

ASSET MANAGEMENT JOINT STOCK COMPANY
M2M ASSET MANAGEMENT
REGISTRATION NUMBER 40103362872

ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2016

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General information

Name of the company:	M2M Asset Management
Legal status of the company:	Asset management joint stock company
Registration number, place and date of registration:	40103362872, Riga, 30 December 2010
Registered office:	Antonijas Street 3-1, Riga, LV-1010, Latvia
Shareholder:	Bank M2M Europe AS (100%) from 11/11/2013
Council:	Andrey Vdovin, Chairman of the Council, appointed on 30/05/2011 Roberts Idelsons, Deputy Chairman of the Council, appointed on 30/05/2011 Dmitry Ivlyushin, Council Member, appointed on 20/05/2013.
Board:	Edgars Makarovs, Chairman of the Board, appointed on 06/01/2011 Reinis Zauers, Board Member, appointed on 15/10/2015 Ineta Done, Board Member, appointed on 15/10/2015 Igor Petrovs, Board Member, appointed on 07/02/2011, resigned on 23/05/2016
Reporting period:	1 January 2016 – 31 December 2016
Auditors:	SIA „KPMG Baltics”
Registration number:	40003235171
Registered office:	Vesetas Street 7, Riga, LV-1013, Latvia
Licence No.:	55

Management report

General information

The asset management joint stock company M2M Asset Management (hereinafter – the Company) was founded on 21 December 2010 and registered with the Commercial Register on 30 December 2010 under the name of M2M Asset Management AS, unified registration number LV40103362872, registered office: Lāčplēša iela 20a-14, Riga.

On 21 April 2011, the Financial and Capital Market Commission of the Republic of Latvia (hereinafter – the FCMC) granted the Company licence No. 06.03.07/311 for providing asset management services.

After receipt of the licence, the Company changed its name to asset management joint stock company M2M Asset Management. On 6 June 2011, a new registration certificate was issued. The licence in the Company's new name was re-registered with the FCMC on 9 June 2011.

On 27 December 2010 the Company's share capital was fully paid and amounted to LVL 1 400 000.

In 2013 there was a change in the Company's shareholders. On 11 November 2013 Bank M2M Europe AS, a commercial bank registered in the Republic of Latvia, became the sole shareholder of the Company.

On 15 October 2015, changes have been made in Enterprise Register of the Republic of Latvia regarding composition of the Company's Board by registering new members of the Board, Ineta Done and Reinis Zauers. These changes in the Company's leadership are connected with operational expansion of the Company: by the beginning of October 2015, rights were registered in Financial and Capital Market Commission to offer services of managing alternative investment funds.

On 23 April 2016, following resignation of Igors Petrovs, a change has been registered in Enterprise Register of the Republic of Latvia reducing the number of Board members from four to three.

Type of activity

According to the issued licence, the Company's main types of activity are investment fund management and discretionary securities portfolio management on behalf of its clients under the respective authorisations. During the reporting period, the Company provided only discretionary securities portfolio management on behalf of its clients under the respective authorisations (including management of the third pillar pension plan).

On 7 October 2015, the Council of the Financial and Capital Market Commission registered the Company as a new alternative investment fund manager. The Company may provide additional services such as administrative fund management, distribution of investment shares and necessary activities related to fund asset management pursuant to the Law On Alternative Investment Funds and Their Managers of the Republic of Latvia.

Operations during the reporting period

During the reporting year, the Company continued operating as the manager of individual portfolios of financial instruments of clients according to authorizations received from clients, as well as the First Pension Plan of the First Closed Pension Fund (Tier 3 pensions).

Total assets under management by the Company as at the reporting date amounted to EUR 59 819 069, which is a 9 % decrease from 2015. The Company provides services both to private and legal entities, as well as residents and non-residents of the Republic of Latvia. The largest client of the Company is the First Pension Plan of the First Closed Pension Fund (Tier 3 pensions). Its assets amounted to 53 % of total assets under management by the Company.

In 2016, the total commission fee income for the Company was EUR 248 938.

The financial result of the reporting period is a profit of EUR 25 404, which will be used to cover losses of the previous periods.

Asset management policy

The Company follows a conservative asset management policy and its own assets are placed in term deposits and accounts with credit institutions registered in the Republic of Latvia. During the reporting period, the Company did not establish its own trading portfolio.

Risk exposure

The Company's operations are exposed to both financial risks (e.g. liquidity risk, market risk, foreign currency risk) and non-financial risks (e.g. counterparty risk, business risk, operational risk). The Company is also exposed to money laundering risk. The Company has established an internal control system which ensures effective risk management. The Company has also adopted a Financial Risk Management Policy and a Policy for Prevention of Money Laundering and Terrorist Financing which state principles and the main duties of the Company's officials and staff in the area of risk management.

Subsequent events

As of the last day of the reporting year until the date of signing these financial statements, there have been no events requiring adjustment of or disclosure in the financial statements or notes thereto.

Future prospects

The Company intends to develop according the approved strategic plan and operational budget for 2017. The Company is planning to be profitable also in future, and cover the losses of previous periods.



Edgars Makarovs
Chairman of the Board

Riga, 1 March 2017

Statement of management's responsibility

The Board of the asset management joint stock company M2M Asset Management (hereinafter – the Company) is responsible for the preparation of the financial statements of the Company. The financial statements set out on pages 7 to 23 are prepared in accordance with the effective legislation and give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the period 1 January 2016 through 31 December 2016.

The Company's financial statements are prepared on a going concern basis in compliance with the FCMC Regulations on the Preparation of Annual Reports and Annual Consolidated Reports for Banks, Investment Brokerage Firms and Asset Management Companies and International Financial Reporting Standards as adopted by the European Union. Appropriate accounting policies have been consistently applied and prudent and reasonable judgments and estimates have been made by the management in the preparation of the financial statements.

The Company's management is responsible for the maintenance of proper accounting records, the safeguarding of the Company's assets, and the prevention and detection of fraud and other irregularities in the Company. The Company's management is also responsible for operating the Company in compliance with the Law of the Republic of Latvia on Investment Companies, Regulations of the Financial and Capital Market Commission, and other laws of the Republic of Latvia applicable to asset management companies.



Edgars Makarovs
Chairman of the Board

Riga, 1 March 2017

Statement of financial position

	Notes	31.12.2016 EUR	31.12.2015 EUR
Assets			
Balances on demand due from credit institutions	3	327 957	605 573
Receivables	4	22 703	19 682
Term deposits	5	1 040 295	728 144
Prepaid expense and accrued income	6	31 663	37 732
Property and equipment	7	2 496	5 629
Deferred tax assets	19	87 172	91 993
Total assets		1 512 286	1 488 699
Liabilities			
Accrued liabilities	8	25 001	25 572
Tax liabilities	9	1 105	-
Other liabilities	9	-	2 351
Total liabilities		26 106	27 923
Shareholder's equity			
Paid share capital	10	1 992 020	1 992 020
Other capital reserves		1	-
Accumulated losses		(531 245)	(647 608)
Profit for the period		25 404	116 363
Total shareholder's equity		1 486 180	1 460 776
Total shareholder's equity and liabilities		1 512 286	1 488 699

The accompanying notes on pages 11 through 23 form an integral part of these financial statements. Signed on behalf of the management board:



Edgars Makarovs
Chairman of the Board

Riga, 1 March 2017

Statement of comprehensive income

	Notes	2016 EUR	2015 EUR
Interest income		11 500	16 488
Net interest income		11 500	16 488
Commission and fee income	13	248 938	328 378
Commission and fee expense	14	(172)	(17 818)
Net commission and fee income		248 766	310 560
Net result from foreign exchange trading and revaluation		2 405	13 134
Other income	15	3 346	41 125
Other expense		(5 373)	(23 648)
Staff costs	17	(209 888)	(202 740)
Administrative expense	17	(16 010)	(11 731)
Depreciation		(4 521)	(6 076)
Profit for the period before corporate income tax		30 225	137 112
Income tax (expense)	19	(4 821)	(20 749)
Comprehensive income for the period		25 404	116 363
Other comprehensive income for the period		-	-
Total comprehensive income for the period		25 404	116 363

The accompanying notes on pages 11 through 23 form an integral part of these financial statements. Signed on behalf of the management board:

Edgars Makarovs
Chairman of the Board

Riga, 1 March 2017

Statement of changes in shareholder's equity

	Paid share capital EUR	Other reserves EUR	Accumulated losses EUR	Total EUR
Balance as at 31 December 2014	1 992 020	1	(647 608)	1 344 413
Comprehensive income for the period	-	-	116 363	116 363
Balance as at 31 December 2015	1 992 020	1	(531 245)	1 460 776
Comprehensive income for the period	-	-	25 404	25 404
Balance as at 31 December 2016	1 992 020	1	(505 841)	1 486 180

The accompanying notes on pages 11 through 23 form an integral part of these financial statements. Signed on behalf of the management board:



Edgars Makarovs
Chairman of the Board

Riga, 1 March 2017

Cash flows statement

	2016 EUR	2015 EUR
Cash flows to/ from operating activities		
Profit before corporate income tax	30 225	137 112
Depreciation	4 521	6 076
Interest income	(11 500)	(16 488)
Unrealised (gain) from fluctuations of currency exchange rates	(2 405)	(13 134)
Change in cash and cash equivalents from operating activities before changes in assets and liabilities	20 841	113 566
(Increase)/decrease in receivables	(3 075)	11 989
Decrease/(increase) in prepaid expense and accrued income	6 069	(37 470)
(Decrease)/increase in accrued liabilities	(571)	5 801
(Decrease) in other liabilities	(1 246)	(6 108)
Net cash flows from/(used in) operating activities	22 018	87 778
Proceeds from received interest	4 349	15 368
Cash flows from/(used in) operating activities	26 367	103 146
Cash flows used in investing activities		
(Acquisition) of fixed assets	(1 388)	(2 756)
(Placement) of term deposits	(1 030 000)	(225 000)
Repayment of term deposits	725 000	470 000
Net cash flows (used in)/from investing activities	(306 388)	242 244
Change in cash and cash equivalents	(280 021)	345 390
Cash and cash equivalents at the beginning of the reporting period	605 573	247 049
Profit from fluctuations of currency exchange rates	2 405	13 134
Cash and cash equivalents at the end of the reporting period	327 957	605 573

The accompanying notes on pages 11 through 23 form an integral part of these financial statements. Signed on behalf of the management board:



Edgars Makarovs
Chairman of the Board

Riga, 1 March 2017

Notes to the financial statements

1. Summary of significant accounting policies

1.1. General information

The asset management joint stock company M2M Asset Management (hereinafter – the Company) was founded on 21 December 2010 and was registered with the Republic of Latvia Enterprise Register on 30 December 2010. The licence for providing asset management services was issued in Riga, on 21 April 2011; therefore the Company is bound by all the restrictions regarding the provision of asset management services as stated by the Financial and Capital Market Commission of the Republic of Latvia (the 'FCMC').

The financial statements for the year ended 31 December 2016 were approved by the Board on 01 March 2017. These financial statements may be amended by the shareholder.

1.2. Basis of preparation

The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union and their interpretations, as well as in compliance with the FCMC regulations effective as at the reporting date, and based on the accounting records prepared in accordance with the legislative requirements. These records are maintained under the historical cost convention, modified for revaluation as disclosed below, made in accordance with the IFRS as adopted by the EU requirements.

The monetary unit used in the financial statements is euro (EUR) which is also the functional currency of the Company, unless otherwise stated. The financial statements cover the period 1 January 2016 through 31 December 2016.

1.3. Changes in accounting policies

Except for the changes below, the Company has consistently applied the accounting policies set out in Note 1 to all periods presented in these financial statements.

The Company has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with date of initial application of 1 January 2016.

The following guidance with effective date of 1 January 2016 did not have any impact on these financial statements:

- IFRS 11 „Joint Arrangements“
- IAS 1 „Presentation of Financial Statements“
- IAS 16 „Property, Plant and Equipment“ and IAS 38 „Intangible Assets“
- IAS 16 „Property, Plant and Equipment“ and IAS 41 „Agriculture“
- IAS 19 "Employee Benefits"
- IAS 27 „Separate Financial Statements“
- Annual Improvements to IFRSs

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these financial statements. Those which may be relevant to the Company are set out below. The Company does not plan to adopt these standards early

(i) IFRS 9: Financial instruments (Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight. Early application is permitted.)

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting

requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

- the assets is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Extensive additional disclosures regarding an entity's risk management and hedging activities are required.

"The Entity (non-bank) does not expect IFRS 9 (2014) to have material impact on the financial statements. The classification and measurement of the Entity's financial instruments are not expected to change under IFRS 9 because of the nature of the Entity's operations and the types of financial instruments that it holds. However the entity believes that impairment losses are likely to increase and become more volatile for assets in the scope of expected credit loss impairment model. The entity has not yet finalised the impairment methodologies that it will apply under IFRS 9."

(ii) IFRS 15 Revenue from contracts with customers (effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted.)

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

"Although the entity has not yet fully completed its initial assessment of the potential impact of IFRS 15 on the Entity's financial statements, management does not expect that the new Standard, when initially applied, will have material impact on the Entity's financial statements. The timing and measurement of the Entity's revenues are not expected to change under IFRS 15 because of the nature of the Entity's operations and the types of revenues it earns."

(iii) IFRS 16 Leases (effective for annual periods beginning on or after 1 January 2019. Earlier application is permitted if the entity also applies IFRS 15.)

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognize a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).
- Lessor accounting shall remain largely unaffected by the introduction of the new Standard and the distinction between operating and finance leases will be retained.

"The Entity does not expect that the new Standard, when initially applied, will have material impact on the financial statements because the Entity is not party to a contractual arrangement that would be in the scope of IFRS 16."

(iv) Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions (effective for annual periods beginning on or after 1 January 2018; to be applied prospectively. Early application is permitted.)

The amendments clarify share-based payment accounting on the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and

a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

"The Entity expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the entity because the Entity does not enter into share-based payment transactions."

(v) Amendments to IFRS 10 and IAS 28 Sale or contribution of assets between an investor and its associate or joint venture (the effective date has not yet been determined by the IASB, however earlier adoption is permitted.)

The Amendments clarify that in a transaction involving an associate or joint venture, the extent of gain or loss recognition depends on whether the assets sold or contributed constitute a business, such that:

- a full gain or loss is recognised when a transaction between an investor and its associate or joint venture involves the transfer of an asset or assets which constitute a business (whether it is housed in a subsidiary or not), while a partial gain or loss is recognised when a transaction between an investor and its associate or joint venture involves assets that do not constitute a business, even if these assets are housed in a subsidiary.

"The Entity does not expect that the amendments, when initially applied, will have material impact on the financial statements as the Entity has no subsidiaries, associates or joint ventures."

(vi) Amendments to IAS 7 (effective for annual periods beginning on or after 1 January 2017, to be applied prospectively. Early application is permitted.)

The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).

"The Entity expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Entity."

(vii) Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealised Losses (effective for annual periods beginning on or after 1 January 2017; to be applied prospectively. Early application is permitted.)

The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

"The Entity expects that the amendments, when initially applied, will not have a material impact on the presentation of the financial statements of the Entity because the Entity already measures future taxable profit in a manner consistent with the Amendments."

(viii) Amendments to IAS 40 Transfers of Investment Property (effective for annual periods beginning on or after 1 January 2018; to be applied prospectively.)

The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

"The Entity does not expect that the amendments will have a material impact on the financial statements because the entity does not have investment property."

(ix) IFRIC 22 Foreign Currency Transactions and Advance Consideration (effective for annual periods beginning on or after 1 January 2018). This pronouncement is not yet endorsed by the EU.

The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

"The Entity does not expect that the Interpretation, when initially applied, will have material impact on the financial statements as the Entity uses the exchange rate on the transaction date for the initial recognition of the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration."

Annual improvements to IFRSs 2014-2016 cycle were issued on 8 December 2016 and introduce two amendments to two standards and consequential amendments to other standards and interpretations that result in accounting changes for presentation, recognition or measurement purposes. The amendments on IFRS 12 Disclosure of Interest in Other Entities are effective for annual periods beginning on or after 1 January 2017 and amendments on IAS 28 Investments in Associates and Joint Ventures are effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively. Earlier application is permitted.

None of these amendments are expected to have a significant impact on the financial statements of the Company.

The Company plans to adopt the above mentioned standards and interpretations on their effectiveness date.

1.4. Significant estimates and assumptions

The preparation of financial statements in conformity with IFRSs as adopted by the European Union requires the Company's management to make estimates and assumptions that affect certain reported balances. Future events occur which cause the assumptions used in arriving at the estimates to change. Such estimates and assumptions are based on most reliable information available to the management in respect to specific events and actions. The estimates and related assumptions are verified on a regular basis. The effect of any changes in estimates will be recorded in the financial statements when determinable. The most significant areas of estimation and assumptions relate to measuring fair value of financial assets.

1.5. Income and expense recognition

Income and expense items are recognised on an accrual basis. Income are only recognised in the statement of comprehensive income when there are no doubts regarding the respective cash collection in due time. With the exception of financial instruments held for trading and other financial instruments at fair value through profit or loss, interest income and expense are recognised in the statement of income using the effective interest rate method.

Fees, commissions and other income and expense items are recognised when the corresponding service has been received or provided.

1.6. Functional and presentation currency

On 1 January 2014 the Republic of Latvia joined the euro-zone and the Latvian lat was replaced by the euro. As a result, the Company converted its financial accounting to euros as from 1 January 2014. The financial statements are presented in Euro (EUR), which is the Company's functional currency.

1.7. Foreign currency translation

Foreign currency transactions are translated into euros at the official exchange rate set by the European Central Bank at the beginning of the transaction date. All monetary assets and liabilities denominated in foreign currencies are translated to euros according to the exchange rate of the European Central Bank on the last day of the reporting year. Foreign currency differences arising from retranslation are recognised in the statement of comprehensive income at net value as the result of revaluation of foreign exchange.

The exchange rates set forth for the foreign currency and used in the preparation of the Company's financial statements were as follows:

Currency	31.12.2016	31.12.2015
USD	1.0541	1.0887
CHF	1.0739	1.0835

1.8. Taxes

Corporate income tax is calculated in accordance with Latvian tax regulations at the rate of 15% and is based on the taxable income reported for the taxation period.

Deferred taxation arising from temporary differences in the timing of the recognition of items in the tax returns and these financial statements is calculated using the liability method. The deferred tax liability is determined based on the tax rates that are expected to apply when the temporary differences reverse. The principal temporary differences arise from differing rates of accounting and tax depreciation on the Company's non-current assets and accumulated tax losses.

Deferred tax asset is recognized in the statement of financial position to the extent the management believes it will be realized in the foreseeable future.

1.9. Cash and cash equivalents

The Company's cash comprises balances due from credit institutions. Cash and cash equivalents are short-term, highly liquid assets that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value.

1.10. Term deposits

The Company's term deposits are stated at cost plus interest accrued during the period from the placement date or the last interest payment date to the reporting date.

1.11. Intangible assets

Intangible assets are stated at cost less accumulated amortisation. Amortisation is provided using the straight-line method. The amortisation rate is set at 33% per annum.

1.12. Property and equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation is calculated starting with the following month after the asset is put into operation. Depreciation of an asset ceases as of the first day of the month following derecognition of the respective asset. Depreciation is calculated using the straight-line method based on the estimated useful life of the asset. The annual depreciation rate is 20% or 33%.

1.13. Receivables

Receivables are recognised and carried at cost less an allowance for any doubtful or uncollectible amounts. Allowances are made when the recoverability of the amounts receivable is deemed doubtful.

1.14. Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

1.15. Assets under management

Assets under the Company's management on behalf of its clients, funds, and other institutions are not considered the Company's assets and are not disclosed in the Company's statement of financial position. Data on the assets under management are only included in these financial statement for informative purposes.

2. Risk management

The Company's main risk management principles are as follows:

- The Company identifies existing risks, assesses and measures the identified risks on a regular basis.
- The Company manages risks based on the principle of economic advantage, i.e. the costs of risk management and reduction shall be less than the potential losses arising from realisation of risks.
- The Company does not assume any risks, if the losses arising from such risks exceed the benefits from assuming the risks.
- The Company identifies and assumes risks arising from the Company's operations, as well as establishes a risk tolerance level and respective measures for ensuring such a level.

The Company's risks are disclosed in the following table.

Risk	Risk tolerance level	Measures for ensuring the risk tolerance level
Counterparty risk	No dependence on counterparties. No significant income from a single counterparty. No non-replaceable counterparties. Reliable counterparties.	Operational planning that prevents dependency on certain counterparties. Reduction of counterparty concentration. Choice of reliable counterparties.
Liquidity risk	The Company maintains liquid assets at the level allowing meeting all the liabilities maturing within 3 months.	The Company ensures sufficient cash amounts in its current accounts and deposits.
Market risk (incl. foreign currency risk and interest rate risk)	The total market rate level (taking into consideration only direct losses) does not exceed 5% of the Company's share capital.	Optimisation of the Company's currency positions.
Operational risk	Minimum probability of events that may endanger the Company's operations. Minimum losses arising from probable events.	The Company ensures the training of staff, sufficient functioning of control system, development of contingency plans, and other measures.
Business risk (decrease in income)	Changes in income after which the operations of the Company is still economically grounded.	Diversification of income sources. Optimisation of the Company's operations.

Going concern

The financial result of the reporting year is a profit of EUR 25 404.

The Company plans to increase assets under management in the near future and retain costs at the current level. The Company plans to cover accumulated losses with future profits.

3. Balances on demand due from credit institutions

Credit institution	Currency	31.12.2016 EUR	31.12.2015 EUR
Current account with Bank M2M Europe	EUR	133 957	117 722
Current account with Swedbank	EUR	114 929	283 561
Current account with Swedbank	USD	34 097	33 014
Current account with Bank M2M Europe	USD	23 202	149 204
Current account with Swedbank	CHF	20 010	19 833
Credit card account with Swedbank	EUR	832	844
Credit card account with Bank M2M Europe	EUR	930	1 395
Total		327 957	605 573

4. Receivables

Receivables from customers, excl. credit institutions	31.12.2016 EUR	31.12.2015 EUR
Commission on discretionary portfolio management (legal entities)	9 113	14 142
Commission on private pension plan management	6 822	-
Commission on discretionary portfolio management (private individuals)	4 566	3 480
Other receivables	2 202	2 006
Total	22 703	19 628

5. Term deposits

Term deposits with credit institutions	Currency	31.12.2016 EUR	Inc. accrued interest EUR	31.12.2015 EUR	Inc. accrued interest EUR
Bank M2M Europe (maturity - 03.01.2016)	EUR	-	-	245 000	-
Bank M2M Europe (maturity - 26.01.2016)	EUR	-	-	228 144	3 144
Bank M2M Europe (maturity - 25.02.2016)	EUR	-	-	255 000	-
Bank M2M Europe (maturity - 03.02.2017)	EUR	232 623	2 623	-	-
Bank M2M Europe (maturity - 14.11.2017)	EUR	200 250	250	-	-
Bank M2M Europe (maturity - 12.01.2018)	EUR	356 978	6 978	-	-
Bank M2M Europe (maturity - 14.11.2018)	EUR	250 444	444	-	-
Total		1 040 295	10 295	728 144	3 144

As at 31 December 2016, the average interest rate of the term deposits was 1.758 %.

As at 31 December 2015, the average interest rate of the term deposits was 2.172 %.

6. Prepaid expense and accrued income

	31.12.2016 EUR	31.12.2015 EUR
Accrued fee for discretionary portfolio management	31 587	183
Prepaid expenses	76	112
Accrued income from research service of real estate object	-	37 437
Total	31 663	37 732

7. Statement of movement in property and equipment

	Carrying amount, EUR
Cost as at 31 December 2014	30 817
Additions	2 756
Cost as at 31 December 2015	33 573
Additions	1 388
Cost as at 31 December 2016	34 961
Accumulated depreciation as at 31 December 2014	21 868
Depreciation charge	6 076
Accumulated depreciation as at 31 December 2015	27 944
Depreciation charge	4 521
Accumulated depreciation as at 31 December 2016	32 465
Net carrying amount as at 31 December 2015	5 629
Net carrying amount as at 31 December 2016	2 496

8. Accrued liabilities

	31.12.2016	31.12.2015
	EUR	EUR
Vacation pay reserve	22 066	22 814
Professional service fees	2 935	2 660
Accrued expense related to other services	-	98
Total	25 001	25 572

9. Other liabilities

	31.12.2016	31.12.2015
	EUR	EUR
Tax liabilities (Note 18)	1 105	-
Liabilities to pension plan	-	1 049
FCCM financing fee	-	1 302
Total	1 105	2 351

10. Paid share capital

On 11 November 2013 changes were made in the structure of the Company's shareholders' structure, and Bank M2M Europe AS became the sole shareholder of the Company, who owns 1 992 020 voting shares of the Company totalling EUR 1 992 020 and constituting 100% of the Company's share capital and 100% of the Company's voting capital. The par value of each share is EUR 1, all shares are fully paid. Before the change, the sole shareholder of the Company was Andrey Vdovin who remains the main beneficial owner of the Company also after the change in ownership.

11. Assets and liabilities by currency profile as at 31 December 2016

Assets	EUR	USD	CHF	Total
Balances due from credit institutions	250 648	57 299	20 010	327 957
Receivables	13 978	8 725	-	22 703
Term deposits	1 040 295	-	-	1 040 295
Prepaid expense and accrued income	126	31 537	-	31 663
Property, plant and equipment	2 496	-	-	2 496
Deferred tax assets	87 172	-	-	87 172
Total assets	1 394 715	97 561	20 010	1 512 286
Equity and liabilities				
Accrued liabilities	25 001	-	-	25 001
Tax liabilities	1 105	-	-	1 105
Shareholder's equity	1 486 180	-	-	1 486 180
Total shareholder's equity and liabilities	1 512 286	-	-	1 512 286
Net position	(117 571)	97 561	20 010	-

Assets and liabilities by currency profile as at 31 December 2015

Assets	EUR	USD	CHF	Total
Balances due from credit institutions	403 522	182 218	19 833	605 573
Receivables	10 398	9 230	-	19 628
Term deposits	744	-	-	728 144
Prepaid expense and accrued income	37 732	-	-	37 732
Property, plant and equipment	5 629	-	-	5 629
Deferred tax assets	91 993	-	-	91 993
Total assets	1 277 418	191 448	19 833	1 488 699
Equity and liabilities				
Accrued liabilities	25 572	-	-	25 572
Other liabilities	2 351	-	-	2 351
Shareholder's equity	1 460 776	-	-	1 460 776
Total shareholder's equity and liabilities	1 488 699	-	-	1 488 699
Net position	(211 281)	191 448	19 833	-

12. Assets and liabilities by maturity profile as at 31 December 2016

Assets	Within 1 month	1 - 3 months	3 - 12 months	Over 1 year	No set maturity	Total
Balances due from credit institutions	327 957	-	-	-	-	327 957
Receivables	22 664	-	-	39	-	22 703
Term deposits	-	233 317	200 000	606 978	-	1 040 295
Prepaid expense and accrued income	50	31 537	76	-	-	31 663
Property, plant and equipment	-	-	-	-	2 496	2 496
Deferred tax assets	-	-	-	-	87 172	87 172
Total assets	350 671	264 854	200 076	607 017	89 668	1 512 286
Liabilities						
Accrued liabilities	-	2 935	22 066	-	-	25 001
Tax liabilities	1 105	-	-	-	-	1 105
Total liabilities	1 105	2 935	22 066	-	-	26 106
Net position	349 566	261 919	178 010	607 017	89 668	1 486 180

Assets and liabilities by maturity profile as at 31 December 2015

	Within 1 month	1 - 3 months	3 – 12 months	Over 1 year	No set maturity	Total
Assets						
Balances due from credit institutions	605 573	-	-	-	-	605 573
Receivables	19 589	-	-	39	-	19 628
Term deposits	473 144	255 000	-	-	-	728 144
Prepaid expense and accrued income	37 620	-	112	-	-	37 732
Property, plant and equipment	-	-	-	-	5 629	5 629
Deferred tax assets	-	-	-	-	91 993	91 993
Total assets	1 135 926	255 000	112	39	97 622	1 488 699
Liabilities						
Accrued liabilities	97	2 660	22 815	-	-	25 572
Other liabilities	2 351	-	-	-	-	2 351
Total liabilities	2 448	2 660	22 815	-	-	27 923
Net position	1 133 478	252 340	(22 703)	39	97 622	1 460 776

13. Commission and fee income

	2016 EUR	2015 EUR
Commission on discretionary portfolio management (legal entities)	137 929	59 614
Commission on private pension plan management	67 679	46 444
Commission on discretionary portfolio management (private individuals)	43 330	168 760
Commission on investment fund management *	-	48 489
Other commission and fee income	-	5 071
Total	248 938	328 378

* A decision to suspend/freeze the Fund's activities, as proposed by the management, was approved by the Fund's Council in July 2015, and was also approved by the investment manager of NHS-SICAV – M2M Emerging High Income Bond (the 'Fund'), and also by the Fund management company, Novacap Asset Management S.A. As a result, all financial instruments were realised and all investment certificates of the Fund were redeemed from investors. Effective from 17 August 2015, the Fund entered a freeze period which expired on 17 February 2017. After ending of the freeze period Fund was closed.

As all investors of the Fund have submitted redemption requests and no complaints about the Fund's operations were received, we believe the Company is not exposed to additional risks in relation to the Fund's operations.

14. Commission and fee expense

	2016 EUR	2015 EUR
Commission on current account servicing	172	456
Commission on investment fund administration	-	17 362
Total	172	17 818

15. Other income

	2016 EUR	2015 EUR
Overpayment of statutory social insurance contributions in 2014	3 346	2 771
Income from research service of real estate object	-	37 437
Returned payment for financing FCMC in 2014	-	917
Total	3 346	41 125

16. Income by clients' registration by geographical regions

	2016 EUR	2015 EUR
Latvia	108 567	107 828
Latin America and Caribbean region	76 292	13 641
Europe (excl. Latvia)	42 493	101 437
Africa	13 748	96 391
Australia and Oceania	7 838	9 081
Total	248 938	328 378

16. Administrative expense

	2016 EUR	2015 EUR
Staff costs		
Remuneration to the Board Members	87 907	93 716
Remuneration to other staff	79 603	77 068
Statutory social insurance contributions and solidarity tax (Board Members)	20 737	12 965
Statutory social insurance contributions (other staff)	18 778	18 180
Unemployment risk duty	23	26
Other staff costs	2 840	785
Total staff costs	209 888	202 740
Average number of paid employees:	5	6
Other administrative expense		
Office expense	7 709	6 275
Professional services	-	18
Advertising and marketing	13	170
Communications	4 272	1 357
Audit fee	4 016	3 911
Disposal of property and equipment	-	-
Total other administrative expense	16 010	11 731
Total	225 898	214 471

18. Taxes and duties

	Balance as at 31/12/2015 EUR	Calculated EUR	Penalty	Paid EUR	(Repaid) / Decreased	Balance as at 31/12/2016 EUR
Personal income tax	-	32 645	2	(32 647)	-	-
Statutory social insurance contributions	-	57 310	-	(53 964)	3 346	-
Value-added tax	(1 967)	21 820	-	(20 721)	(1 973)	1 105
Unemployment risk duty	-	23	-	(26)	-	(3)
Total	(1 967)	111 798	2	107 358	1 373	1 102

19. Income tax

	2016 EUR	2015 EUR
Deferred income tax liability		
Accelerated depreciation for tax purposes	(215)	(616)
Recognized deferred income tax asset		
Temporary difference from vacation pay reserve	-	3 422
The impact of tax loss carried forward	87 387	89 187
Net deferred tax asset	87 172	91 993

The Company believes that it will use the accumulated tax losses in full, therefore the deferred tax asset exceeding tax liabilities are recognized in these financial statements. In 2017 company plans to increase profit, as at February 2017 company is submitting documents to register alternative investment fund.

	2016 EUR	2015 EUR
Profit before tax	30 225	137 211
Theoretically calculated income tax at a rate of 15%	4 534	20 582
Permanent differences:		
Tax effect of non-deductible costs	287	167
Change in unrecognised deferred tax assets from losses carried forward	-	-
Corporate income tax	4 821	20 749

20. Capital adequacy calculation

The Company ensures its capital management by analysing and projecting the factors affecting the capital requirement, i.e. the amount of the assets under management and the Company's income and expense amounts, as well as by determining the type of capital investment. Both the Company's capital adequacy ratio and capital amount exceed the minimum statutory capital requirement: the total capital ratio of 8%, which is calculated as the percentage of equity against the total value of the risk transaction multiplied by 12.5. As at 31 December 2016, the minimum capital requirement for the Company is EUR 109 400. (31.12.2015 : 97 241 EUR)

The capital adequacy calculation is disclosed according to Regulation (EU) No 575/2013 of the European Parliament and of the Council.

	31.12.2016 EUR	31.12.2015 EUR
Tier 1		
Paid share capital	1 992 020	1 992 020
Accumulated losses	(531 245)	(647 608)
Total comprehensive income for the current reporting period	25 404	116 363
Deferred tax asset, the realisation of which depends on its probable recovery	(87 387)	(89 187)
Total Tier 1	1 398 792	1 371 588
Summary of capital charge calculations		
Credit risk capital charge	99 994	80 339
Capital charge for foreign currency risk	9 406	16 902
Total capital charge for credit risk and foreign currency risk	109 400	97 241
or		
The capital charge equal to 25% of the previous year's fixed costs	61 049	56 096
Total capital charge	109 400	97 241
Coverage of capital charges from equity (surplus)	1 292 702	1 274 347
Capital adequacy ratio	102.29%	112.84%

21. Assets under management

	31.12.2016 EUR	31.12.2015 EUR
PSPF First pension Plan	31 420 619	29 735 113
Discretionary financial securities portfolios of legal entities	17 306 345	16 572 766
Discretionary financial securities portfolios of private individuals	11 089 105	8 712 072
Total	59 816 069	55 019 951

During the financial year the Company has not held direct investments in the above noted structures. Its interest in these structures arises only from asset management fee income and, therefore, these structures are not consolidated by the Company.

22. Related party disclosures

Related parties are defined as the Company's shareholder, Board and Council Members, as well as close members of the families of any individual referred to previously and entities over which these persons exercise significant influence or control. The transactions with related parties are carried out according to the Company's general business principles on an arm's length basis.

	2016	2015
	EUR	EUR
Expenses to related parties		
Rent and utilities Bank M2M Europe	2 693	2 749
Commission on current account servicing Bank M2M Europe	14	3
Total	2 707	2 752

	31.12.2016	31.12.2015
	EUR	EUR
Receivables from related parties		
Term deposits in Bank M2M Europe	1 040 295	728 144
Current account in Bank M2M Europe	158 089	268 321
Receivable from Andrey Vdovin (fee for discretionary portfolio management)	23	16
Receivable from Edgars Makarovs (fee for discretionary portfolio management)	5	5
Receivable from Roberts Idelsons (fee for discretionary portfolio management)	1	12
Total	1 198 413	996 498

	2016	2015
	EUR	EUR
Income from related parties		
Bank M2M Europe – interest income	11 500	15 736
Income from Andrey Vdovin (fee for discretionary portfolio management)	225	73
Income from Roberts Idelsons (fee for discretionary portfolio management)	40	108
Income from Edgars Makarovs (fee for discretionary portfolio management)	44	50
Total	11 809	15 967

23. Sensitivity analysis and fair value of financial instruments

The Company has no significant financial risk exposure, therefore sensitivity analyses are not performed. The management of the Company believes that due to the low interest rates and short maturity dates the difference between the fair value of the financial instruments and their carrying value is not material.

24. Future minimum lease payments

The Company has signed agreement on the lease of premises with Bank M2M Europe AS, with the lease payment of 179 EUR/month. The agreement is valid until 31 July 2017. Unless any of the parties inform the other on their wish to terminate the agreement, it is automatically extended for one year.

25. Events after reporting date

As of the last day of the reporting year until the date of signing of these financial statements, there have been no significant events affecting the information disclosed in the financial statements.



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Independent Auditor's Report

To the shareholder of asset management joint stock company "M2M Asset Management"

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of asset management joint stock company "M2M Asset Management" ("the Company") set out on pages 7 to 23 of the accompanying Annual Report, which comprise:

- the statement of financial position as at 31 December 2016,
- the statement of profit or loss and other comprehensive income for the year then ended,
- the statement of changes in equity for the year then ended,
- statement of cash flows for the year then ended, and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of asset management joint stock company "M2M Asset Management" as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Basis for Opinion

In accordance with the Law on Audit Services of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and independence requirements included in the Law on Audit Services of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the IESBA Code and Law on Audit Services of the Republic of Latvia.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Reporting on Other Information

The Company management is responsible for the other information. The other information is the Management Report, as set out on page 4 to 5 and statement of management's responsibility as set out on page 6 of the accompanying Annual Report.

Our opinion on the financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the Other reporting responsibilities in accordance with the legislation of the Republic of Latvia section of our report.



In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the entity and its environment obtained, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia

In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Financial and Capital Market Commission regulations No.46.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the Financial and Capital Market Commission regulation No. 46 'Regulations on the Preparation of Annual Reports and Annual Consolidated Accounts for Banks, Investment Brokerage Firms and Investment Management Companies'.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRSs as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

KPMG Baltics SIA
Licence No 55

Ondrej Fikrle
Partner pp KPMG Baltics SIA
Riga, Latvia
1 March 2017

Rainers Vilāns
Sworn Auditor
Certificate No 200