



**Public financial report  
for the 1st quarter 2014**

**Bank M2M Europe AS**



**Riga, June 25, 2014**

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## **I MANAGEMENT REPORT**

In the first quarter of 2014 Bank M2M Europe continued to grow the business volumes and expand the client base. The Bank's balance sheet demonstrated 111% growth (an increase of EUR 40 million) with deposits reaching EUR 59 million as at the end of the first quarter. We anticipate a more modest balance sheet growth in the following quarters.

The Bank continues to maintain a conservative risk profile. At the end of the first quarter, the Bank's capital adequacy ratio stood at 33.44 %, while liquidity ratio was 142.32%. The volume of issued loans increased by EUR 6 million, representing 14% of the total assets.

The strategy of Bank M2M Europe encompasses servicing high net worth clients with investable assets of at least EUR 1 million. We continue to be very selective in the process of client acceptance, with all new clients being approved either by the Chief Executive Officer or the Chief Business Officer. The number of Bank M2M Europe clients reached 165, which is in line with the plans set.

We closely monitor events in the Ukraine, which have had dual effect on our business. We see higher deposit growth rates, due to some clients willing to keep more of their assets outside of Russia and the Ukraine, meanwhile at the same time we had experienced a negative revaluation of investment portfolio due to 4% of our assets being invested in Russian eurobonds.

In the first quarter of 2014 we continued to develop the Bank's product range by launching several new products. We have launched a flagship product M2M Supreme - a package of banking solutions for servicing everyday operations of our private clients.

The overall financial result at the end of the reporting period is a loss of EUR 653 thousand, as compared to EUR 1 051 thousand loss in the fourth quarter 2013. This significant improvement reflects our progress on the pass to reach operational break even by the end of 2014.

The management of the Bank is satisfied with the first quarter results and we are looking forward to further business development.

Roberts Idelsons

Chairman of the Board



## II GENERAL INFORMATION

### 1.Shareholders of the Bank

		31.03.2014	
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

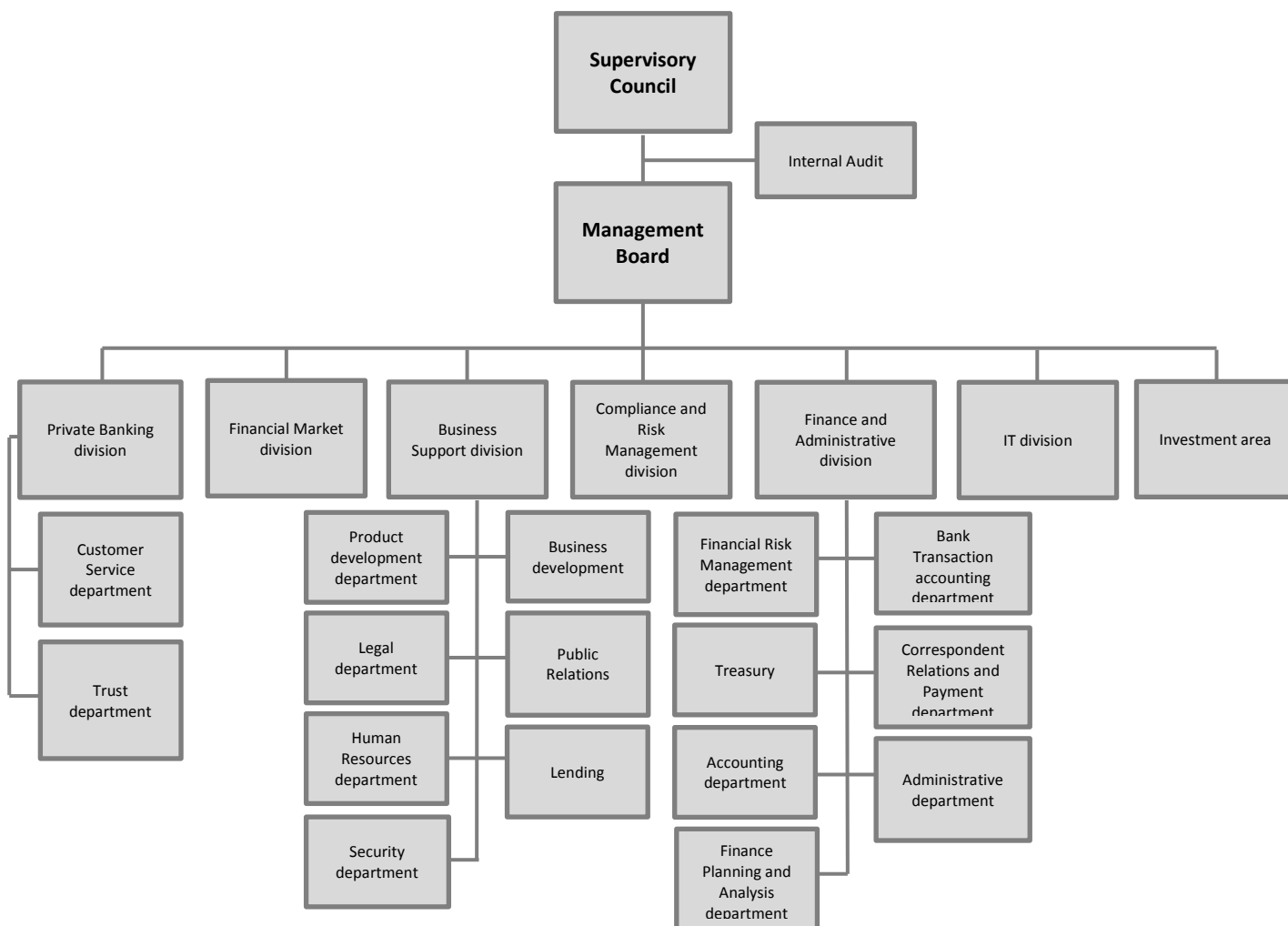
The Consolidation Group of Bank M2M Europe includes its subsidiary:

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 Bank

The structure was approved by the Management Board of the Bank.



### III FINANCIAL PERFORMANCE

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

(EUR 000's)

Title of entry	31.03.2014. Group (Unaudited)	31.03.2014. Bank (Unaudited)	31.12.2013 Group (Audited)*	31.12.2013 Bank (Audited)*
<b>Assets</b>				
Cash and demand deposits with central banks	5 940	5 940	2 544	2 544
Demand deposits from credit institutions	36 411	36 022	12 957	12 141
Financial assets held for trading	-	-	-	-
Financial assets at fair value, through profit or loss	5	5	157	157
Available-for-sale financial assets	18 067	18 067	9 971	9 971
Loans and receivables to customers	10 439	10 439	4 614	4 614
Held to maturity investments	1 083	1 083	1 706	1 706
Change of fair value of hedge portfolio hedged against interest rate risk	-	-	-	-
Prepared expense and accrued income	286	286	-	-
Property and equipment	1 820	1 805	1 875	1 858
Investment properties	-	-	-	-
Goodwill and other intangible assets	1 283	494	1 305	517
Investments in subsidiaries	-	1 874	-	1 874
Tax assets	-	-	23	23
Other assets	196	151	808	777
<b>Total assets</b>	<b>75 530</b>	<b>76 166</b>	<b>35 960</b>	<b>36 182</b>
<b>Liabilities</b>				
Liabilities due to central banks	4 001	4 001	-	-
Demand liabilities from credit institutions	-	-	-	-
Financial liabilities held for trading	-	-	-	-
Financial liabilities designated at fair value through profit or loss	19	19	28	28
Financial liabilities measured at amortized cost	58 587	59 272	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	155	155	-	-
Provisions	146	129	127	127
Income tax liabilities	-	-	-	-
Other liabilities	437	433	266	242
<b>Total liabilities</b>	<b>63 345</b>	<b>64 009</b>	<b>23 106</b>	<b>23 331</b>
<b>Total shareholder's equity</b>	<b>12 185</b>	<b>12 157</b>	<b>12 854</b>	<b>12 851</b>
<b>Total liabilities and shareholder's equity</b>	<b>75 530</b>	<b>76 166</b>	<b>35 960</b>	<b>36 182</b>
<b>Assets under management</b>	<b>80 971</b>	<b>21 710</b>	<b>61 938</b>	<b>3 358</b>
<b>Memorandum items</b>	<b>3 335</b>	<b>3 335</b>	<b>1 973</b>	<b>1 973</b>
Contingent liabilities	126	126	127	127
Financial commitments	3 209	3 209	1 846	1 846

\*Auditor: KPMG Baltics SIA



## 2. Income statement for the 3 month period, ended March 31, 2014 and 2013

(EUR 000's)

Title of entry	31.03.2014. Group (Unaudited)	31.03.2014. Bank (Unaudited)	31.03.2013. Bank (Unaudited)
Interest income	292	291	-
Interest expense	(91)	(93)	-
Dividends received	-	-	-
Commission and fee income	189	101	1
Commission and fee expense	(21)	(15)	(2)
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	31	31	-
Net realised gain/(loss) from financial assets and liabilities held for trading	-	-	-
Net realised gain/(loss) from financial assets and liabilities at fair value through profit or loss	5	5	-
Changes in fair value hedge accounting	-	-	-
Net result from foreign exchange trading and revaluation	48	49	9
Gain/loss from sale of tangible and intangible fixed assets	-	-	-
Other income	14	14	1
Other expense	(46)	(45)	(15)
Administrative expense	(946)	(891)	(456)
Depreciation	(95)	(94)	(44)
Impairment allowance	(4)	(4)	-
Impairment of financial instruments and non-financial assets	-	-	-
Profit/(loss) before corporate income tax	<b>(624)</b>	<b>(651)</b>	<b>(506)</b>
Corporate income tax	(2)	(2)	-
Net profit/(loss) for the period	<b>(626)</b>	<b>(653)</b>	<b>(506)</b>

## 3. Performance indicators

Title of entry	31.03.2014. Group (Unaudited)	31.03.2014. Bank (Unaudited)	31.03.2013. Bank (Unaudited)
Return on equity (ROE)	-20.17%	-21.06%	-38.54%
Return on assets (ROA)	-4.53%	-5.06%	-34.04%





#### **4. Analysis of concentration of the Bank's securities portfolio**

The bank's securities portfolio break downs by countries in which the total market value of the securities issued exceeds 10% of the Bank's shareholders equity as at 31 March 2014.

(EUR 000's)

<b>Issuer state</b>	<b>Securities of central governments</b>	<b>Other issuers securities</b>	<b>Total</b>	<b>% to shareholders equity</b>
Latvia	2 937	1 551	4 488	33%
Russia	-	3 149	3 149	23%
Hungary	1 135	1 000	2 135	16%
Lithuania	1 079	313	1 392	10%
Other countries	<b>1 681</b>	<b>6 305</b>	<b>7 986</b>	<b>X</b>
<b>Total securities portfolio</b>	<b>6 832</b>	<b>12 318</b>	<b>19 150</b>	<b>X</b>

As at the 31 December 2013 the Bank does not have investments in financial assets, the value of which exceeds 10% of the Bank'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	31.03.2014. Group (Unaudited)	31.03.2014. Bank (Unaudited)
1.	<b>Assets with high liquidity (1.1.+1.2.+1.3.+1.4.)</b>	<b>47 010</b>	<b>46 620</b>
1.1.	Cash in vault	347	347
1.2.	Demand deposits with central banks	5 594	5 594
1.3.	Deposits with solvent credit institutions	34 662	34 272
1.4.	Securities with high liquidity	6 407	6 407
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>32 779</b>	<b>32 757</b>
2.1.	Deposits and balances due to financial institutions	-	-
2.2.	Deposits from customers	31 248	31 248
2.3.	Issued securities	-	-
2.4.	Money in transit	341	341
2.5.	Other current liabilities	515	493
2.6.	Off-balance liabilities	675	675
3.	<b>Liquidity ratio (1.:2.) (%)</b>	<b>143.41%</b>	<b>142.32%</b>
4.	<b>Minimal liquidity ratio</b>	<b>30%</b>	<b>30%</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	31.03.2014. Group (Unaudited)	31.03.2014. Bank (Unaudited)
1.	<b>Own funds (1.1.+1.2.)</b>	<b>12 886</b>	<b>13 648</b>
1.1.	Tier 1 capital (1.1.1.+1.1.2.)	10 902	11 664
1.1.1.	Common tier 1 capital	10 902	11 664
1.1.2.	Additional tier 1 capital	-	-
1.2.	Tier 2 capital	1 984	1 984
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>42 450</b>	<b>40 816</b>
2.1.	Amount of the risk weighted assets for credit, counterparty credit and dilution risk and free deliveries	39 508	39 508
2.2.	Risk exposure amount for settlement/delivery risk	-	-
2.3.	Risk exposure amount for position, foreign exchange and commodity risks	923	923
2.4.	Risk exposure amount for operational risk	2 015	381
2.5.	Risk exposure amount for credit value adjustments	4	4
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)	25.68%	28.58%
3.2.	Surplus (+) / deficit (-) of common equity tier 1 capital (1.1.1.-2.*4.5%)	8 992	9 827
3.3.	Tier 1 capital ratio (1.1./2.*100)	25.68%	28.58%
3.4.	Surplus (+) / deficit (-) of tier 1 capital (1.1.-2.*6%)	8 355	9 215
3.5.	Total capital ratio (1./2.*100)	30.36%	33.44%
3.6.	Surplus (+) / deficit (-) of own funds (1.-2.*8%)	9 490	10 383
4.	<b>Total requirements for capital buffers (4.1.+4.2.+4.3.+4.4.+4.5.)</b>	-	-
4.1.	Capital conservation buffer (%)	-	-
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.	25.68%	28.58%
5.3.	Tier 1 capital ratio, including adjustments in row 5.1.	25.68%	28.58%
5.4.	Total capital ratio, including adjustments in row 5.1.	30.36%	33.44%

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