

***Public financial report  
for the 4th quarter 2014  
Bank M2M Europe AS***



**Riga, February 27, 2015**

## TABLE OF CONTENTS

<b>I MANAGEMENT REPORT</b> .....	3
<b>II GENERAL INFORMATION</b> .....	5
1. SHAREHOLDERS OF THE BANK .....	5
2. COUNCIL OF THE BANK .....	5
3. MANAGEMENT BOARD OF THE BANK .....	5
4. STRATEGY AND VISION OF THE BANK .....	6
5. CONSOLIDATION GROUP .....	6
6. THE ORGANISATION STRUCTURE OF THE GROUP .....	7
<b>III FINANCIAL PERFORMANCE</b> .....	8
1. BALANCE SHEET .....	8
2. INCOME STATEMENT .....	9
3. PERFORMANCE INDICATORS .....	9
4. ANALYSIS OF CONCENTRATION OF THE GROUP'S SECURITIES PORTFOLIO .....	10
<b>IV RISK AND CAPITAL MANAGEMENT</b> .....	10
1. RISK MANAGEMENT .....	10
2. CAPITAL ADEQUACY .....	11

## I MANAGEMENT REPORT

### MANAGEMENT REPORT ON THE GROUP AND THE BANK'S OPERATIONS DURING 2014

2014 was an important year for *Bank M2M Europe*. We have completed development of the product range and achieved substantial growth in business volumes entrusted to us by our clients. We also achieved operational break-even, paving the way to delivering optimal return on equity to our shareholder in 2015.

Management believes that current global environment is beneficial for development of our business. Latvia stands out on the EU scale with its stable macro indicators (see Table 1).

Table 1.

Indicator	2011	2012	2013	2014
GDP growth (%)	5.3	5.2	4.1	2.6
Budget balance (% GDP)	(3.6)	(0.8)	(0.9)	(1.1)
Current account balance (% GDP)	(2.1)	(3.5)	(2.2)	(2.2)
Government debt / (% GDP)	43.7	40.7	39.2	38.1
YTM of government 10-year bonds (% , at end of the year)	6.4	3.4	3.6	1.0
Inflation (%)	4.2	2.3	0.5	0.8

Such stable macro environment provides necessary support for private banking and wealth management business. Increasing cost pressure in traditional private banking centers resulting in increasing fees for the clients also forces High Net Worth Individuals (“HNWIs”) to explore new private banking jurisdictions. Current tensions in Ukraine facilitate demand for off-shore discretionary private banking service from HNWIs from Former Soviet Republics. All these external factors help *Bank M2M Europe* to continue business growth in the coming years. Being a new bank not burdened with legacy issues, we are able to cater to the needs of our target client base while maintaining a conservative risk profile and competitive pricing.

We are happy with the results achieved in 2014. Our Group total operating income in 2014 was EUR 4 754 thousand. Following change of shareholders in May 2013, the bank has started operations in July 2013, so its worth to compare results of 2H 2013 with 2H 2014, rather than full year results in 2013 with 2014. In 2H 2014 our operating income was more than 10 times higher than in 2H 2013, while general expenses were only 20% higher in the same period.

Revenue mix meets Group goal of balancing interest with non-interest income (in 2014 we achieved 38%/62% split in total operating income). Our revenue is mostly derived from wealth management products, with exceptionally small portion of revenues generated by servicing clients payments (6% in net operating income). We feel that traditional wealth management model has great potential in Latvia, and we are eager to put additional resources to improve the product range and client experience in this area.

Looking into 2015 we plan to improve our IT infrastructure, resulting among other things also in new version of our internet banking solution. We plan to invest in our people, most importantly in our private bankers, to enable them to deliver to the clients solutions that match the ones offered by the leading private banks in traditional private banking centers. We also plan to introduce new investment products, as current market environment offers additional opportunities for investors willing to allocate part of their assets to high-yield instruments. Finally, we will complete renovation of the premises, which will substantially improve clients’ experience when visiting our office.

We do not plan any changes to the strategy with organic growth being the main focus for the management of the bank. Our clients continue to be HNWI's with investable assets exceeding EUR 1mln and we strive to provide the best tailor-made service for each of our clients. We will maintain boutique profile of the bank being able to dedicate attention to each client necessary to service his/her needs to the highest industry standards. We believe that infrastructure and products range foundation laid in the 2014 will enable *Bank M2M Europe* to substantially grow the business in 2015.

The Management of *Bank M2M Europe* is satisfied with what has been achieved in year 2014 and will continue to implement long-term strategy aimed to become the leading private banking service provider in the Baltic region.

On behalf of the management we would like to thank all employees of *Bank M2M Europe* for their dedicated work which regularly exceeds expectations. We would also like to thank our shareholder for continuous support and strategic guidance. And of course a special thank you to our clients – you inspire us, management and employees of *Bank M2M Europe*, to move forward every single day.

Roberts Idelsons

CEO

## II GENERAL INFORMATION

### 1.Shareholders of the Bank

31.12.2014			
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:

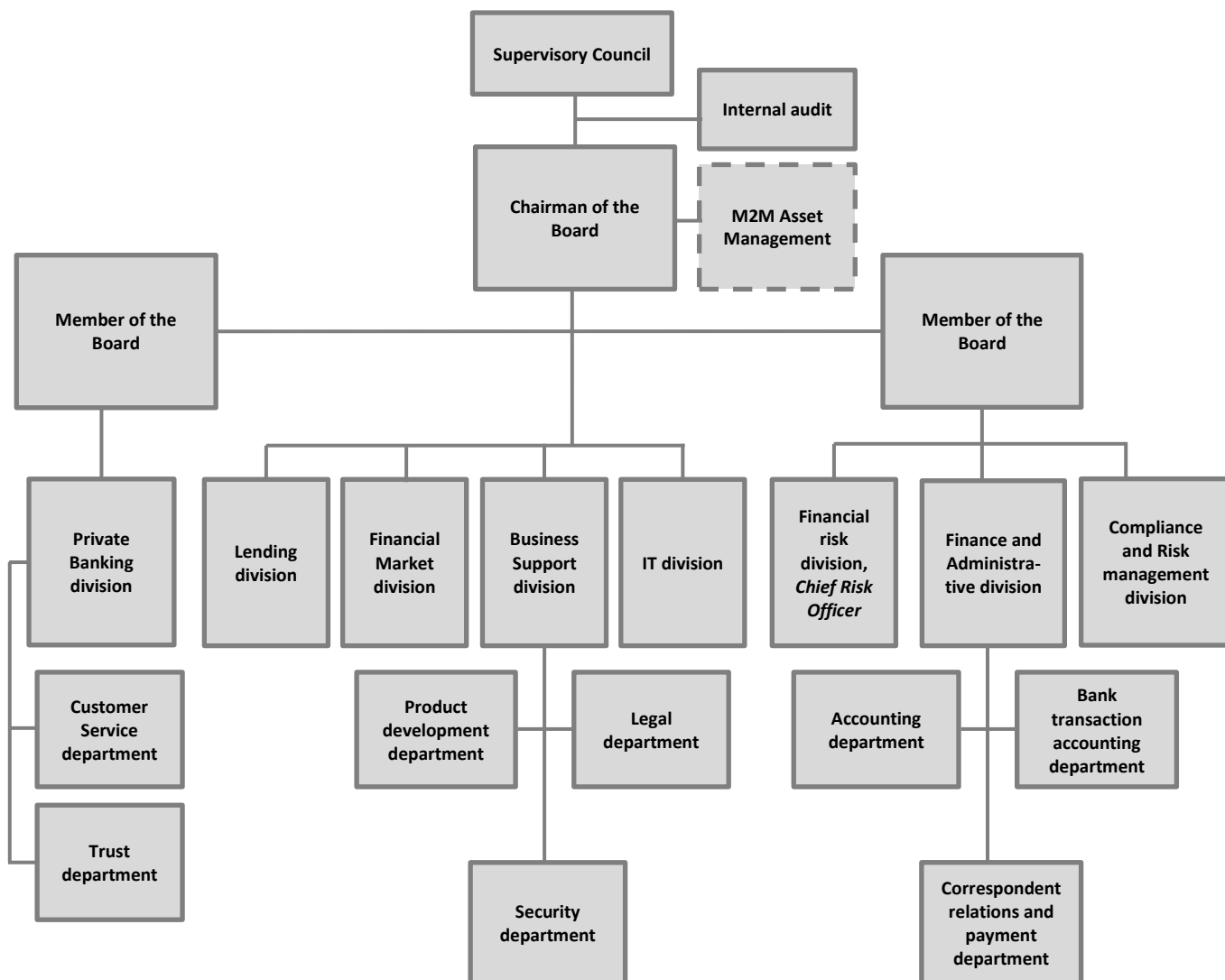
- (a) to become one of the leading banks in the *private banking* segment in the Baltics;
- (b) to develop and expand the range of top quality products and services for high net worth clients from Russia, the CIS, Latvia and other European countries;
- (c) to develop the loyal client base and grow business 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 31 December 2014 and 31 December 2013

(EUR 000's)

Title of entry	31.12.2014. Group (Unaudited)	31.12.2014. Bank (Unaudited)	31.12.2013 Group (Audited)*	31.12.2013 Bank (Audited)*
<b>Assets</b>				
Cash and demand deposits with central banks	306	306	2 544	2 544
Demand deposits with credit institutions	37 552	37 415	10 993	10 902
Financial assets held for trading	618	618	-	-
Financial assets at fair value, through profit or loss	185	185	157	157
Available-for-sale financial assets	22 299	22 299	9 971	9 971
Loans and receivables:	71 231	70 931	6 578	5 853
• <i>Loans to credit institutions</i>	34 529	34 229	1 964	1 239
• <i>Loans to financial institutions</i>	1 329	1 329	273	273
• <i>Loans to companies and private individuals</i>	35 373	35 373	4 341	4 341
Held to maturity investments	16 887	16 887	1 706	1 706
Change of fair value of hedge portfolio hedged against interest rate risk	-	-	-	-
Prepaid expense and accrued income	-	-	-	-
Property and equipment	1 665	1 656	1 875	1 858
Investment properties	-	-	-	-
Goodwill and other intangible assets	1 232	444	1 305	517
Investments in subsidiaries	-	1 874	-	1 874
Tax assets	113	-	-	-
Other assets	1 083	1 051	831	800
<b>Total assets</b>	<b>153 171</b>	<b>153 666</b>	<b>35 960</b>	<b>36 182</b>
<b>Liabilities</b>				
Liabilities due to central banks	-	-	-	-
Demand liabilities from credit institutions	-	-	-	-
Financial liabilities held for trading	-	-	-	-
Financial liabilities designated at fair value through profit or loss	377	377	28	28
Financial liabilities measured at amortized cost	139 553	140 335	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	1 186	1 167	221	202
Provisions	-	-	127	127
Income tax liabilities	-	-	-	-
Other liabilities	42	33	45	40
<b>Total liabilities</b>	<b>141 158</b>	<b>141 912</b>	<b>23 106</b>	<b>23 331</b>
<b>Total shareholder's equity</b>	<b>12 013</b>	<b>11 754</b>	<b>12 854</b>	<b>12 851</b>
<b>Total liabilities and shareholder's equity</b>	<b>153 171</b>	<b>153 666</b>	<b>35 960</b>	<b>36 182</b>
<b>Assets under management</b>	<b>187 957</b>	<b>119 286</b>	<b>61 938</b>	<b>3 358</b>
<b>Memorandum items</b>	<b>19 476</b>	<b>19 476</b>	<b>1 973</b>	<b>1 973</b>
Contingent liabilities	3 494	3 494	127	127
Financial commitments	15 982	15 982	1 846	1 846

\*Auditor: KPMG Baltics SIA



## 2. Income statement for the 12 month period, ended December 31, 2014 and 2013

(EUR 000's)

Title of entry	31.12.2014. Group (Unaudited)	31.12.2014. Bank (Unaudited)	31.12.2013. Group (Audited)*	31.12.2013. Bank (Audited)*
Interest income	2 508	2 505	161	159
Interest expense	(687)	(701)	(56)	(55)
Dividends received	2	2	-	-
Commission and fee income	2 396	2 029	173	121
Commission and fee expense	(190)	(165)	(85)	(83)
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	305	305	23	23
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	(95)	(95)	-	-
Changes in fair value hedge accounting	-	-	-	-
Net result from foreign exchange trading and revaluation	411	402	16	16
Gain/loss from sale of tangible and intangible fixed assets	-	-	-	-
Other income	104	107	41	41
Other expense	-	-	-	-
Administrative expense	(4 332)	(4 115)	(2 882)	(2 842)
Depreciation	(382)	(377)	(258)	(250)
Impairment allowance	-	-	-	-
Impairment of financial instruments and non-financial assets	-	-	(70)	(70)
<b>Profit/(loss) before corporate income tax</b>	<b>40</b>	<b>(103)</b>	<b>(2 937)</b>	<b>(2 940)</b>
Corporate income tax	113	-	30	30
<b>Net profit/(loss) for the period</b>	<b>153</b>	<b>(103)</b>	<b>(2 907)</b>	<b>(2 910)</b>

### Statement of Comprehensive Income:

(EUR 000's)

Title of entry	31.12.2014. Group (Unaudited)	31.12.2014. Bank (Unaudited)	31.12.2013. Group (Audited)*	30.09.2013. Bank (Audited)*
Net change in fair value revaluation reserve of securities and other reserves	(994)	(994)	18	18
<b>Other comprehensive income for the period</b>	<b>(994)</b>	<b>(994)</b>	<b>18</b>	<b>18</b>
<b>Total comprehensive income for the period</b>	<b>(841)</b>	<b>(1 097)</b>	<b>(2 889)</b>	<b>(2 892)</b>

## 3. Performance indicators

Title of entry	31.12.2014. Group (Unaudited)	31.12.2014. Bank (Unaudited)	31.12.2013. Group (Audited)	31.12.2013. Bank (Audited)
Return on equity (ROE)	1.25 %	-0.85 %	-22.4%	-34.93 %
Return on assets (ROA)	0.16 %	-0.10 %	-8.03%	-21.21%

#### 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 31 December 2014. Geographical allocation is based on countries of issuers.

(EUR 000's)

Issuer state	Securities of central governments	Other issuers securities	Total	% to the Group's shareholders' equity
Lithuania	7 269	277	7 546	38%
Latvia	3 680	1 856	5 536	28%
Bulgaria	1 858	1 677	3 535	18%
Russia	-	2 990	2 990	15%
Romania	2 678	-	2 678	13%
Denmark	2 480	-	2 480	12%
Sweden	2 467	-	2 467	12%
Hungary	1 577	759	2 336	12%
Other countries	2 625	7 611	10 236	X
<b>Total securities portfolio</b>	<b>24 634</b>	<b>15 170</b>	<b>39 804</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	31.12.2014. Group (Unaudited)	31.12.2014. Bank (Unaudited)
1.	<b>Assets with high liquidity (1.1.+1.2.+1.3.+1.4.)</b>	<b>101 898</b>	<b>101 761</b>
1.1.	Cash in vault	233	233
1.2.	Demand deposits with central banks	73	73
1.3.	Deposits with solvent credit institutions	70 793	70 656
1.4.	Securities with high liquidity	30 799	30 799
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>122 863</b>	<b>123 116</b>
2.1.	Deposits and balances due to financial institutions		
2.2.	Deposits from customers	106 996	107 277
2.3.	Issued securities	-	-
2.4.	Money in transit	10	10
2.5.	Other current liabilities	3 607	3 579
2.6.	Off-balance liabilities	12 250	12 250
3.	<b>Liquidity ratio (1.:2.)</b>	<b>82.94 %</b>	<b>82.66 %</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	31.12.2014. Group (Unaudited)	31.12.2014. Bank (Unaudited)
1.	<b>Own funds (1.1.+1.2.)</b>	<b>20 053</b>	<b>20 582</b>
1.1.	Tier 1 capital (1.1.1.+1.1.2.)	10 781	11 310
1.1.1.	Common tier 1 capital	10 781	11 310
1.1.2.	Additional tier 1 capital	-	-
1.2.	Tier 2 capital	9 272	9 272
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>84 660</b>	<b>86 068</b>
2.1.	Amount of the risk weighted assets for credit, counterparty credit and dilution risk and free deliveries	82 434	84 044
2.2.	Risk exposure amount for settlement/delivery risk		
2.3.	Risk exposure amount for position, foreign exchange and commodity risks	1 654	1 640
2.4.	Risk exposure amount for operational risk	569	381
2.5.	Risk exposure amount for credit value adjustments	3	3
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)	12.73 %	13.14 %
3.2.	Surplus (+) / deficit (-) of common equity tier 1 capital (1.1.1.-2.*4.5%)	6 971	7 437
3.3.	Tier 1 capital ratio (1.1./2.*100)	12.73 %	13.14 %
3.4.	Surplus (+) / deficit (-) of tier 1 capital (1.1.-2.*6%)	5 701	6 146
3.5.	Total capital ratio (1./2.*100)	23.69 %	23.92 %
3.6.	Surplus (+) / deficit (-) of own funds (1.-2.*8%)	13 280	13 697
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>12.73 %</b>	<b>13.14 %</b>
5.3.	Tier 1 capital ratio, including adjustments in row 5.1.	<b>12.73 %</b>	<b>13.14 %</b>
5.4.	Total capital ratio, including adjustments in row 5.1.	<b>23.69 %</b>	<b>23.91 %</b>



---

**Bank M2M Europe AS**  
**3, Antonijas street, Riga, LV-1010 Latvia**

**Phone: +371 67 080 000**

**Fax: +371 67 080 001**

**info@bankm2m.com**

**www.bankm2m.com**