to perform similarly to the free-floating Singapore dollar, which has been quietly but steadily appreciating against the USD over the years.

Jurisdiction

Deposit Insurance Scheme	Central Bank	Government	Additional Risk Analysis
Up to HK$500,000 (~US $65,000)	The Hong Kong Monetary Authority's Solvency is 17%	39.5% debt to GDP	- Dependence on China - Total deposits >350% of GDP

Hong Kong's banking system remains incredibly sound by the global standards.

The Hong Kong Monetary Authority (HKMA) is among the most solvent central banks in the world. It runs a US $450+ billion strong national wealth fund which more than offsets (multiple times) Hong Kong's 39.5% public debt.

Hong Kong (along with Singapore) is at the top of a very short list of solvent jurisdictions in the world where we truly and wholeheartedly can recommend opening a bank account.

We also remain very comfortable recommending Hong Kong as a transactional (business) banking destination.

It's worth pointing out that for transactional banking Hong Kong banks have some of the most competitive fees and lowest exchange rate spreads we've come across.

Hong Kong banks generally charge between US $15 and US $25 to send an international wire transfer, which are possibly the lowest fees in the world.

The HK banking system's dominos all look good. But there's one problem: As we mentioned in our last banking review, it is increasingly difficult — though still possible — for a non-resident to establish a bank account there.

It's also difficult to establish a corporate account: Hong Kong banks will generally only engage in banking relationships with HK companies listed in the Hong Kong Companies Registry. Those companies will almost certainly need a Hong Kong resident director, based in the country.

But we think Hong Kong is such a great banking destination that our team has exerted significant effort and hours finding ways for you to open an account there.

One thing we discovered in our quest was that two of the banks we recommend below now have a centralized compliance process. No matter which branch you visit, all of your documents are sent to a processing center where your application will be evaluated.

In most cases, you must allow at least a week before they will grant you an answer.

A few years ago, you could just hop on a plane to Hong Kong, or stop there for a day or two on the way to a third destination, and quickly open a bank account. Generally speaking, that is no longer possible.

Banking options for non-residents

Before we get into the banks themselves, let's talk about the challenge: opening an account as a foreigner, especially from abroad.

At first blush, for example, HSBC seemed like a great option for opening an account from a distance.

The process of applying for an account at HSBC from abroad looked like this (at a first glance):

a) First, you needed to become an account holder at one of the American branches of HSBC, a process that could be done entirely online;

b) Then, you would apply for a bank account at HSBC Hong Kong by calling the HSBC International Banking Center (+1.877.850.4722).

But it doesn't really work like that.

It turns out that HSBC wants you to demonstrate strong ties to Hong Kong… such as a work contract with a local Hong Kong company, or a long-term visa (not a tourist one), or a legal dependent who lives there.

Even if you are planning to purchase property in HK and need a bank account for this purpose, the bank requires evidence of an executed purchase contract, or of a down payment.

Bottom line: Don't bother trying the distance option unless you do indeed have a strong tie to Hong Kong already.

On the bright side, it is still possible (though perhaps not easy) to open an account once you are on the ground.

When considering Hong Kong banking, we would recommend that you first try HSBC and Citibank. Make sure you contact them beforehand to see what the latest application requirements are.

Yes, Citibank is a subsidiary of a US bank.

No, we are not ordinarily fans of US banks.

But keep in mind that even though Citi is a subsidiary of Citigroup, the Hong Kong operation functions as a completely separate business unit.

Citi is subject to Hong Kong's banking regulations and capital adequacy requirements, not those that apply in the USA.

That alone is a big step up from banking with Citi's US parent. And it would be a way to get exposure to Hong Kong dollars, as well as to other foreign currencies.

As we've said before, Hong Kong dollars, by virtue of their being pegged to the US dollar, are a great proxy for USDs… with an added potential upside should the peg ever be revalued higher.

Citibank Hong Kong engages in virtually *no* derivatives trading. (Its American parent company, however, trades more derivatives relative to its assets than any other bank in the world that we analyzed.)

Note that initial deposit requirements start quite low:

10,000 HKD (~US $1,300) – Standard Account

500,000 HKD (~US $65,000) – Citi Priority

The catch to nab those low minimum deposit requirements, though, is that you need to provide proof of a local HK address.

When we pressed them, Citibank representatives told us that you are not required to have a Hong Kong ID, just a local utility bill or, ironically, a local bank statement, among other options.

If you can't supply that, then as a non-resident, you'll be offered the Citi Gold account. There, the minimum deposit requirement is 1.5 million HKD (~US $193,000).

Just recently Citibank Hong Kong has sent out an email to their regular account holders asking them to raise the account balance to 1.5 million HKD before January 2017, otherwise, a monthly maintenance fee of 400 HKD (~US$50) would be applied.

Citibank (Hong Kong) Limited	
Solvency	13.4%
Cons. liq.	N/R*
Total assets	$19B
Total liq.	14.1%
Deriv/TA	0.2x
Pers. presence	YES

*N/R – not reported

Note as well that if you are a US citizen, you are not allowed to engage in any investment banking. But you can hold a checking and/or savings accounts.

Tel: +852.2860.0333 (They don't make things simple for the caller; to speak to an operator, you will need to press 2, then *2#, 0, #, and, finally 1.)

Web: https://www.citibank.com.hk/

HK & Shanghai Banking Corp (HSBC)

Solvency	**8.8%**
Cons. liq.	**4.3%**
Total assets	$954B
Total liq.	10.3%
Deriv/TA	4.6x
Pers. presence	YES

HSBC is another outstanding bank that may open accounts if you personally visit their branch in Hong Kong.

And they do open accounts for foreigners (including US nationals), but, again, may want to see a strong tie to Hong Kong.

However, from what we have experienced by talking to bank's specialists, you still have a chance of opening an account with them even as a tourist.

You'll need to bring your passport and proof of address with you (doesn't have to be local).

And if you get lucky and your application passes through the approval chain, you will enjoy an account with no minimum, and one of the lowest transaction fees in the world.

As for its financials, we find HSBC's to be solid, presenting no major reason for concern. However, the bank's solvency of 8.8%, while still very good, is technically below what we like to see for a bank with the highest safety grade. Its conservative liquidity is also in the low digits… not great. But the overall jurisdictional picture is still very good.

As with Citibank, HSBC has its own hierarchy of account types:

HK$5,000 (~US $645) – Standard Account

HK$200,000 (~US $25,800) – HSBC Advance

HK$1,000,000 (~US $129,000) – HSBC Premier

More details about the account types: https://www.hsbc.com.hk/personal/hsbc-advance/hsbc-advance-account.html

Tel: +852.2233.3888 (International Services)

Web: https://www.hsbc.com.hk/

DBS Bank (Hong Kong) Limited

Solvency	10.9%
Cons. liq.	2.6%
Total assets	$40B
Total liq.	49.5%
Deriv/TA	2.1x
Pers. presence	YES

DBS offers perhaps the most straightforward option for opening a Hong Kong account today.

DBS is a much smaller bank than HSBC and receives high marks from us for its healthy capitalization ratio of 10.9%.

Its total liquidity is also an incredibly high 49.5%.

This essentially means that half of the money the bank takes in from the customers is being stashed away in different forms of cash. In DBS's case, the money is held mostly in government debt and is deposited with other banks to earn interest.

In fact, they do not keep much cash on their own accounts at all. That makes its conservative liquidity just 2.6%, which adds to counterparty risk, but not overly so in our opinion. If in case of a major financial shock they can still get half of all the money they are owed, that should be more than enough.

One of our team members did some boots on the ground research and found out that DBS has a special "Foreigner Package" with higher minimums: HK $200,000 (~US $25,000) and no requirement of local proof of address to open an account.

Overall, DBS seems quite welcoming to foreigners. In conversation, they don't come across as overly concerned about you having HK residency, or even proving that you live – or work – in HK.

If a quest to open an account with HSBC or Citi goes bust, DBS might be a viable option.

Before visiting to Hong Kong, don't forget to double-check their account opening requirements.

Tel: +852. 2290. 8888 (select "3" for English, then "2" for banking services and finally "8" to be connected to English speaking representative. Please note that understanding the operator's English was sometimes a challenge for us.)

Other contact options are listed here:

Web: https://www.dbs.com.hk/personal/support/contact-us-support.html

ISLE OF MAN

Currency

The Isle of Man's Manx Pound is on par with the UK's pound sterling. You, as a depositor in the Isle of Man's bank, will be dealing predominantly with pounds sterling (read about our take on it in the UK section).

Jurisdiction

Deposit Insurance Scheme	Central Bank	Government	Additional Risk Analysis
£50,000 (~US$66,000) per depositor per bank	Financial Supervision Authority has regulatory function only.	No external debt	Total deposits are 10 times country's GDP

A tiny island located in the Irish Sea between Ireland and England, the Isle of Man is a British Crown dependency. The Isle of Man's relationship with the UK is somewhat similar to that between the US and Puerto Rico.

While the island's foreign relations and defense are the responsibility of the British Government, all aspects of fiscal policy are under the control of the local government.

The Isle of Man has a long and rich history as a financial center. Today, it is (along with fellow Crown dependencies and offshore financial centers Jersey and Guernsey) a reputable, transparent, and stable jurisdiction in the region.

Banking is one of the country's main sources of income; it is therefore of high quality and carefully regulated.

A banking option for non-residents

Standard Bank Isle of Man Ltd	
Solvency	4.0%
Cons. liq.	0%
Total assets	$2.8B
Total liq.	72.4%
Deriv/TA	N/R*
Pers. presence	NO

Standard Bank Group	
Solvency	9.1%
Cons. liq.	N/R*
Total assets	$139B
Total liq.	6.3%
Deriv/TA	N/R*

*N/R – not reported

Although every major British bank has a presence on the Isle of Man, we're instead bringing to your attention a bank from a former British territory – South Africa.

Standard Bank at first struck us as a great offshore bank. We know several people who hold accounts there and who are happy with the bank's services.

Please note that Standard Bank Isle of Man Limited definitely positions itself as an "offshore bank" and therefore focuses only on expats. They do not take customers who live in the country of their citizenship.

That means that if you are an American living in the US, they will not accept you as a client. If you are an Argentinian living in Argentina – same story. But if you are an American living in Argentina or vice versa, they will happily consider your application.

Standard Bank Isle of Man Limited attracts deposits from all over the world to the island, but most of the cash ends up in the accounts of other banks in the group and are being loaned out and invested in African counties (mostly in South Africa).

That's why we spent time analyzing the financial position of the entire group, not just the Isle of Man's entity.

The group's solvency is adequate and stands at 9.1%.

The bank does not disclose any details about where exactly they store their cash. We therefore could not calculate its conservative liquidity (our preferred metric). We can say that the group's total liquidity of 6.3% is not high.

On a more positive note, your personal presence is not required to open an account. The bank's website is lean, and customer service is English-speaking and attentive.

We judge Standard Bank as a good option for transactional banking/corporate accounts, but we would not recommend holding a significant amount of your savings there. The margin of safety is a little too thin.

Web: https://international.standardbank.com/personal/optimum/apply-online

ITALY

Currency

The euro is the official currency in Italy. You can read our full take on it in the Andorra section at the beginning of this report.

Now for the sad part. Look at the colors below:

Jurisdiction

Deposit Insurance Scheme	Central Bank	Government	Additional Risk Analysis
Up to EUR100,000 (~US$113,000)	Banca d'Italia solvency is 4.3%	Debt to GDP 135.8%	- EEA bail in legislation - Crisis economy

We are listing Italy to showcase a jurisdiction — and a bank — where you should absolutely NOT store your money under any circumstances today.

Italy, the founding seat of modern banking, has lost all credibility in that arena. Every domino is weak.

The country's GDP has been contracting for years. Italy's industrial production is in the tank, a mere quarter of what it was back in 2008. That's catastrophic for an industrial nation.

After Italy joined the Eurozone and abolished the lira, it lost the ability to devalue its own currency, which would have made its exports cheaper. At the same time, it failed to increase productivity to Northern European levels.

As a result, Italian exports are too expensive and cannot compete with other more efficient European countries.

In short, it is handcuffed to the euro and unable to produce. So all Italy can do now is cut spending and borrow more and more… until it can no longer do so. Debt is ballooning, and it won't be able to borrow much more… meaning its Central Bank and government will not be able to bail out its banks.

Italy's moment of reckoning, its Come to Medici moment, if you will, is likely around the corner. Voters are forcefully repelling austerity measures. The country's debt to GDP is a whopping 135%, meaning it cannot earn enough to cover its debts. Italy will soon be out of bullets.

And that will spell a lot of trouble not only for Italy, but for the entire EU. The third largest EU economy is no Cyprus or Greece – it simply cannot be bailed out.

Inspired by Brexit, "Quitaly" (and subsequent potential disintegration of the Eurozone as we know it) is the most likely scenario at this point and a potential solution for Italy… (and is a topic for another day).

Then there are the Italian banks themselves, which also are struggling.

With the country's economy continuing to contract, and Italian housing prices unremittingly falling, the future looks grim for Italian banks.

The overall portfolio of non-performing loans (NPL) in the banking sector is high and stands at about 20%. (NPL in Germany, as a point of reference, hovers around 2.5%)

That means that one in every five borrowers in the country has fallen back on payments. Mass defaults are not out of the question.

And because so much of Italy's banking capital is tied up in mortgage and other types of loans, such a situation would be devastating to the industry.

Banca Monte dei Paschi di Siena	
Solvency	5.7%
Cons. liq.	N/R*
Total assets	$190B
Total liq.	0.9%
Deriv/TA	N/R*

*N/R – not reported

The Oldest Bank in the World - where you should NOT hold your money

Banca Monte dei Paschi di Siena (MPS) is the world's oldest bank still in operation today.

It first opened its doors back in 1472 in Siena, in the country that invented banking as we know it.

MPS is the third largest bank in Italy but, unfortunately, is in the worst shape among all of its peers.

For example, more than a third of its loans are non-performing.

Its total liquidity is a paltry 0.9%… and that is after the Central Bank, Banca d'Italia, essentially bailed out MPS by injecting capital, not once, but at least *twice* over the past few years.

Italian taxpayers (an infamous oxymoron) picked up the tab. This may or may not be the case next time, as bank "bail-outs" seem to be a thing of the past for Europe. "Bail-in" legislation recently passed by the European Economic Area (EEA) means that banks and governments could stick the relevant bank's depositors themselves with the bill.

MPS's solvency is 5.7%, but we doubt that this "high" number is legitimate, as it is likely a result of accounting tricks.

In short, we officially ban you from putting your money in what soon will no longer be the world's oldest bank. And it's not just MPS we're worried about: Italy as a banking jurisdiction in general is a NO-GO today.

LIECHTENSTEIN

Currency

Liechtenstein uses the Swiss franc (CHF) as a legal tender since Liechtenstein is in a customs and monetary union with Switzerland.

The Swiss franc is not ideal, but it is still far better than most of world's major currencies.

Switzerland had the good, great sense and stubbornness to join neither the EU nor the Euro Area and remains fiercely independent.

And unlike its neighbor to the south, (see Italy section), the Swiss government's financials are solid.

In fact, and we can't believe we're writing this about a Western country, but Switzerland ended 2015 with a 2-billion-franc budget surplus…

That franc is doing well, bucking the global trend and gaining against the USD. That's a far cry from 1970, when one American dollar could be exchanged for more than four Swiss francs. Today, one Swiss franc worth more than one dollar.

That should give you a pretty good idea of which currency is likely to serve your savings better.

Jurisdiction

Deposit Insurance Scheme	Central Bank	Government	Additional Risk Analysis
Up to CHF100,000 (~US$104,000) per client	National Bank of Liechtenstein has regulatory functions only	0% debt to GDP	Total wealth managed is 21 times GDP

A tiny German-speaking principality sandwiched between Switzerland and Austria, Liechtenstein, like its Swiss neighbor, has perfected the art of banking.

Liechtenstein has long been known as one of the top asset protection and private banking jurisdictions in the world.

The country is in compliance with all major directives and treaties for anti-money laundering and tax regulation initiatives, and it is rightly seen today as a well-regulated, blue-chip, offshore (technically onshore) destination.

With GDP per capita (and salaries) almost double that of its neighbors, Lichtenstein hires from a position of strength. Its banks therefore handpick the best people from Swiss banks.

Liechtenstein does not bother providing transactional banking to non-residents and focuses instead on high-end services (and does them extremely well).

If you are looking for a private bank, rather than a transactional bank account, we think Liechtenstein should be on your radar.

Not a single bank in Liechtenstein needed ANY assistance from the state during the global financial crisis. The country's banks are generally conservative and well run.

Unfortunately, only a few of Liechtenstein's banks have gone through the trouble and expense of setting up entities licensed as investment advisors with the SEC. Those few are the only ones able to take US persons as clients.

Banking options for non-residents

Kaiser Partner Privatbank AG

Solvency	**9.2%**
Cons. Liq.	**12.4%**
Total assets	$0.51B
Total liq.	39.9%
Deriv/TA	0.5x
Pers. Presence	NO

If you are a US taxpayer or national, take note of Kaiser Partner Privatbank AG as a possible private banking solution. (We've talked about them before.) This is only available to customers looking to deposit US$1 million or more.

The capitalization of the bank is a very reasonable 9.2%. Ideally we want to see a number in the teens, but considering their liquidity and the fact they actually keep sufficient cash in their own accounts, we give them a high mark. Their low-risk, conservative portfolio, almost free of derivatives, also is big plus.

The bank engages in very little lending, and only does so for customers who maintain significant balances of other assets with the bank. It does no proprietary trading, and it makes the vast majority of its money from the custodial fees it charges clients.

For full discretionary management of your portfolio, Kaiser Partner Financial Advisors charges 0.9% annually on accounts with a total relationship balance ranging from CHF 1 million to CHF 5 million.

For accounts with a higher relationship balance, the fees will be lower.

Please note that the SEC-licensed department of Kaiser Partner is located in Zurich, so all US-based clients will be dealing directly with Switzerland and not Liechtenstein (which is by no means a reason for concern – Switzerland is another outstanding banking jurisdiction).

Technically, personal presence is not required for you to open the account, but as we are talking about a hefty initial investment, a trip in person is advisable.

For more information, contact the bank directly at:

US clients: (Switzerland)

Tel 1: +41.44.752.5111

Tel 2: +41.44.752.5125

Web: http://usa.kaiserpartner.com/

Non-US clients: (Liechtenstein)

Tel 1: +423.237.8000

Tel 2: +423.236.5145

Email: bank@kaiserpartner.com

Web: http://www.kaiserpartner.com/

Raiffeisen Privatbank Liechtenstein

Solvency	**13.5%**
Cons. Liq.	**7.6%**
Total assets	$0.31B
Total liq.	60.7%
Deriv/TA	0.1x
Pers. presence	YES

Non-US persons might want to consider Raiffeisen Privatbank. It has a much lower minimum balance requirement (250,000 euros/Swiss francs/US dollars), and its fees are very competitive by global private banking standards.

Like most other wealth management firms, Raiffaisen Privatbank is very flexible with their fees: a transactional model as well as an annual percentage both are viable options.

The annual percentage typically varies between 0.8 and 1%, depending on your account size.

Speaking of safety, smaller conservative wealth management banks in places such as Liechtenstein and Switzerland are as safe as banks generally get. They make their profit by charging fees, not by gambling with their clients' money.

As a result, most deposited cash is either conservatively invested or held in their own accounts.

Raiffaisen Privatbank is definitely not an exception – its total liquidity is 60.7%. That's *several times* the percentage we usually see. And it means that 60.7 cents of each dollar deposited by clients remains either as cash or a cash-like instrument.

The bank also holds in cash in their own accounts a smaller but still healthy 7.6 cents on every dollar of client funds.

The bank has a capital-to-total assets ratio of 13.5%. That's more than adequate.

A personal interview is indeed required to open an account. You can conduct it either in Liechtenstein or in neighboring Switzerland or Germany.

For further information, and to start the process of opening an account at Raiffeisen Privatbank in Liechtenstein, please contact:

Web: www.raiffeisen.li

If you would like to get in touch with Raiffeisen, please email us at clients@sovereignman.com.

MAURITIUS

Currency

The Mauritius rupee (MUR) has fared relatively well over the past year, losing "only" about 15% versus USD. And after the events of 2008-2009, the Mauritius rupee showed resilience and quickly recovered.

The Mauritius rupee should fare well in years to come, thanks to the country's development as a financial center and as an investment gateway to Africa. (Read more about that further down)

Jurisdiction

Deposit Insurance Scheme	Central Bank	Government	Additional Risk Analysis
Currently absent	Bank of Mauritius solvency is 15.8%	61.6% debt to GDP	- Total deposits 183% of GDP - Short financial track record - Perception of a tax haven

Mauritius is an African island nation in the Indian Ocean, east of Madagascar.

Owing to its long history of uninterrupted democracy, Mauritius over the years has developed into a stable offshore jurisdiction with some unique features.

The island has very strong ties to India; more than half the population is of Indian descent. It is also geographically an African nation and has successfully positioned itself as a gateway to Africa.

Mauritius is home to many banks, most of which are of high quality in terms of customer service and products offered.

Banking there is generally a positive experience: Fees are reasonable, card products are plenty, and multi-currency accounts widely available. The banks typically require reasonably small minimum balances (if any at all).

In February 2016, the country's Central Bank, Bank of Mauritius, introduced a bill to establish a deposit insurance scheme. An insured amount has not yet been defined.

Mauritius is a rapidly growing financial hub with Indian and African capital. That's something to watch for, as sometimes overly accelerated growth brings its own set of problems.

Mauritius is not without its faults. The move to introduce a deposit insurance scheme, for example, likely stems from the Bramer Bank scandal that erupted on the island in 2015, in which the bank was accused of running a $690 million "Ponzi scheme."

The bank was declared "too big to fail" and later that same year reopened under a new license as the National Commercial Bank.

There is no evidence that any of the bank's depositors lost their money, however Mauritius's reputation was somewhat tarnished. There's definitely a perception among those who dislike offshore financial centers that Mauritius is a tax haven.

Another risk you'll want to keep in mind is that total deposits in the banking sector exceed the country's GDP. This is not unusual in a financial center based in a smaller nation, but it makes it difficult for the government to bail out the banking sector in case of a systemic failure.

The good news is that local regulators understand the risk; typically, they are very conservative and demand that banks be liquid and adequately capitalized.

Mauritius is no exception. Its Central Bank is solvent, awash with cash ready to be deployed. It also seems that the country's regulators have learned the Bramer bank lesson.

Banking options for non-residents

Mauritius Commercial Bank Ltd

Solvency	**12.0%**
Cons. liq.	**8.1%**
Total assets	$7B
Total liq.	17.4%
Deriv/TA	0.1x
Pers. presence	NO

The Mauritius Commercial Bank Ltd (MCB) is one of the bigger banks in Mauritius.

There is no minimum deposit required, and the entire process of account opening can be done via mail. Therefore, there is no need to come to the island (although it is a fantastic beach destination worth visiting).

A capital ratio of 12% is definitely an encouraging number – the bank will have a substantial buffer of safety in case things go south for them.

MCB Bank is also one of the most liquid banks in the country, with a total liquidity of 17.4%. What we call conservative liquidity is still relatively high, at 8.1%, which is a rarity these days.

US clients are welcome.

Multi-currency accounts (GBP, USD, EUR, AUD, ZAR) are available and are a good option available for non-resident clients.

Few banks in Mauritius require personal presence for opening an account. And only a few documents are required - a notarized copy of your passport, a bank reference, proof of address and a few forms to fill out. (Send scanned versions via email for confirmation of completion before mailing them in.)

If you are ready to start the application process, please email contact@mcb.mu and verify the latest account opening requirements.

Email: contact@mcb.mu

Web: http://www.mcb.mu/en/

Most other banks in Mauritius do not deal directly with potential clients; rather, they ask you to contact one of the country's many licensed offshore management companies. The offshore service provider will process your documents on behalf of the bank, charging a fee that ranges from a few hundred to a few thousand dollars. Offshore financial services is a bread-and-butter industry for Mauritius, hence the push.

MONGOLIA

Currency

As evidenced by the chart above, we currently do not recommend denominating any portion of your savings in the Mongolian tugrik (MNT), although some of you may wish to take advantage of CD rates on USD accounts. Read on to see why we're not fans of the MNT at this time.

Jurisdiction

Deposit Insurance Scheme	Central Bank	Government	Additional Risk Analysis
Up to MNT 20,000,000 (~US$8,800)	Bank of Mongolia's solvency is negative 12.4% (2014)	77.4% debt to GDP	- Crisis economy

We used to be very bullish on Mongolia just very recently, but today, a perfect economic storm is brewing in this resource-rich, landlocked country.

Just five years ago, Mongolia was the world's fastest-growing economy. It was expanding by more than 17% and seemed unstoppable.

But it slowed down completely. To a crawl.

The global slump in commodity prices abruptly halted foreign investments and brought the Mongolian economy to its knees. In fact, the growth in Mongolia in 2016 is likely to be ZERO.

The Mongolian tugrik has been hit hard; sliding for several years, it has dropped by 50% since 2011 against the USD. The Central Bank has had to intervene multiple times to save the national currency from panic depreciation, so it should not come as a surprise that the Bank of Mongolia is deeply insolvent. (The latest data available is from 2014).

The government debt, too, is skyrocketing and going nowhere but up: 77.4% debt to GDP may not seem to be excessively high, but Mongolia is no US or Japan, so foreign investors do not stand in line to buy its bonds. So if any bank in Mongolia fails today, it is unlikely that the government will be able to save the depositors.

In fact, government itself played a rather significant role in making the whole situation much worse. After years of abruptly changing the investment rules, laws and regulations, foreign investors have lost any confidence in Mongolia as a reasonable jurisdiction.

Even after a resource sector slump ends, Mongolia will have a very hard time attracting foreign money back into a country. It is a truly sad story of a sharp reversal for the country with such an incredible potential.

A banking option for non-residents

Golomt Bank

Solvency	**9.4%**
Cons. liq.	**20.1%**
Total assets	$1.7B
Total liq.	36.9%
Deriv/TA	0x
Pers. presence	NO

Golomt Bank is the largest privately owned bank in Mongolia.

We have mentioned Golomt Bank in the past; and if you hold an existing account there, note that it still has a solid audited balance sheet.

The bank's level of capitalization is an adequate 9.4%, and conservative liquidity is 20.1% - a number that should minimize certain counterparty risk in the crisis conditions in which Mongolia finds itself today.

Additionally, as of 2015, Golomt Bank has remained profitable in that uneasy environment. That indicates that Golomt is less likely to go under.

We list Golomt Bank here mostly because we have covered it in our previous banking reviews, and would like to update those subscribers who have accounts with them already.

For existing clients, we would like to advise NOT to keep their entire life's savings in Mongolia today. It is just too risky.

For potential new clients, we do NOT recommend opening any new accounts in Mongolia at this moment.

However, we do hope that the situation in the country will change for the better in near future so we can start recommending the bank again, because Golomt still pays very high interest rates on its USD CDs. A 12-month CD currently yields 7.2% interest. That's about seven times what you'd make in most other places in the world.

CDs denominated in the local currency (tugrik) pay more than twice that amount. We deem investing in the tugrik an excessively risky endeavor in today's environment.

Email: mail@golomtbank.com

Tel: +976.7011.1646

Web: http://www.golomtbank.com/en/home/contact

NEW ZEALAND

Currency

As you can see from the graph, the New Zealand dollar (NZD), unlike most currencies around the world, has not faltered against the USD over the past two years.

In fact, since 2014 the NZD has depreciated much less than it did during the 2008/2009 crisis. It has even been gaining some momentum.

Holding your savings in NZD may prove to be a good decision in the long term. See below for more.

Jurisdiction

Deposit Insurance Scheme	Central Bank	Government	Additional Risk Analysis
Currently not available	Reserve Bank of New Zealand's solvency is 9.6%	91.5% debt to GDP	- Possibility of declining RE prices

In recent years, New Zealand's economy has been growing… if only slightly, but the numbers have been heading northward, unlike those in other rich OECD countries such as Italy (0% growth this year) and France (same as Italy).

This is despite the fact that New Zealand is a commodity-based export economy (dairy and lamb), weathering a global commodities market slump.

Dairy prices in particular are down to 2009 levels, meaning that New Zealand's economy is expected to grow "only" by 3% in 2016.

However, inflation remains well under control at just 1% annually. That makes New Zealand one of the few countries in the world where you can earn a healthy, real rate of interest on your savings, at least in local currency terms.

New Zealand does not currently have an explicit deposit insurance scheme. That is not necessarily a bad thing – it keeps banks accountable and depositors more aware of risks in the sector. Remember that in Part I we delineated that deposit schemes such as the US's FDIC provide a false sense of security that banks then take advantage of, venturing into risky territory.

That said, although New Zealand's Central Bank is adequately capitalized for a Western nation, the government's financial position is weak. New Zealand over the years has racked up much more debt than its Australian neighbor; it would be hard pressed to save one of its bigger banks.

A banking option for non-residents

ANZ Bank New Zealand Ltd

Solvency	**8%**
Cons. liq.	**1.8%**
Total assets	$117B
Total liq.	4.7%
Deriv/TA	9.2x
Pers. presence	YES

ANZ New Zealand is by far New Zealand's largest financial institution. It's a wholly owned subsidiary of Australia and New Zealand Banking Group, which in turn is the fourth largest banking group in Australia.

ANZ New Zealand is adequately capitalized, but its liquidity (total or conservative) is definitely subpar by any standard. Also, ANZ, as most Western banks do, owns too many derivative instruments (although 9.2 times total assets is still not as extreme as we see in most European and US banks).

ANZ New Zealand is a part of a larger group, so it is not a bad idea to analyze the financials of the group itself, whose main activities are concentrated in Australia.

The group's capitalization is not particularly impressive and stands at 6.4%. Its liquidity is better; the group's conservative liquidity of 9.4% is on the higher end of the spectrum for a Western bank.

And since the group is much bigger in size, it should be able to provide any needed liquidity to its subsidiary in New Zealand if it runs into trouble.

As we previously have mentioned, ANZ New Zealand used to allow people to open accounts from abroad; your identity could have been verified at any ANZ branch in the world (say, at the New York branch).

Those internal regulations have changed; ANZ now requires your personal presence to open an account in New Zealand. The NZ$25,000 minimum balance requirement, however, has been scrapped.

You can start the process online, but then you have 90 days after your online application is approved to show up at a local New Zealand ANZ branch for KYC processing.

Currently, there are three different accounts available for non-residents, to accommodate your needs. For most of our subscribers, "Online" and "Foreign Currency" accounts should be adequate.

ANZ offers Term Deposits (CDs) in most major currencies and may also consider minor currencies on request. Minimum amounts apply when opening CD (US$10,000 for CDs in USD for example). If denominated in NZD, they pay a 3.25% for a one-year term. That's still better than zero.

If you think that ANZ New Zealand may serve your needs, start the online application process by visiting the "Moving to New Zealand" (even if you're not doing that) page:

Web: https://www.anz.co.nz/personal/migrants-travel-foreign-exchange/microsite/en/move-to-nz/

Tel: +64.9.634.5940

NORWAY

Currency

The Norwegian economy was once considered nearly bulletproof, but the slump in resource prices across the globe has not spared this single export-oriented economy. Norway is a major oil exporter, and oil is down.

The Norwegian economy has therefore been stagnating and, as you can see from the graph, the Norwegian krone (NOK) has depreciated more than 30% since 2014.

Still, we expect the Norwegian krone to stage an impressive come back once oil prices embark on a decisive recovery. At this point, though, invest in Norwegian krone only if you believe that the worst is over for the oil sector.

Jurisdiction

Deposit Insurance Scheme	Central Bank	Government	Additional Risk Analysis
Up to NOK 2,000,000 (~US$ 242,000)	Norges bank's solvency is 3.1%	31.7% debt to GDP	- EEA bail in legislation applies

Despite all the gloom, Norway remains a generally sound jurisdiction for banking, though definitely long way off from where it used to be few short years ago when the Norwegian government's and central bank's financials were truly pristine.

Today, the commodity downturn has taken a heavy toll on the capitalization rate of Norway's Central Bank (Norges Bank) down to 3.1% - the number that leaves a lot to be desired.

However, Norway is still a very favorable banking jurisdiction and it is open to foreigners who are interested in banking there.

The government's debt-to-GDP ratio currently stands at 31.7%, which is very modest by Western standards. (Italy's is more than three times that amount.)

Additionally, Norway operates a national oil wealth fund of US$ 850 billion (recently renamed the Government Pension Fund – Global). That puts the government over the top by about $600 billion in 2016.

In the unlikely event that a Norwegian bank runs into trouble, the government could simply bail it out.

But it might not do so. Why not? Because Norway is part of the European Economic Area (EEA), which recently mandated "bail-in" legislation… where depositors, not taxpayers, foot the bill. That said, the government does guarantee bank deposits of up to NOK 2 million per depositor. That's roughly $242,000 at current exchange rates.

A banking option for non-residents

DNB Bank Group

Solvency	**7.4%**
Cons. liq.	**13.2%**
Total assets	$288B
Total liq.	31.4%
Deriv/TA	3.1x
Pers. presence	NO

We have previously written about DNB Bank, the country's largest banking group. The Norwegian government is the controlling stakeholder.

The bank's solvency is average by global standards, but is balanced out a bit by its liquidity. Even when calculated conservatively, liquidity stands at an acceptable 13.2%.

One upside is that you can open an account without having to travel to Norway.

But the only savings account foreigners are allowed to have must be denominated in Norwegian kroner. Keep that in mind if you think the krone will depreciate further.

Also, you'll need at least 100,000 euros (about $112,000 USD) in kroner to open and maintain an account.

To open an account at DNB, you'll be required to provide the following:

- Application form (it's short, only 1 page)
- A signed copy of the bank's terms and conditions
- A notarized copy of your passport
- A reference from another bank, confirming your banking relationship with them and your home address. DNB provides a form for this; you only need to send it to your other bank for their signature.

Next, since all bank customers in Norway require a national identification number, the bank will apply for this on your behalf. As soon as you send them the documentation, they will submit the application for your ID number. It takes 4-6 weeks to process, upon which your DNB account will be open.

Again, the minimum deposit to open an account at DNB is 100,000 euros, and the account must be denominated in Norwegian kroner.

You may earn 0.5% interest rate on your savings account and up to 0.80% on CDs offered to foreigners. (Norwegian depositors make more.)

If you're interested, start here:

Web: https://www.dnb.no/en/personal/customer-service/new-customer-outside-norway.html

Email: Foreign.customers.savings@dnb.no

PANAMA

Currency

Panama's currency, the Balboa, has been on par with the US dollar since its inception in 1904. That's been good for Panama: It's the only country in Latin America that hasn't destroyed its currency since independence (in Panama's case, from Colombia).

Panama is a 100% dollarized economy and you will be dealing with US dollars, not balboas, as a depositor there.

Jurisdiction

Deposit Insurance Scheme	Central Bank	Government	Additional Risk Analysis
Currently not available	Regulatory functions only.	39.1% debt to GDP	- Perceived as a tax haven - Reputation damage due to "Panama papers"

First, let's get the elephant out of the room.

Unless you've been living under a rock, you are without a doubt aware of the Panama Papers scandal.

Thanks to that, Panama is suffering from an image problem.

Yes, there's a long list of politicians and crooks who used the services of the Mossack Fonseca law firm to hide income or immorally acquired funds.

But most of the Panama Papers uproar is just ballyhooing by people who don't understand (or don't want to understand) how offshore works… or why it's so essential to the global economy.

Offshore — investments, asset protection, international banking and the like — is the plumbing of the global financial system. Without it, international business would choke. Let's say you and I want to invest in a company in China. I'm German. You're American. We want neutral territory, one with a longstanding tradition of sound legal rulings, etc., in case there's a dispute. That's why so many people form BVI companies, Cayman trusts, Jersey funds, etc. People know there's decent legal protection in those places in case something goes awry.

Panama has a robust financial services sector. Most service providers are highly respectable, credible and completely above board. Some are not. (Let it be noted that years ago, we advised readers *against* using Mossack Fonseca's services.)

You pay for objective, rational advice. Here it is: The Panama Papers scandal should not deter you from considering banking in Panama if that is a jurisdiction that works for you.

We have spent weeks crunching the numbers and visiting multiple banks in the country, and we can tell you that Panama's banking sector— regardless of what ill-informed, financially illiterate journalists report — is on solid footing… and could be a fine option for your Plan B.

Panamanian banks are liquid and well capitalized. Additionally, the government's debt position of 39.1% is pretty manageable.

Panama is just a short flight away from North America, so the physical presence requirement can be easily met if you reside in the States.

Panamanian banks pay higher interest rates than North American banks do.

On top of that, you can knock out two major Plan B needs with one visit: open a bank account AND obtain residency in Panama.

Despite the fact that Panama is lacking an explicit deposit insurance scheme, the local bankruptcy law stipulates that accounts of US$10,000 or less will be paid out first during a bank's liquidation.

Taken together, there's reason to consider Panama. Again, we're not in the business of recommending banks, per se, as we disagree with how modern banking is done. But if you have to bank, consider good jurisdictions such as Hong Kong, Singapore, and perhaps Panama.

For more details, read our recent SMC alert on banking in Panama, where we discuss Multibank and other banking options in the country.

A banking option for non-residents

Multi Financial Group, Inc

Solvency	**9.3%**
Cons. liq.	**1.2%**
Total assets	$3.9B
Total liq.	17.9%
Deriv/TA	N/R*
Pers. presence	YES

*N/R – not reported

After spending weeks analyzing the entire Panamanian banking sector, and after a personal trip to Panama, we conclude that Multibank would be the best fit for non-residents.

Multibank has several advantages over its peers.

Multibank is adequately capitalized and offers a substantial safety buffer. It is transparent, which is especially important for a jurisdiction having recently endured major blow to its reputation.

In 2013, DEG (the German development bank), became a strategic partner of Multibank.

DEG is a part of the large, venerated German-based KfW group, which has more than once been called "the safest bank in the world".

KfW is a well-established, highly conservative bank that performed extensive due diligence on Multibank before partnering up.

That speaks well of Multibank, but there are still some concerns.

For one thing, Multibank's conservative liquidity is a paltry 1.2%, meaning that most of the deposited cash is held with other domestic and foreign banks (most likely in the US).

That obviously creates certain counterparty risk, though it is far from critical considering that total liquidity is 17.9%.

The bank pays reasonable interest rates in USD on CDs, ranging from a half percent for 30-day long CDs to 4.375% interest for five-year-long ones. One-year-long CDs yield 3.25% returns.

Even if you just leave your money sitting in a Multibank savings account, you will still earn 1% interest. And a savings account there comes with all the benefits of a checking account (debit and credit cards) with the exception of a checkbook.

Note that there is a rather high minimum deposit of $20,000 US for personal accounts, and of $50,000 for corporate ones. Again, you must also come to Panama to start the process.

To learn more, contact **Ana Julia Ureña**:

Email: aurena@multibank.com.pa

Tel: +507.294.3500 (Ext. 2311)

She will email you the latest requirements and will also make sure you have all documents in place before coming to Panama.

If Ana Julia is not available, ask to speak to any other specialist from Multibank International department.

SAINT KITTS AND NEVIS

Currency

The East Caribbean dollar (EC$) is the official currency of Saint Kitts and Nevis (as well as of five other Caribbean nation states, all members of Eastern Caribbean Currency Union). The East Caribbean dollar has been pegged to the USD since 1976 at the rate of US$1 = EC$2.70.

Jurisdiction

Deposit Insurance Scheme	Central Bank	Government	Additional Risk Analysis
Planned. Currently not available.	East Caribbean Central Bank (ECCB) solvency is 4.9%	76% debt to GDP average for ECCB countries (1016) 83% - debt to GDP Saint Kitts (2013)	- 125% total deposits to GDP - Perceived as a tax haven

A pair of islands in the Caribbean forming one independent microstate, Saint Kitts and Nevis is a former British colony perhaps best known for its longstanding economic citizenship program.

But we want to talk about banking in this country as well. As you see from the above dominos, there currently is no deposit insurance scheme in Saint Kitts and Nevis. Its establishment was approved in 2015, but the entity will take time to materialize.

The East Caribbean Central Bank, which oversees and regulates Saint Kitts and five other independent Caribbean nations, has a solvency of 4.9%. That is not a great number, but it still leaves some margin of safety.

As for the government domino, the latest data available stems from 2013. At that time, debt-to-GDP stood at 83%. That is a high number, but still an improvement from the 199% all-time-high ratio the country endured right after the 2008/2009 financial crisis.

Another blow from that time was wrought by Mother Nature, when a devastating hurricane nearly broke the country's tourism engine. Things got so bad that the IMF stepped in with an emergency loan.

Since then, economic conditions have significantly improved. Tourism is flourishing again, and the steady income from the popular economic citizenship program has proved to be a boon for a country of just over 50 thousand people.

We consider the overall jurisdictional risk to be pretty high, especially considering that total deposits exceed the country's GDP.

Still, if you consider the microstate to be a good fit for you, we have identified a bank that welcomes non-residents (including Americans) and does not require personal presence for account opening.

A banking option for non-residents

The Bank of Nevis Ltd

Solvency	**9.5%**
Cons. liq.	**4.7%**
Total assets	$0.21B
Total liq.	43.5%
Deriv/TA	N/R*
Pers. presence	NO

*N/R – not reported

The Bank of Nevis is the largest bank on the Nevis Island, but it's still relatively small, with 210 million dollars in total assets.

Its subsidiary, Bank of Nevis International (BONI) is the only bank in Saint Kitts working with non-residents.

Its capitalization is 9.5%, an adequate number.

Additionally, Bank of Nevis's 43.5% total liquidity is a high number by international standards. However, the bank doesn't keep that much cash in their own accounts, bringing conservative liquidity (the way we calculate it at Sovereign Man) to 4.7%.

There is a minimum deposit requirement of 10,000 USD, GBP or EUR (depending on the currency of your choice). And there is a US$100 annual charge for Internet banking if you use it.

International banking in Saint Kitts and Nevis is rather undeveloped, so do not expect exemplary customer service or very innovative banking products from them.

However, English is a native language there, and the entire account opening process can be conducted via mail.

In our opinion, the primary risk of banking with Bank of Nevis is similar to many other smaller banks in the Caribbean and other isolated places – the risk of losing its correspondent banking relationships and subsequent inability to transact in US dollars.

Establishing a new relationship can be a long and painful process. If a correspondent relationship falls through, depositors are not likely to lose their deposits, however do not expect your bank to be able to conduct business as usual.

We have seen it happen across the region in recent years and it is always a distinct possibility in the case of St. Kitts and Nevis.

If you decide to open an account there, feel free to contact the person dedicated to working with International clients, Sabina Harrinarain, who has been very helpful in answering our questions:

Tel: +1.869.469.0080

Email: sharrinarain@boniltd.com

Web: www.boniltd.com/

SINGAPORE

Currency

As you can see from the chart, the Singapore dollar has done extremely well against the USD over the past ten years. It experienced a relatively small hiccup in 2015, when most currencies around the world were hammered by the USD, but has been improving since then.

We are comfortable recommending that you hold at least some of your savings in SGD. Big picture analyses suggest that the SGD will reach parity with USD in the near future.

Jurisdiction

Deposit Insurance Scheme	Central Bank	Government	Additional Risk Analysis
Up to S$50,000 (~US$37,000) per client	Monetary Authority of Singapore's solvency is 10.5%	105.6% public debt to GDP (however, net financial position is POSITIVE)	- 196% total bank deposits to GDP

When you look at the government domino and read 105.6%, you might be taken aback. But that is a misleading number; the "debt" consists almost entirely of SGS and SSGS (Singapore Government Securities) that are issued to meet the investment needs of Singapore's social security fund. All the proceeds are invested, not spent.

In fact, when accounting for Singapore's foreign reserves and sovereign wealth fund, the country's financial position comes well into the black, with net assets well over 100% of GDP.

In short, there is no chance Singapore is going broke any time soon.

The Monetary Authority of Singapore (MAS) is solvent, and over the past few decades has proven to be a wise financial regulator. Without it, Singapore would not have achieved the seemingly impossible.

When Singapore gained independence half a century ago, it was a backwater with no natural resources. Today, it is one of the leading financial centers in the world.

Obviously, in our global and interconnected world, there are risks even in seemingly perfect jurisdictions.

Singapore's economy has been slowing down. The local property market has been declining moderately over the past 2 years, though most of that is due to artificial cooling measures imposed by a government worried about the market overheating over the last decade.

Trade and capital flows to and from Singapore's main trading partner, China, are not growing as strongly as they were in years gone by. And Singapore is both an important trans-shipment point for crude oil and has a significant refining and petrochemical sector, so the downturn in the oil industry has left its mark on the economy.

Yet the country remains an oasis of financial stability. Its banks are well supervised and well regulated.

And, barring a catastrophic collapse in real estate prices, the Singapore banking system should remain among the world's soundest.

That's the good news.

The bad news: opening a bank account in Singapore is not as straightforward as it used to be.

Banking options for non-residents

Citibank Singapore Ltd

Solvency	**10.3%**
Cons. liq.	**1.5%**
Total assets	$27B
Total liq.	41.2%
Deriv/TA	N/R
Pers. presence	YES

Two years ago, non-resident foreigners could establish accounts at Citibank in Singapore with account minimums as low as $5,000. It was incredible; you didn't even have to show up in person.

Today, however, Citibank Singapore requires a minimum deposit/balance of $200,000 to open an account.

Anyone who already has a bank account with Citi has until March 31, 2017 to meet the minimum requirement, or else be subject to a monthly fee of US$50.

This makes Citibank a NO-GO for small accounts; it's not worth paying $600/year to maintain a $5,000 or $10,000 balance.

If you can meet the $200,000 requirement, however, we think it's worth it.

Having an account with $200,000 means that you will be bumped up to *Citigold* status. This is the highest level of personal banking that exists at Citibank (aside from their Private Banking division, which usually starts at $1+ million).

Citigold provides you with a highly personalized banking experience; you'll have a real life relationship manager… instead of being merely an account number.

The bank's total liquidity of 41.2% is extremely high, and it climbs even a few percentage points higher when you factor in that Singapore's government bonds are extremely liquid and not likely to crash in the near future. The bank's capitalization ratio is also high, at 10.3%, although Citibank's conservative liquidity is 1.5%, which is definitely less then desired.

That's because Citibank does not keep much cash in its own accounts. And there is no way to know where exactly they hold most of their money. (Remember the Wells Fargo example from Part I of this report.)

This adds to your counterparty risk and underlines how messed up modern banking really is.

Nevertheless, Citibank Singapore is in good financial health judging from the results of our research.

Tel: +65.6224.5757

Web: https://www.ipb.citibank.com.sg/english/forms/english/open-an-IPB-account/open-an-ipb-account.htm?icid=IPBOFAQEENGLBLSBOA

HK & Shanghai Banking Corp (HSBC)

Solvency	**8.8%**
Cons. liq.	**4.3%**
Total assets	$954B
Total liq.	10.3%
Deriv/TA	4.6x
Pers. presence	YES

Yes, we have already analyzed Hong Kong & Shanghai banking Corp in Hong Kong section of the report and are bringing it up again here in Singapore.

That is because HSBC Singapore operates as a fully independent subsidiary of the much bigger entity in Honk Kong.

On May 9, 2016, HSBC transferred its retail and wealth management departments in Singapore to a locally incorporated subsidiary, HSBC Bank (Singapore) Limited; however, current financial data for HSBC Singapore is not yet available.

The situation with HSBC is similar to that of Citibank. HSBC is increasing its minimum account opening balance requirement to SGD 200,000 (~US$150,000), which thereby grants you *HSBC Premier* status (comparable to *Citigold*).

However, if SGD 200,000 is too steep of an initial deposit to fork over, HSBC also has a "non-premier" option, which is a standard bank account (i.e. no dedicated relationship manager) for non-residents.

In that case, the initial deposit is S$75,000 (~US$55,000).

Tel: +65.6472.2669

Web: https://www.hsbc.com.sg/

HSBC Premier International:

Tel: +65 6216 9080

Web: https://www.hsbc.com.sg/1/2/hsbcpremier/hsbc-premier-international

DBS Group

Solvency	**9.9%**
Cons. liq.	**4.7%**
Total assets	$332B
Total liq.	14.0%
Deriv/TA	4.6x
Pers. presence	YES

If you are not ready to set aside a US$55,000 to $150,000 with HSBC, **DBS Singapore will still consider opening accounts with an initial deposit as low as zero, at a cost of just S$7.5 (~US$5) per month.**

If your average balance exceeds SGD $3,000 (USD $2,250), they'll waive the fee.

We're not convinced that DBS will be able to maintain this indefinitely, so it's entirely possible that they'll go the way of HSBC and Citibank and raise the minimum to SGD $75,000+.

But for now, this is a valid path into the Singapore banking system for those needing or desiring low account minimums.

(We recommend that you call DBS Singapore directly at +65.6327.2265 before opening your account to see if any of the requirements have changed.)

The standard account type that DBS offers non-resident clients is an eMulti-Currency account, where you can hold 13 different major world currencies (SGD, USD, AUD, CAD, CHN, EUR, HKD, JPY, NZD, NOK, GBP, SEK, and THB).

One potential issue with this bank is that after you verify everything over the phone and come to Singapore with your documents, the manager at the branch may still require that you demonstrate a "strong tie" to the country.

If that does happen to you, try a different branch.

Tel: +65.6327.2265

Web: http://www.dbs.com.sg/

Remember, all three options now require an in-person visit to Singapore. Don't forget to bring your passport, driver's license, and a recent utility bill (within two months) as proof of your address.

UNITED ARAB EMIRATES (UAE)

Currency

For nearly 20 years, the United Arab Emirates' dirham (AED) has been pegged to USD at a rate of 3.6725 AED. And that peg has helped those holding their savings in dirhams, as free floating currencies in other resource-oriented economies in the last couple of years largely have faltered.

Jurisdiction

Deposit Insurance Scheme	Central Bank	Government	Additional Risk Analysis
Currently not available	Central Bank of UAE solvency is 7.0%	42.1% public debt, but net financial position is POSITIVE.	-The Middle East is a conflict-prone region.

Over the last couple of years, the Central Bank of UAE certainly has had to spend significant resources defending the peg, thus slipping into a "yellow" zone.

Overall, however, this does not present a big problem.

Why? The jurisdiction has money. The Central Bank of UAE (and really the entire banking sector there) is backed by the Emirates' vast resource wealth.

There are six different national wealth funds operating in the UAE, five of them from oil-rich Abu Dhabi; their total wealth hovers around one trillion dollars. That's about twice the country's GDP.

Consider the last global financial crisis. The country 100% guaranteed all deposits — of any amount — for three years. Covered deposits included those in both local and international banks regulated by the Central Bank of the UAE.

So we have no concerns about the financial stability of the UAE as a banking jurisdiction.

Customer service is usually not nearly as efficient as what you are used to in North America or Europe. But that's a small price to pay.

The only real drawback, of course, is the instability of the troubled region. Thus far, the UAE has been an example of stability among neighboring countries. But it's still something to consider.

A banking option for non-residents

National Bank of Abu Dhabi P.J.S.C

Solvency	**10.3%**
Cons. liq.	**25.9%**
Total assets	$114B
Total liq.	31.1%
Deriv/TA	2.8x
Pers. presence	YES

The National Bank of Abu Dhabi (NBAD) is one of the biggest banks in the federation.

NDAB consistently ranks as one of the safest banks in the world by various rating agencies. And after analyzing NBAD, we agree with that assessment.

We also like that NBAD is based in the oil-rich and fiscally responsible Abu Dhabi Emirate, rather than in innovative, but sometimes overreaching, Dubai.

Yes, it is Dubai that is home to Burj Khalifa, the tallest building in the world; but it was Abu Dhabi that helped finish its construction when Dubai ran into major financial problems back in 2008.

Abu Dhabi is more conservative both in how it invests and in how it remunerates. Its banks are perceived as safe havens in a troublesome region. And it is awash with foreign cash (mostly from Arab spring counties). So its banks don't pay extremely high yields on CDs.

Still, 1.3% for a 12-month CD denominated in dirhams is on par with, or better, than you'll find in many much less stable jurisdictions (such as the US).

Despite the fact that NBAD is located in an Islamic country, you should not notice any difference in the way banking is done. They do have Sharia compliant products and services, but you don't have to use them.

The biggest difference you may notice is that the weekend in the UAE takes place on Friday and Saturday, so plan your calls or visits to the branch accordingly.

Yes, personal presence is required to apply for an account. Make sure you double-check the latest requirements; the last time we checked, the list of documents was extremely short, consisting of just a passport.

US clients are welcome.

Tel: +971.2.635.8001 (wait a few seconds until the robo-operator starts speaking in English)

Web: https://www.nbad.com/en-ae/personal-banking.html

UNITED KINGDOM

Currency

As you can see, the British pound has been on a slide over the past several years. It lost about 30% in 2008, and more recently, Brexit has sent pound even lower.

In our opinion, the markets are wrong in viewing Brexit as a negative for the country, and the pound eventually will start to appreciate against the USD… and especially against the Euro.

If you choose to hold savings in GBP, however, know that it may take several years for gains to materialize. The process of parting from the European Union will be painful, as the EU is determined to put spokes in the UK's Brexit wheels whenever it can.

Jurisdiction

Deposit Insurance Scheme	Central Bank	Government	Additional Risk Analysis
Up to £75,000 per client (~US$99,000)	Bank of England's solvency is 1.1%	89.2% debt to GDP	- Potential Brexit consequences - Bail-in legislation

Throughout the 19th century, the British Empire was to the world what the US has been over the past century – a political, military, and financial superpower.

In fact, in the UK's day, it was even more powerful by certain metrics: at its zenith, the UK owned almost a third of the Earth's land mass, with very little competition from other countries. And more than 90% of the world's capital was concentrated on Lombard Street (London's equivalent of Wall Street).

And as for banking? Barclays and Lloyds ruled the financial world.

But that was then. Today, the UK as a banking jurisdiction is far from perfect.

On the one hand, English banks have excellent customer service, and a rich history dating back centuries.

On the other hand, most banks are illiquid and not adequately capitalized.

And when the next banking crisis occurs – and it will -- then according to recently enacted all-European bail-in legislation, depositors themselves will have to support failing banks.

Moreover, the UK has a borderline insolvent Central Bank… and a nearly insolvent government.

However, its 89% debt-to-GDP ratio is still somewhat better than those of the US, Canada, and most of continental Europe… and much better than Japan's 229%. And since the UK is still considered a "prime" borrower, the country will likely be able to take on much more debt if needed.

A banking option for non-residents

Barclays Bank PLC UK

Solvency	**5.9%**
Cons. liq.	**10.7%**
Total assets	$1,148B
Total liq.	10.9%
Deriv/TA	21.6x
Pers. presence	NO

Yes, this graphic is colored in red. Barclays might be one of the oldest banks on the planet, having been around for more than three centuries. But its financials are far from excellent. Its capitalization rate of 5.9% is subpar and does not leave even a decent margin of safety in case of a crisis.

The amount of its derivatives totals more than 20 times its total assets… definitely getting into dangerous territory.

So why are we listing it as an option? For one thing, Barclays works with clients from many other countries outside of Europe or US through its Barclays International division.

Its conservative liquidity is a healthy 10.7%, which is rarity among western banks.

And as this is a bank with a long tradition of pride in banking, the overall experience with them (quality of customer service, online banking…) is excellent.

Still, this bank may only be an option for transactional accounts. Holding all your savings in it would be too risky.

The Barclays option will work best for those who live in the so-called developed countries, independent of actual citizenship. You must physically reside in a First World country, so if you are an American living in Botswana, you become ineligible.

Accounts require a deposit of £25,000 or its equivalent in USD or EUR (the two other currencies in which you can denominate your account). Those living in non-OECD countries can be eligible, too, but must put in higher deposit minimums.

The account carries no maintenance fees, so long as your balance does not fall below the above-mentioned number.

Your personal presence in England is not required. Applying for an account is done entirely online, except for those from the US, who have to apply over the telephone.

During your application process, you may choose to bank either at the Barclays International branch in London or on the Isle of Man. For the latter, the deposit insurance will change and cover up to £50,000.

(Please refer to Isle of Man section of this report for more details about that jurisdiction. And check the website to see if you're eligible to open an account.)

Tel: +44.0.207.574.3345 (24/7 service)

Web: https://wealth.barclays.com/en_gb/home/international-banking.html

UNITED STATES

Currency

USD vs a basket of 26 different world currencies. Source: Federal Reserve Bank of St. Louis

(The long-term trend of USD is obvious.)

Despite Uncle Sam's financial blunders, the US dollar continues to dominate. It remains the most traded and most trusted of its peers and still is undoubtedly the reserve currency of the world.

In short, its position is unique and currently unrivaled.

However, such position might change in the future. And in this case, pressure from China and the rest of the world could someday result in yuan replacing the dollar.

Today, however, that process is still in its infancy. And when there's a financial scare, the American dollar is still where the flight to safety ends up.

That's why the USD literally soared against all other currencies in 2008, and has continued to do so over the past few years.

And why not? Its competition isn't looking so great.

The Euro, the second-most used currency in the world today, was a bad idea from the beginning and is doomed.

The Japanese yen, the third-most traded currency, is backed by a government carrying truly astronomical debt levels.

The Swiss franc is probably the only other currency with strong fundamentals. It has fared exceptionally well over the last couple of years, but it is simply not big enough to physically absorb large amounts of capital movement.

Jurisdiction

Deposit Insurance Scheme	Central Bank	Government	Additional Risk Analysis
Up to $250,000 per depositor	Federal Reserves's solvency is 0.9%	108% debt to GDP (Aug 2016)	-Widespread accounting tricks - Large derivatives exposure - $10.6 trillion in total deposits

Despite the strength of its currency, the United States as a banking jurisdiction, despite its recent "clean up," is still a major source of concern.

The Federal Deposit Insurance Commission (FDIC) is grossly underfunded and does little more than create an illusion of security.

The Federal Reserve is the next weak domino piece, and could crumble under even the slightest stress. As of August 2016, the United States Federal Reserve Bank had total capital of roughly $39.5 billion on a balance sheet that totals over $4.5 trillion. That means the Fed's 'margin of safety' is just 0.9%. Abysmal.

And it should come as no surprise to you that US government's financial position is truly awful. The US government is the biggest debtor in the entire history of the world, and one day that house of cards will come crumbling down under its own weight.

But just as with the US dollar, in the near term, the US government likely will be able to continue to kick the can down the road. So for now, we mark the US government domino as "yellow".

But by far, the biggest problem we see is with the bank domino. It's deceptive: at first glance, major American banks do not seem to lack liquidity or have inadequate capitalization. In fact, on paper balance sheets, prominent American banks look reasonably healthy.

With capitalization over 10% across the board, one may even start thinking that the Chases and Citis of today's America are not the same as those which almost devastated the entire world's economy a few short years ago.

But, unfortunately, that's not the real story.

Behemoths such as Bank of America, JP Morgan Chase, Citigroup and so on, have become too large to manage. Same goes for large European banks, so add BNP Paribas and Deutsche Bank to the list.

The biggest concern? Nobody truly knows what is buried in their trillion-dollar balance sheets.

The fear, and likely the reality (just as it was back in 2008), is significant exposure to toxic derivative instruments, tools so complicated and interconnected that no one can really tell who is really responsible for what. Until it all starts unravelling.

Derivatives are what Warren Buffet famously called "financial weapons of mass destruction."

It is believed that the entire derivatives market could total more than one **quadrillion dollars**.

No one knows, but the consensus is that the total market size dwarfs the entire global economy.

And most of it is denominated in American dollars (and euros).

So despite the seemingly better-looking balance sheets across the board, our verdict is that the US banking system is still in the same leaking boat as it was nearly ten years ago.

The US banking system is supported by an insolvent government, a nearly insolvent central bank, and an undercapitalized insurance scheme.

American behemoth banks have become too big to be efficiently managed. It's impossible to decipher what they really have on their books.

None of this makes for a particularly sound banking system.

	JP Morgan Chase Group	Citigroup Inc.	Bank of America Corporation	Wells Fargo & Company
Solvency	10.5%	12.9%	11.9%	10.8%
Cons. liq.	1.6%	2.3%	2.6%	N/R
Total assets	$2,325B	$1,731B	$2,144B	$1,788B
Total liq.	28.2%	14.7%	13.3%	1.6%
Deriv/TA	21.5x	27.6x	19.7x	3.2x

Here are the numbers from one of the most prominent US banks (just remember to take the numbers with the grain of salt):

Among the largest American banks, only Wells Fargo is "conservative" when it comes to derivatives trading: 3.2 times total assets is a low number in modern Western banking, especially compared with the 27.6 times nosebleed that Citigroup has on their books.

Just think about it. More than half the world's GDP (44 TRILLION dollars to be exact) is denominated in derivatives contracts owned by a single American bank.

Fortunately, Wells Fargo takes little part in that madness. But still, they hold very little cash, preferring instead to invest it in illiquid instruments. Their total liquidity is a paltry 1.6%.

Conservative liquidity, which they're evasive about, is likely much less.

Should non-Americans take advantage of the US banking system?

As we have mentioned before, the USA is the largest offshore destination – by far - for non-Americans. Convenience, customer quality, excellent banking products, even relatively high levels of privacy (because the US doesn't play by the rules it imposes on the rest of the world) all are words that can describe the US banking system.

As a transactional banking destination - credit cards, etc. - we consider US to be a very reasonable jurisdiction. However, we urge you not to put your entire life's savings into any major US bank. Their balance sheets are still toxic.

PART III. CONCLUSION

As you can see, there is no perfect bank. We live in the world of modern banking practices, where low conservative liquidity and fractional reserves, risky investments, bail-in legislation and even, in some cases, the blatant use of outright toxic instruments can severely diminish the security of your savings.

We've said it before and we'll say it again: In ten years, banking won't look anything like it does today.

But until then, most of us still have to bank. Even if we invest our savings into physical gold and silver, rare coins, expensive art, real estate, and the like, we still need at least a transactional type of account for doing business and paying bills.

As you might have realized from this report, it takes a tremendous amount of research to determine what a 'good' bank is. Even then, it's rare to find one that makes you want to do backflips. The conservative liquidity might not be high enough. Or it's merely the best of a lousy lot in a particular jurisdiction. Or it's a moderately good bank located in a risky jurisdiction.

In the case of Hong Kong or Singapore, jurisdictions we wholeheartedly recommend – it either takes a lot of capital to open an account, or a major trip overseas.

We get that. But in the end, if you do your due diligence… if you compare your current, home country bank to one of the options we've listed overseas… you'll likely find that one of the ones abroad might suit your needs better, and protect your assets better, than the one loaning out your money to Detroit.

Having an account in a liquid and well-capitalized bank overseas (where very often you can also earn a healthy interest rate) is a strategy that makes sense no matter what.

Maybe you only put a few thousand dollars into a high-yield CD in Georgia. Or maybe you get on a plane and elbow your way into an HSBC account. Or you travel to Panama, open an account and gain a second residency to boot.

Whatever you do, if you do *something*, you'll have just given yourself an insurance policy.

If absolutely nothing happens at home, you won't be worse off, because generally you're earning more interest abroad… or because you have a portion of your savings tucked away in a strong, stable offshore bank.

But if even a single negative scenario plays out - capital controls, default, bank confiscation - or if you just end up being sued, or on the wrong side of some government agency's "list," then moving some savings abroad may end up being one of the best decisions you could ever make.

Still not convinced and not ready to move a substantial portion of your savings overseas? In this case, you may want to choose a bank with a low initial deposit requirement, and just keep a few thousand dollars in your new account without any need to report it (if less than $10,000).

That way, if things start declining in your home country, you will have everything set up and can act rapidly.

Being prepared is always the key between success and failure. And when it comes to your financial freedom, we want you to be successful. Use this document. Do your homework. Take action.

You'll sleep far better at night knowing that you, your family and your assets are protected.