

BANKS

Export of financial services (~1% of GDP) has been a significant share of the financial system already since mid-1990s

Two banking segments

16 banks are domestic market-oriented banks. Majority of Latvia's residents use banking services provided particularly by these banks



13 banks are foreign customer service oriented. The share of non-resident customer deposits exceeds **20% of their assets**

SUPERVISION

FCMC has developed the supervision package for the banks that are foreign customer oriented

Higher individual capital adequacy requirements in line with the bank's business model

Higher individual liquidity requirements in line with the bank's business model

Stringent requirements in the anti-money laundering and combating terrorist financing areas and more frequent on-site inspections



~17%
(minimum requirement – 8%)

Average capital adequacy ratio for banks that have been oriented to foreign customer service

~70%
(minimum requirement – 30%)

Average liquidity ratio for banks that have been oriented to foreign customer service

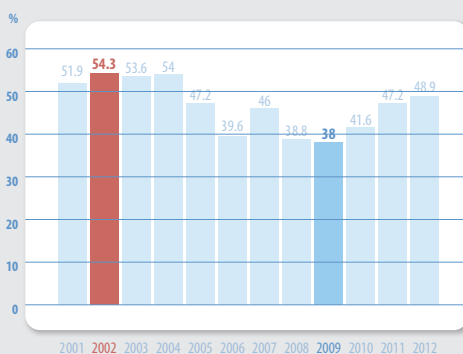
According to the assessment by the international experts from **MoneyVal** Latvia has implemented legislation in line with international standards and the **system meets requirements**



European Commission has welcomed the measures implemented for limitation of non-resident cash flow in Latvia

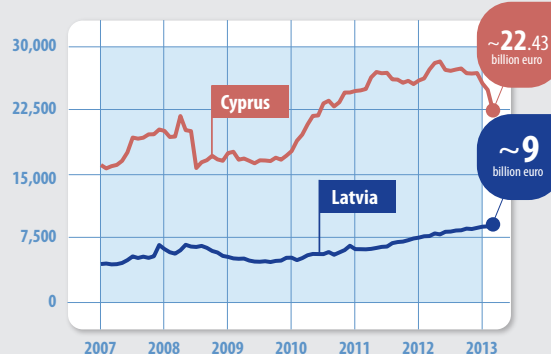
STATISTICS

Proportion of non-resident deposits in Latvia, %



Currently, the share of non-resident deposits in total deposits is not the highest ever recorded

Non-resident deposits in Latvia and Cyprus, million EUR



Total amount of non-resident deposits in Cyprus at the end of the first quarter of 2013 was **~22.43 billion euro** or **~140% of GDP**

Total amount of non-resident deposits in Latvia at the end of the first quarter of 2013 was **~9 billion euro** or **~40% of GDP**

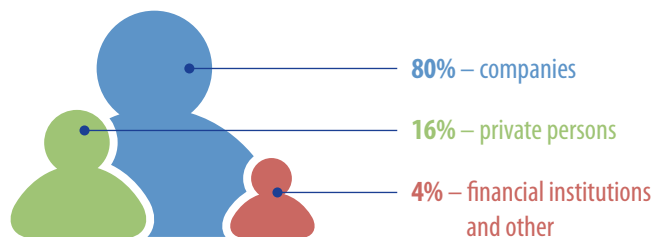
With Latvia returning to the economic development, non-resident deposits started gradually growing as of the mid-2009.

BANK AND CUSTOMER RELATIONS

Why Latvia?

- Geographical location
- EU – safe and regulated environment
- Possibility to provide banking services in the Russian and English languages
- Modern and qualitative services available at an affordable price

Who are the foreign customers that use services of Latvian banks?



How does the bank decide on the opening of an account for a non-resident customer?

Step 1:

Identifies a customer and conducts customer due diligence, including obtaining information on the business line, key business partners, the expected amount of transactions and source of funds

Step 2:

Based on the information received about the customer determines the risk level and decides on either to open the account or to refuse opening the account

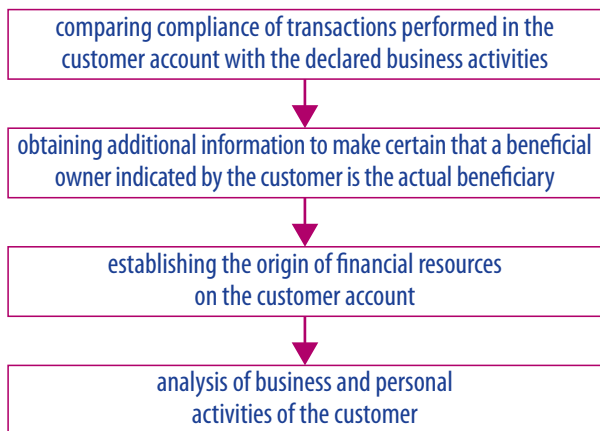


How does the bank perform customer supervision?

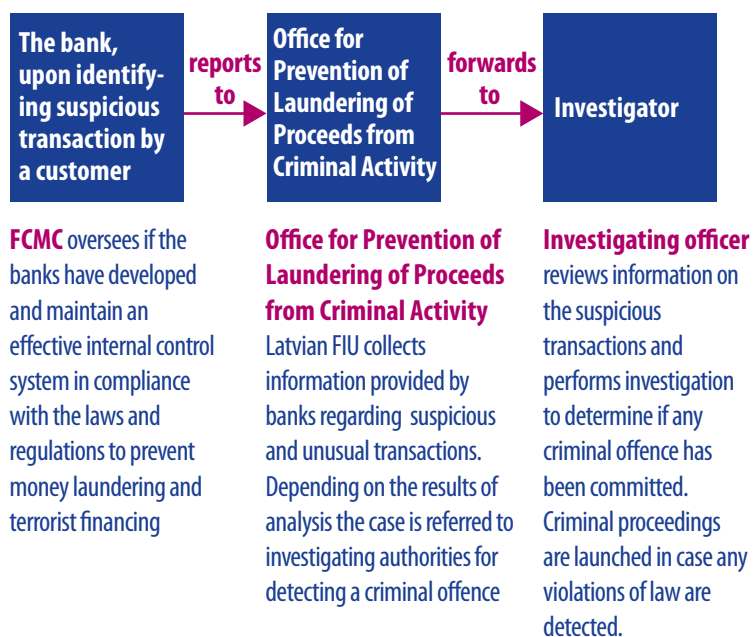


The bank performs further* transactions if the total incoming payments exceed 200 thousand lats monthly

This involves following major activities:



How are responsibilities divided among the supervisors of the system?



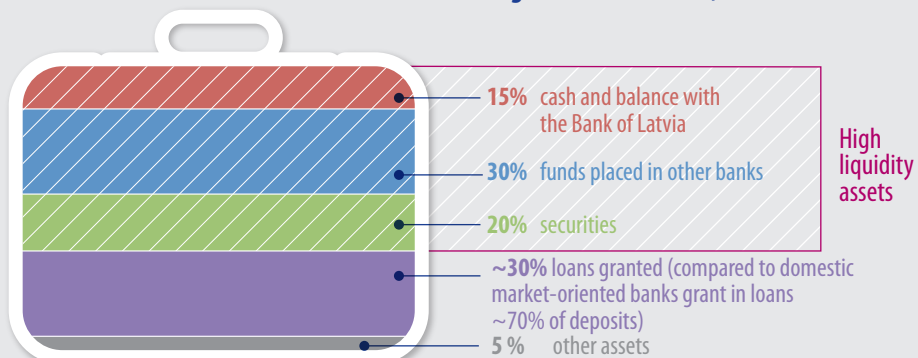
How do banks place non-resident deposits?

For the foreign customer service oriented banks the **key sources of profits** are income from commission fee on maintaining a cash flow and converting of currency

Asset structure of banks that are oriented to foreign customer service, %

~ **85%**
of deposits are demand deposits

banks invest the raised funds in high liquid financial instruments



* enhanced due diligence of customers and their transactions