

***Public financial report  
for the 3rd quarter 2016  
Bank M2M Europe AS***



**Riga, November 29, 2016**

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## **I MANAGEMENT REPORT**

There were no major fluctuations in the world financial markets in the third quarter. Prices of the main asset classes remained stable ahead of the results of the United States Presidential election and the Constitutional referendum in Italy. At the same time, the transformation of the banking system in Latvia is continuing as the sector is de-risking, and some banks are reviewing their business models. This process undoubtedly facilitates the improvement of the image of the Latvian banking sector among the NHWIs and the global financial community.

The Bank successfully continues the implementation of its strategy, adopted in 2013, of servicing a narrow niche of HNWI's, which has proven to be effective in the last years allowing the Bank to have diversified sources of income from different products and stable profitability. Moreover, we retain a very conservative balance sheet structure, preserving a high level of liquidity (80% at the end of the 3rd quarter) and capital adequacy ratio (22.7% at the end of the 3rd quarter). The Bank's loan portfolio was 58 million euros at the end of the 3rd quarter (comprising 27% of the Bank assets) and 67% of the clients' deposits were placed in accounts with first-rate banks and in a portfolio of high quality liquid bonds. This balance sheet structure allows us to be confident about the bank's high reliability.

As of the end of the 3rd quarter, our group serviced 400 wealthy families with aggregated 510 million euros under our management and administration. Our client base (on the UBO level) includes clients from Russia (66%), clients from Latvia (15%), and clients from other countries (19%).

In the first 9 months of 2016, the commission and fee income of the Bank increased by 24% as compared to the corresponding period of 2015 and growth of the commission and fee income will remain the main priority for the bank's management. In addition, we try to keep the structure of the commission and fee income which would allow us to develop successfully in the current environment of increasing Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) requirements. In the first 9 months of 2016, 61% of the commission and fee income of the bank was derived from capital management and related services, and only 12% from day-to-day transactions of the clients. We believe that such structure of the commission and fee income would allow the bank to continue its successful development in the long run.

Our lending policy remains conservative. We only take risks of our private clients and the beneficiaries of our corporate clients provided we have a clear understanding of the planned use of funds and sources of repayment. Moreover, we require a liquid collateral for every loan, which allows to ensure recovery of the funds in unforeseen circumstances.

The bank continues to pay considerable attention to the reputation and AML/CFT risks. By the end of 2016, we are expecting Exiger LLC and Lewis Baach Kaufmann Middlemiss, US advisory firms, to finalize the audit of our AML/CFT system. We are constantly improving our AML/CFT processes in line with the changes of the regulator's requirements and developing industry standards by implementing the "roadmap" of improvements of AML/CFT internal control system. At the end of the 3rd quarter of 2016, private accounts constitute 45% of all clients' accounts with the Bank, and we expect further increase of their share.

We will continue development according to our chosen business model by expanding the product range with an emphasis of capital management and related services. Increasing the business with each customer remains our priority in order to provide optimal solutions to the customers needs and ensure the growth of the Bank's commission and fee income.

Yours sincerely,

Roberts Idelsons

Chairman of the Board

## II GENERAL INFORMATION

### 1.Shareholders of the Bank

30.09.2016			
Shareholder	Country	Total, EUR	% of total share capital
Andrey Vdovin	Russia	24 161 690	75.11
DMD HOLDING SIA	Latvia	1 895 600	5.89
Roberts Idelsons	Latvia	1 579 970	4.91
Tatiana Rapoport	Latvia	1 516 480	4.71
Igor Rapoport	Latvia	1 516 480	4.71
Arseniy Vdovin	Russia	1 400 490	4.36
Leonid Kaplan	Russia	100 030	0.31

There have been changes in the structure of the Bank's shareholders in the reporting period.

On August 1, 2016 an increase of the share capital of the Bank in the amount of EUR 100 030 was registered. Paid up share capital of the Bank as of September 30, 2016 was EUR 32 170 740 and it consisted of 459 582 name shares with voting rights. The nominal value of each share is EUR 70. All shares are dematerialized registered shares.

Since August 1, 2016 there is a new shareholder in the structure of the shareholders of the Bank – Leonid Kaplan.

### 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

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

### 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 Board of the Bank during the reporting period.

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

In accordance with the strategy approved by the Bank's Council, Bank M2M Europe main segments of business are *private banking* and *business banking*.

The Bank's mission is to render a full range of wealth management services to high net worth clients, as well as to service their private and business daily banking operations.

The goals of the Bank are:

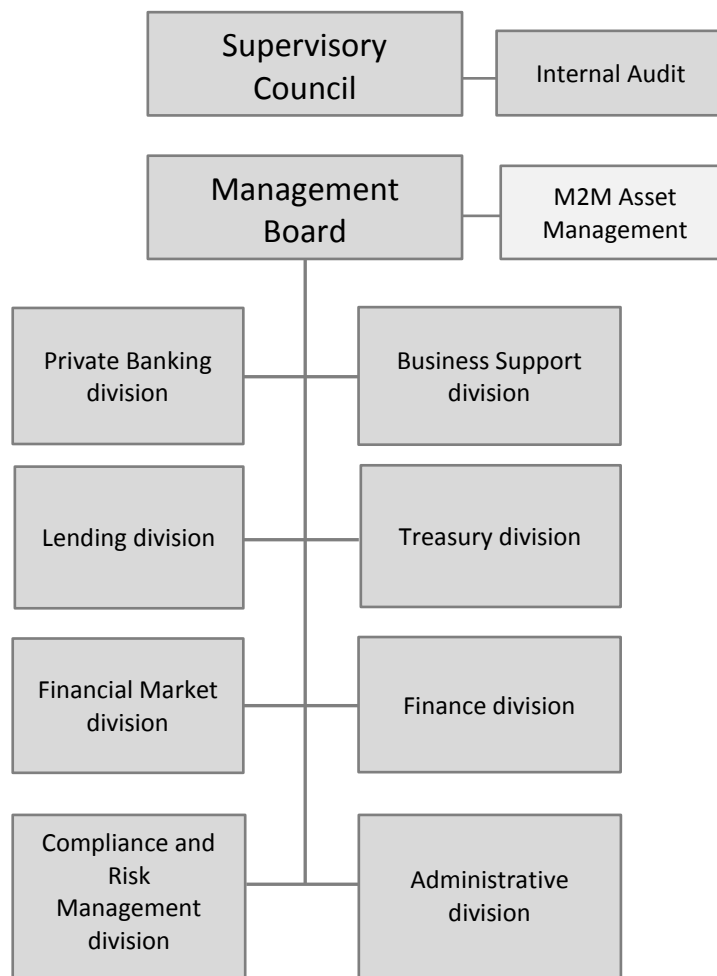
- (a) to become one of the leading banks in the *private banking* segment in the Baltics;
- (b) to develop and expand the range of top quality products and services for high net worth clients from Russia and other CIS, Latvia and other European countries;
- (c) to develop the loyal client base and grow 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 Street 3-1, Riga, Latvia, LV-1010	Asset management company	100	100

## 6.The Organisational Structure of the Group



 - Subsidiary of the Bank

Information in this report is prepared according to the FCMC's Regulations No145 'Regulations for the Preparation of Public Quarterly Reports for Credit Institutions'.

### III THE BANK'S FINANCIAL POSITION AND PERFORMANCE

#### 1. Statement of Financial Position as at 30 September, 2016 and 31 December, 2015

(EUR 000's)

Title of entry	30.09.2016. Group (Unaudited)	30.09.2016. Bank (Unaudited)	31.12.2015 Group (Audited)*	31.12.2015 Bank (Audited)*
<b>Assets</b>				
Cash and demand deposits with central banks	1 260	1 260	23 322	23 322
Demand deposits with credit institutions	26 480	26 270	52 431	52 094
Financial assets held for trading	741	741	1 141	1 141
Financial assets at fair value through profit or loss	1 835	1 835	4 432	4 432
Available-for-sale financial assets	39 655	39 655	32 794	32 794
Loans and receivables:	117 104	117 104	91 934	91 934
• Short term deposits with credit institutions	55 645	55 645	41 703	41 703
• Other deposits with financial institutions	3 197	3 197	1 748	1 748
• Loans to companies and private individuals	58 262	58 262	48 483	48 483
Held to maturity investments	18 220	18 220	26 455	26 455
Change of fair value of hedge portfolio hedged against interest rate risk	-	-	-	-
Prepaid expense and accrued income	590	590	257	220
Property and equipment	2 210	2 208	2 350	2 344
Investment properties	-	-	-	-
Goodwill and other intangible assets	1 125	337	1 179	391
Investments in share capital of related and associated companies	-	1 874	-	1 874
Tax assets	1 248	1 156	1 219	1 127
Other assets	2 237	2 218	441	415
Non-current assets and disposal groups classified as held for sale	544	544	-	-
<b>Total assets</b>	<b>213 249</b>	<b>214 012</b>	<b>237 955</b>	<b>238 543</b>
<b>Liabilities</b>				
Liabilities due to central banks	-	-	10 001	10 001
Demand liabilities from credit institutions	12	12	-	-
Financial liabilities held for trading	-	-	-	-
Financial liabilities designated at fair value through profit or loss	875	875	653	653
Financial liabilities at the amortized cost	189 337	190 489	211 184	212 181
Financial liabilities arising from financial asset transfer of financial assets	-	-	-	-
Change in the fair value of the portfolio hedged against interest rate risk	-	-	-	-
Deferred income and accrued expense	1 435	1 413	848	822
Provisions	-	-	-	-
Tax liabilities	3	2	-	-
Other liabilities	2 482	2 480	65	58
<b>Total liabilities</b>	<b>194 144</b>	<b>195 271</b>	<b>222 751</b>	<b>223 715</b>
<b>Total shareholders' equity</b>	<b>19 105</b>	<b>18 741</b>	<b>15 204</b>	<b>14 828</b>
<b>Total liabilities and shareholders' equity</b>	<b>213 249</b>	<b>214 012</b>	<b>237 955</b>	<b>238 543</b>
<b>Assets under management</b>	<b>167 249</b>	<b>110 523</b>	<b>181 149</b>	<b>126 129</b>
<b>Memorandum items</b>	<b>13 271</b>	<b>13 271</b>	<b>10 671</b>	<b>10 671</b>
Contingent liabilities	2 688	2 688	3 521	3 521
Financial commitments	10 583	10 583	7 150	7 150
<b>Custody assets</b>	<b>153 283</b>	<b>153 283</b>	<b>148 345</b>	<b>148 345</b>

\* Auditor: KPMG Baltics SIA

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## 2. Income statement for the 9 Month Period, Ended on September 30, 2016 and 2015

(EUR 000's)

Title of entry	30.09.2016. Group (Unaudited)	30.09.2016. Bank (Unaudited)	30.09.2015. Group (Unaudited)	30.09.2015. Bank (Unaudited)
Interest income	5 130	5 130	4 613	4 612
Interest expense	(2 683)	(2 691)	(1 089)	(1 101)
Dividends received	46	46	33	33
Commission and fee income	2 432	2 270	2 101	1 824
Commission and fee expense	( 525)	( 525)	(737)	(719)
Net realised gain/(loss) from financial assets and financial liabilities measured at amortised cost	-	-	-	-
Net realised gain/(loss) from available-for-sale financial assets	( 79)	( 79)	109	109
Net realised gain/(loss) from financial assets and financial liabilities held for trading	765	765	226	226
Net realised gain/(loss) from financial assets and financial liabilities at fair value through profit or loss	191	191	3	3
Changes in fair value hedge accounting	-	-	-	-
Net result from foreign exchange trading and revaluation	1 198	1 204	497	489
Gain/loss from sale of tangible and intangible fixed assets	-	-	-	-
Other income	91	89	48	46
Other expense	( 328)	( 321)	(238)	(234)
Administrative expense	(4 619)	(4 451)	(3 761)	(3 603)
Depreciation	( 366)	( 364)	(245)	(240)
Impairment allowance	( 48)	( 48)	(141)	(141)
Reversal of impairment on financial instruments and non-financial assets	14	14	32	32
<b>Profit/(loss) before corporate income tax (+/-)</b>	<b>1 219</b>	<b>1 230</b>	<b>1 451</b>	<b>1 336</b>
Corporate income tax	( 71)	( 71)	(62)	(44)
<b>Net profit/(loss) for the period (+/-)</b>	<b>1 148</b>	<b>1 159</b>	<b>1 389</b>	<b>1 292</b>

## 3. Performance Indicators

Title of entry	30.09.2016. Group (Unaudited)	30.09.2016. Bank (Unaudited)	30.09.2015. Group (Unaudited)	30.09.2015. Bank (Unaudited)
Return on equity (ROE)	8.72%	9.10%	14.15%	13.17%
Return on assets (ROA)	0.69%	0.69%	1.14%	1.02%



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#### 4. Analysis of Concentration of the Group's Securities Portfolio

The Group's securities portfolio representation broken down by countries in which the total value of the securities exceeds 10% of the Group's own funds as at September 30, 2016. The geographical allocation is based on the credit risk of the registration countries of issuers.

(EUR 000's)

Issuer's country	Securities of central governments	Securities of other issuers	Total	% to the Group's shareholders' equity
Sweden	9 887	1 013	10 900	36%
Latvia	6 608	1 320	7 928	26%
Lithuania	5 273	-	5 273	17%
Germany	-	4 997	4 997	16%
United States of America	4 487	-	4 487	15%
United Kingdom	4 013	-	4 013	13%
Bulgaria	1 761	1 362	3 123	10%
Other countries	10 853	7 042	17 895	X
<b>Total securities portfolio</b>	<b>42 882</b>	<b>15 734</b>	<b>58 616</b>	<b>X</b>

#### IV RISK AND CAPITAL MANAGEMENT

##### 1. Risk Management

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

##### Liquidity Ratio Calculation

(EUR 000's)

No	Title of entry	30.09.2016. Group (Unaudited)	30.09.2016. Bank (Unaudited)
1.	<b>Liquid assets (1.1.+1.2.+1.3.+1.4.)</b>	<b>123 918</b>	<b>123 708</b>
1.1.	Cash	369	369
1.2.	Demand deposits with central banks	891	891
1.3.	Deposits with solvent credit institutions	72 177	71 967
1.4.	Liquid securities	50 481	50 481
2.	<b>Current liabilities (with residual maturity up to 30 days) (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.)</b>	<b>154 674</b>	<b>155 213</b>
2.1.	Deposits and balances due to financial institutions	12	12
2.2.	Deposits	135 288	135 853
2.3.	Issued debt securities	-	-
2.4.	Cash in transit	1 618	1 618
2.5.	Other current liabilities	4 652	4 626
2.6.	Off-balance sheet liabilities	13 104	13 104
3.	<b>Liquidity ratio (1.:2.)</b>	<b>80.12%</b>	<b>79.70%</b>
4.	<b>Minimum liquidity ratio</b>	<b>30.00%</b>	<b>30.00%</b>

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## 2.Capital Adequacy

Information about Capital Management is available at Bank M2M Europe AS corporate website <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 significant risks, inherent to the Bank's activity.

### Own funds and capital adequacy ratios summary

(EUR 000's)

No	Title of entry	30.09.2016. Group (Unaudited)	30.09.2016. Bank (Unaudited)
1.	<b>Own funds (1.1.+1.2.)*</b>	<b>30 404</b>	<b>30 815</b>
1.1.	Tier 1 capital (1.1.1.+1.1.2.)	15 613	16 024
1.1.1.	Common Equity Tier (CET) 1 capital	15 613	16 024
1.1.2.	Additional Tier 1 capital	-	-
1.2.	Tier 2 capital	14 791	14 791
2.	<b>Total Risk exposure value (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)</b>	<b>134 483</b>	<b>135 491</b>
2.1.	Risk weighted exposure value for credit, counterparty credit and dilution risk and free deliveries	115 930	117 510
2.2.	Total risk exposure value for settlements/delivery	-	-
2.3.	Total risk exposure value for position risk, foreign exchange and commodity risks	9 243	9 223
2.4.	Total risk exposure value for operational risk	8 327	7 775
2.5.	Total risk exposure value for credit valuation adjustment	983	983
2.6.	Total risk exposure risk value related to large exposures in trading book	-	-
2.7.	Other risk exposure values	-	-
3.	<b>Capital ratios and capital levels</b>		
3.1.	CET 1 capital ratio (1.1.1./2.*100)	11.61%	11.83%
3.2.	Surplus (+) / deficit (-) of CET 1 capital (1.1.1.-2.*4.5%)	9 561	9 927
3.3.	Tier 1 capital ratio (1.1./2.*100)	11.61%	11.83%
3.4.	Surplus (+) / deficit (-) of Tier 1 capital (1.1.-2.*6%)	7 544	7 895
3.5.	Total capital ratio (1./2.*100)	22.61%	22.74%
3.6.	Surplus (+) / deficit (-) of total capital (1.-2.*8%)	19 645	19 976
4.	<b>Combined buffer requirement (4.1.+4.2.+4.3.+4.4.+4.5.)</b>	<b>2.53%</b>	<b>2.53%</b>
4.1.	Capital conservation buffer (%)	2.50%	2.50%
4.2.	Institution-specific countercyclical capital buffer (%)	0.03%	0.03%
4.3.	Systemic risk buffer (%)	-	-
4.4.	Systemically important institution buffer (%)	-	-
4.5.	Other systemically important institution buffer (%)	-	-
5.	<b>Capital adequacy ratios including adjustments</b>		
5.1.	Adjustment for provisions or assets, applying special policy for the purpose of the own funds calculation	-	-
5.2.	Common equity tier 1 capital ratio, including adjustments in row 5.1.	11.61%	11.83%
5.3.	Tier 1 capital ratio, including adjustments in row 5.1.	11.61%	11.83%
5.4.	Total capital ratio, including adjustments in row 5.1.	<b>22.61%</b>	<b>22.74%</b>

\* Equity includes a correction in the amount of excess of the estimated expected losses over the provisions calculated and made according to the accounting standards.



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