

***Public financial report  
for the 3rd quarter 2014  
Bank M2M Europe AS***



**Riga, November 25, 2014**

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## **I MANAGEMENT REPORT**

Bank M2M Europe continues to grow business volumes – in the 3<sup>rd</sup> quarter Group's assets increased by EUR 30 million (+32%), while assets under management of the Bank's and M2M Asset Management increased by EUR 51 million (+52%). Number of Bank's clients reached 313 (+70 clients), in line with our growth plans.

The Bank continues to work on new product development. In the 3rd quarter we launched new product –M2M Executive package of services. This product is designed for servicing holding structures and groups of companies owned by our private clients. In addition to M2M Supreme it provides full coverage of servicing day-to-day needs of our clients.

In the next quarter we plan to focus on launching new investment products. Current market environment provides interesting opportunities and we plan to offer our clients new ways to capture these opportunities. We also plan to focus on financial advisory services, assisting our clients in structuring ownership of their personal assets and businesses.

According to the strategy, the Bank continues to maintain a conservative risk profile. At the end of the 3rd quarter, the Bank's capital adequacy ratio was 22.6%, while the liquidity ratio was 81%.

We continue to monitor developments in Russia and Ukraine. While situation in Ukraine has somewhat improved there are obvious economic challenges for both countries in short-term and medium term perspective, due to economic sanctions and need for structural reforms. It remains unclear how these economic challenges will be addressed by the authorities. In our opinion it is also likely that situation in Russia and Ukraine, and sanctions environment in particular, will negatively affect economies of the neighbouring countries, including Latvia.

In this environment we expect clients to continue to be willing to increase assets held outside of Russia, while asset prices in Ukraine and Russia will continue to deteriorate. In these conditions, the Bank reduces its overall risk appetite, especially assets allocation in Eastern Europe.

Roberts Idelsons

Chairman of the Board

## II GENERAL INFORMATION

### 1.Shareholders of the Bank

30.09.2014			
Shareholders	Country	Total, EUR	% of total share capital
Andrey Vdovin	Russia	27 920 130	100,00

The share capital of the Bank amounts to EUR 27 920 130 and consists of 398 859 name shares with voting rights. The nominal value of each share is EUR 70. All shares of the Bank are dematerialized shares.

### 2.Council of the Bank

Name, Surname	Position
Andrey Vdovin	Member of the Council/Chairman of the Council
Peter Charles Percival Hambro	Member of the Council/ Deputy Chairman of the Council
Thomas Roland Evert Neckmar	Member of the Council

### 3.Management Board of the Bank

Name, Surname	Position
Robert Idelson	Chairman of the Board
Tatyana Drobina	Member of the Board
Sergey Zaitsev	Member of the Board

There were no changes in the Management of the Bank during the reporting period.

#### 4.Strategy and vision of the Bank

In line with the strategy Bank M2M Europe main segments of business are *private banking* and *business banking*. The Bank's mission is to provide a full range of wealth management services to high net worth clients, as well as to service their private and business banking operations.

The goals of the Bank:

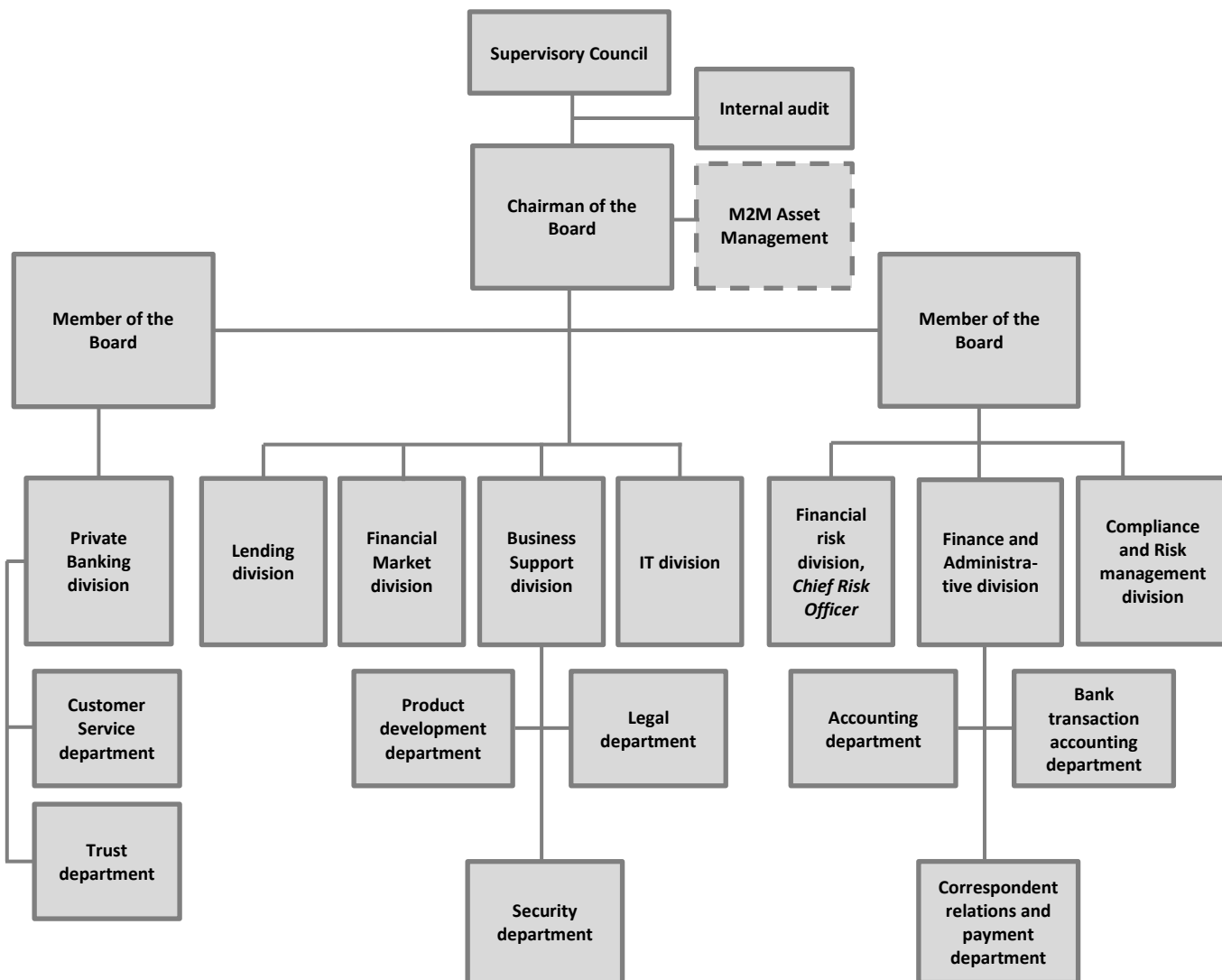
- (a) to become one of the leading banks in the *private banking* segment in the Baltics;
- (b) to develop and expand the range of top quality products and services for high net worth clients from Russia, the CIS, Latvia and other European countries;
- (c) to develop the loyal client base and grow business volumes, in order to achieve the goals and results, defined in the Bank's strategy.

#### 5.Consolidation Group

The Consolidation Group of Bank M2M Europe includes its subsidiary:

Name of company, Registration number	Registration location code and address	Type of activities	% of total paid-in share capital	% of total voting rights
„M2M Asset Management” IPAS 40103362872	LV, Antonijas iela 3-1, Rīga, Latvija, LV-1010	Asset management company	100	100

## 6.The organisation structure of the Group



- Subsidiary of the Bank

### III FINANCIAL PERFORMANCE

#### 1. Balance sheet as at 30 September 2014 and 31 December 2013

(EUR 000's)

Title of entry	30.09.2014. Group (Unaudited)	30.09.2014. Bank (Unaudited)	31.12.2013 Group (Audited)*	31.12.2013 Bank (Audited)*
<b>Assets</b>				
Cash and demand deposits with central banks	3 584	3 584	2 544	2 544
Demand deposits from credit institutions	28 519	28 086	10 993	10 902
Financial assets held for trading	-	-	-	-
Financial assets at fair value, through profit or loss	134	134	157	157
Available-for-sale financial assets	23 432	23 432	9 971	9 971
Loans and receivables:	52 408	52 408	6 578	5 853
• Loans to credit institutions	25 460	25 460	1 964	1 239
• Loans to financial institutions	1 415	1 415	273	273
• Loans to companies and private individuals	25 533	25 533	4 341	4 341
Held to maturity investments	9 082	9 082	1 706	1 706
Change of fair value of hedge portfolio hedged against interest rate risk	-	-	-	-
Prepaid expense and accrued income	297	296	290	290
Property and equipment	1 705	1 694	1 875	1 858
Investment properties	-	-	-	-
Goodwill and other intangible assets	1 270	481	1 305	517
Investments in subsidiaries	-	1 874	-	1 874
Tax assets	20	20	23	23
Other assets	399	366	518	487
<b>Total assets</b>	<b>120 850</b>	<b>121 457</b>	<b>35 960</b>	<b>36 182</b>
<b>Liabilities</b>				
Liabilities due to central banks	6 002	6 002	-	-
Demand liabilities from credit institutions	-	-	-	-
Financial liabilities held for trading	-	-	-	-
Financial liabilities designated at fair value through profit or loss	155	155	28	28
Financial liabilities measured at amortized cost	102 074	102 805	22 685	22 934
Financial liabilities arising from financial asset transfer	-	-	-	-
Change in the fair value of the portfolio hedged against interest rate risk	-	-	-	-
Deferred income and accrued expense	530	510	222	203
Provisions	17	17	127	127
Income tax liabilities	8	5	-	-
Other liabilities	171	168	44	39
<b>Total liabilities</b>	<b>108 957</b>	<b>109 662</b>	<b>23 106</b>	<b>23 331</b>
<b>Total shareholder's equity</b>	<b>11 893</b>	<b>11 795</b>	<b>12 854</b>	<b>12 851</b>
<b>Total liabilities and shareholder's equity</b>	<b>120 850</b>	<b>121 457</b>	<b>35 960</b>	<b>36 182</b>
<b>Assets under management</b>	<b>147 661</b>	<b>71 743</b>	<b>61 938</b>	<b>3 358</b>
<b>Memorandum items</b>	<b>9 121</b>	<b>9 121</b>	<b>1 973</b>	<b>1 973</b>
Contingent liabilities	-	-	127	127
Financial commitments	9 121	9 121	1 846	1 846

\*Auditor: KPMG Baltics SIA

## 2. Income statement for the 9 month period, ended September 30, 2014 and 2013

(EUR 000's)

Title of entry	30.09.2014. Group (Unaudited)	30.09.2014. Bank (Unaudited)	30.09.2013. Bank (Unaudited)
Interest income	1 735	1 733	23
Interest expense	(466)	(476)	(3)
Dividends received	1	1	-
Commission and fee income	1 027	757	67
Commission and fee expense	(121)	(100)	(54)
Net realised gain/(loss) from financial assets and financial liabilities measured at amortised cost	-	-	-
Net realised gain/(loss) from available-for-sale financial assets and financial liabilities	184	184	-
Net realised gain/(loss) from financial assets and liabilities held for trading	8	8	1
Net realised gain/(loss) from financial assets and liabilities at fair value through profit or loss	(5)	(5)	(4)
Changes in fair value hedge accounting	-	-	-
Net result from foreign exchange trading and revaluation	370	365	16
Gain/loss from sale of tangible and intangible fixed assets	-	-	-
Other income	66	68	28
Other expense	(146)	(143)	(84)
Administrative expense	(3 003)	(2 843)	(1 681)
Depreciation	(291)	(286)	(166)
Impairment allowance	(17)	(17)	-
Impairment of financial instruments and non-financial assets	-	-	-
<b>Profit/(loss) before corporate income tax</b>	<b>(658)</b>	<b>(754)</b>	<b>(1 857)</b>
Corporate income tax	(5)	(5)	(1)
<b>Net profit/(loss) for the period</b>	<b>(663)</b>	<b>(759)</b>	<b>(1 858)</b>

### Statement of Comprehensive Income:

(EUR 000's)

Title of entry	30.09.2014. Group (Unaudited)	30.09.2014. Bank (Unaudited)	30.09.2013. Bank (Unaudited)
Net change in fair value revaluation reserve of securities and other reserves	(280)	(280)	(4)
<b>Other comprehensive income for the period</b>	<b>(280)</b>	<b>(280)</b>	<b>(4)</b>
<b>Total comprehensive income for the period</b>	<b>(943)</b>	<b>(1 039)</b>	<b>(1 862)</b>

## 3. Performance indicators

Title of entry	30.09.2014. Group (Unaudited)	30.09.2014. Bank (Unaudited)	30.09.2013. Bank (Unaudited)
Return on equity (ROE)	-7.18 %	-8.34 %	-36.49 %
Return on assets (ROA)	-1.09 %	-1.18 %	-31.60 %



#### 4. Analysis of concentration of the Group's securities portfolio

The Group's securities portfolio break downs by countries in which the total market value of the securities issued exceeds 10% of the Group's shareholders equity as at 30 September 2014.

(EUR 000's)

Issuer state	Securities of central governments	Other issuers securities	Total	% to the Group's shareholders' equity
Lithuania	5 991	301	6 292	44%
Latvia	3 483	2 002	5 485	38%
Russia	-	2 873	2 873	20%
Bulgaria	1 308	1 230	2 538	18%
Romania	2 167	-	2 167	15%
Croatia	1 092	424	1 516	11%
Denmark	1 588	-	1 588	11%
Other countries	2 634	7 421	10 055	X
<b>Total securities portfolio</b>	<b>18 263</b>	<b>14 251</b>	<b>32 514</b>	<b>X</b>

As at the 31 December 2013 the Group does not have investments in financial assets, the value of which exceeds 10% of the Group's shareholders equity.

#### IV RISK AND CAPITAL MANAGEMENT

##### 1. Risk Management

Information about Risk management is available at Bank M2M Europe AS corporate website – Disclosure of Information <http://www.bankm2m.com/en/about-bank/in-reporting>.

##### Liquidity ratio calculation

(EUR 000's)

No	Title of entry	30.09.2014. Group (Unaudited)	30.09.2014. Bank (Unaudited)
1.	<b>Assets with high liquidity (1.1.+1.2.+1.3.+1.4.)</b>	<b>75 217</b>	<b>75 084</b>
1.1.	Cash in vault	273	273
1.2.	Demand deposits with central banks	3 311	3 311
1.3.	Deposits with solvent credit institutions	53 084	52 951
1.4.	Securities with high liquidity	18 549	18 549
2.	<b>Current liabilities (with residual for up to 30 days) (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.)</b>	<b>92 731</b>	<b>92 765</b>
2.1.	Deposits and balances due to financial institutions	6 002	6 002
2.2.	Deposits from customers	81 666	81 727
2.3.	Issued securities	-	-
2.4.	Money in transit	70	70
2.5.	Other current liabilities	1 242	1 215
2.6.	Off-balance liabilities	3 751	3 751
3.	<b>Liquidity ratio (1.:2.)</b>	<b>81.11 %</b>	<b>80.94 %</b>
4.	<b>Minimal liquidity ratio</b>	<b>30.00 %</b>	<b>30.00 %</b>

## 2.Capital adequacy

Information about capital management is available at Bank M2M Europe AS corporate website - Disclosure of Information <http://www.bankm2m.com/en/about-bank/in-reporting>.

The Bank's equity is higher than the total amount of capital, required for covering all the substantial risks, inherent to banking operations.

### Summary report of equity and minimum capital requirements

(EUR 000's)

No	Title of entry	30.09.2014. Group (Unaudited)	30.09.2014. Bank (Unaudited)
1.	<b>Own funds (1.1.+1.2.)</b>	<b>14 276</b>	<b>14 967</b>
1.1.	Tier 1 capital (1.1.1.+1.1.2.)	10 623	11 314
1.1.1.	Common tier 1 capital	10 623	11 314
1.1.2.	Additional tier 1 capital	-	-
1.2.	Tier 2 capital	3 653	3 653
2.	<b>Sum of the risk weighted asset amount (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)</b>	<b>63 167</b>	<b>65 409</b>
2.1.	Amount of the risk weighted assets for credit, counterparty credit and dilution risk and free deliveries	61 864	64 294
2.2.	Risk exposure amount for settlement/delivery risk	-	-
2.3.	Risk exposure amount for position, foreign exchange and commodity risks	722	722
2.4.	Risk exposure amount for operational risk	569	381
2.5.	Risk exposure amount for credit value adjustments	12	12
2.6.	Risk exposure amount associated with large exposures in the trading book	-	-
2.7.	Risk exposure amount for other risks	-	-
3.	<b>Capital adequacy ratios and levels of capital</b>		
3.1.	Common equity tier 1 capital ratio (1.1.1./2.*100)	16.82 %	17.30 %
3.2.	Surplus (+) / deficit (-) of common equity tier 1 capital (1.1.1.-2.*4.5%)	7 780	8 371
3.3.	Tier 1 capital ratio (1.1./2.*100)	16.82 %	17.30 %
3.4.	Surplus (+) / deficit (-) of tier 1 capital (1.1.-2.*6%)	6 833	7 389
3.5.	Total capital ratio (1./2.*100)	22.60 %	22.88 %
3.6.	Surplus (+) / deficit (-) of own funds (1.-2.*8%)	9 223	9 734
4.	<b>Total requirements for capital buffers (4.1.+4.2.+4.3.+4.4.+4.5.)</b>	<b>2.50%</b>	<b>2.50%</b>
4.1.	Capital conservation buffer (%)	2.50%	2.50%
4.2.	Requirement for a countercyclical capital buffer (%)	-	-
4.3.	Requirement for a systemic risk capital buffer (%)	-	-
4.4.	Requirement for a capital buffer of institution defined as global systemic importance institution (%)	-	-
4.5.	Requirement for a capital buffer of other institutions defined as global systemic importance institutions (%)	-	-
5.	<b>Capital adequacy ratios including adjustments</b>		
5.1.	Provisions or adjustments in valuation of assets, applying special equity policy	-	-
5.2.	Common equity tier 1 capital ratio, including adjustments in row 5.1.	<b>16.82 %</b>	<b>17.30 %</b>
5.3.	Tier 1 capital ratio, including adjustments in row 5.1.	<b>16.82 %</b>	<b>17.30 %</b>
5.4.	Total capital ratio, including adjustments in row 5.1.	<b>22.60 %</b>	<b>22.88 %</b>



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