

***Public financial report  
for the 2nd quarter 2015  
Bank M2M Europe AS***



**Riga, August 24, 2015**

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## **I MANAGEMENT REPORT**

Second quarter has once again delivered good financial performance for the Bank and our clients. Profit in the first half of 2015 reached 1.7 million EUR, while net interest income increased by 229% compared with the first half of 2014 and net fee income increased by 84% in the same period.

Total number of clients has reached 316 while total amount of clients' assets held and administered with the bank and M2M Asset Management stood at EUR 457 million (including client securities portfolios in custody), with average amount of assets per client of EUR 1.4 million.

We anticipate growing volatility in the financial markets as a result of recent growing instability in China and anticipated gradual increase of interest rates in US. This offers additional opportunities for our clients. To tap these opportunities we plan to offer variety of new investment products to our clients – through advisory platform and discretionary managed portfolios. Recent strengthening of our investment management team enables us to take advantage of opportunities offered by financial markets globally, and our clients shall be offered improved investment product range already in the third quarter of 2015.

Clients visiting our office have noticed that we completed the renovation project – now we are proud to host our clients in new premises. Similar to our core principles – attention to details and combining best banking traditions and modern creative ideas, this new design combines ideas of Renaissance and modern architecture of XXI century.

In line with the strategy, Bank M2M Europe continues to maintain a conservative risk profile. As at the end of the first half of 2015, capital adequacy ratio of the bank stands at 22%, while liquidity ratio is 76%. We do not expect substantial changes of these ratios in the nearest future.

Roberts Idelsons

Chairman of the Board

## II GENERAL INFORMATION

### 1.Shareholders of the Bank

30.06.2015			
Shareholder	Country	Total, EUR	% of total share capital
Andrey Vdovin	Russia	27 920 130	100,00

The paid-up 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

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 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:

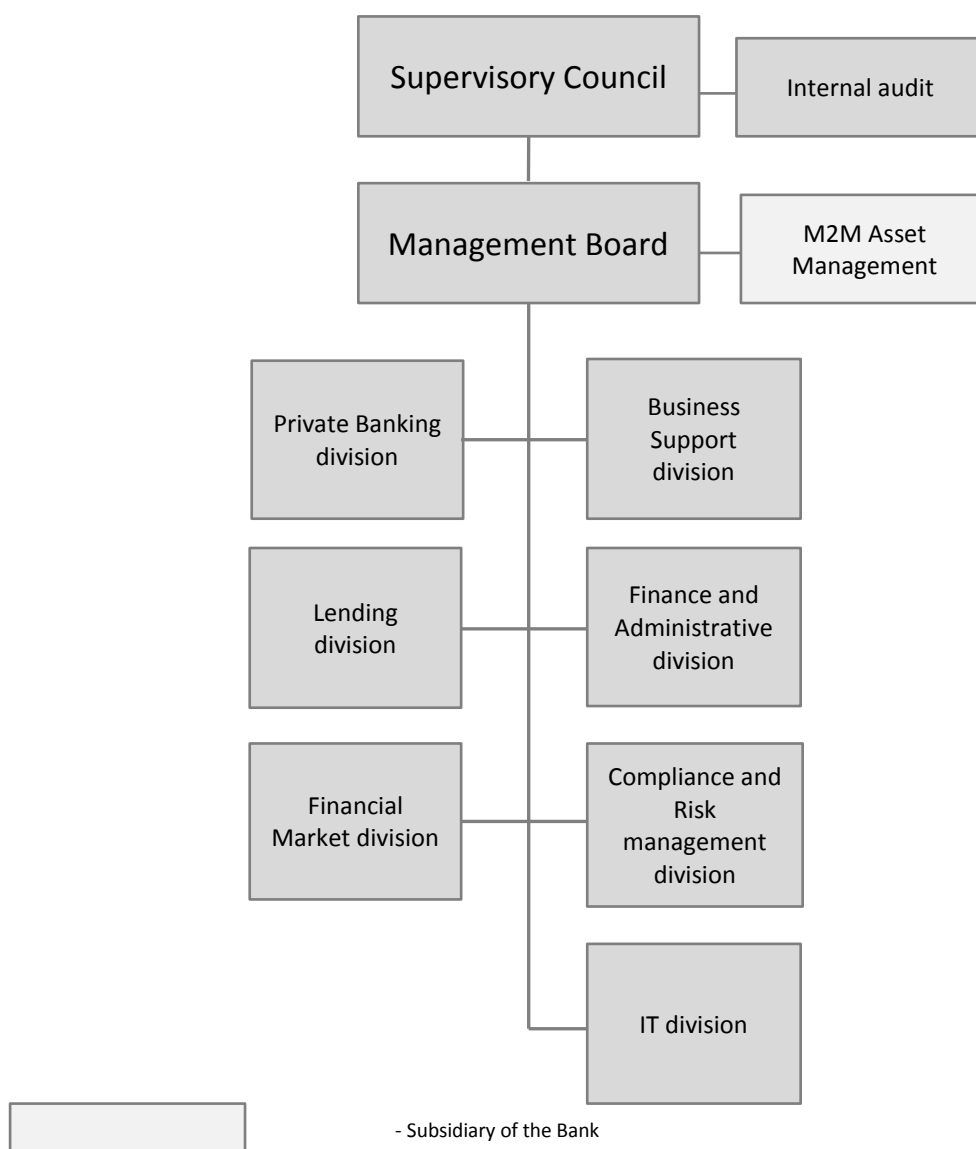
- (a) to become one of the leading banks in the *private banking* segment in the Baltics;
- (b) to develop and expand the range of top quality products and services for high net worth clients from Russia, the CIS, Latvia and other European countries;
- (c) to develop the loyal client base and grow business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



### III FINANCIAL PERFORMANCE

#### 1. Balance sheet as at 30 June 2015 and 31 December 2014

(EUR 000's)

Title of entry	30.06.2015. Group (Unaudited)	30.06.2015. Bank (Unaudited)	31.12.2014 Group (Audited)*	31.12.2014 Bank (Audited)*
<b>Assets</b>				
Cash and demand deposits with central banks	1 450	1 450	306	306
Demand deposits with credit institutions	31 759	31 649	37 552	37 415
Financial assets held for trading	2 279	2 279	618	618
Financial assets at fair value, through profit or loss	402	402	185	185
Available-for-sale financial assets	21 361	21 361	22 299	22 299
Loans and receivables:	68 467	68 165	71 231	70 931
• Short term deposits with credit institutions	20 101	20 101	33 241	33 242
• Other deposits with financial institutions	5 502	5 200	2 617	2 316
• Loans to companies and private individuals	42 864	42 864	35 373	35 373
Held to maturity investments	29 945	29 945	16 887	16 887
Change of fair value of hedge portfolio hedged against interest rate risk	-	-	-	-
Prepaid expense and accrued income	368	334	312	281
Property and equipment	1 577	1 568	1 665	1 656
Investment properties	-	-	-	-
Goodwill and other intangible assets	1 189	401	1 232	444
Investments in subsidiaries	-	1 874	-	1 874
Tax assets	134	36	113	-
Other assets	1 258	1 258	771	770
<b>Total assets</b>	<b>160 189</b>	<b>160 722</b>	<b>153 171</b>	<b>153 666</b>
<b>Liabilities</b>				
Liabilities due to central banks	10 001	10 001	-	-
Demand liabilities from credit institutions	-	-	-	-
Financial liabilities held for trading	-	-	-	-
Financial liabilities designated at fair value through profit or loss	65	65	377	377
Financial liabilities measured at amortized cost	133 448	134 349	139 553	140 335
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	916	892	1 186	1 167
Provisions	-	-	-	-
Income tax liabilities	11	6	-	-
Other liabilities	1 602	1 599	42	33
<b>Total liabilities</b>	<b>146 043</b>	<b>146 912</b>	<b>141 158</b>	<b>141 912</b>
<b>Total shareholder's equity</b>	<b>14 146</b>	<b>13 810</b>	<b>12 013</b>	<b>11 754</b>
<b>Total liabilities and shareholder's equity</b>	<b>160 189</b>	<b>160 722</b>	<b>153 171</b>	<b>153 666</b>
<b>Assets under management</b>	<b>179 203</b>	<b>110 474</b>	<b>187 957</b>	<b>119 286</b>
<b>Memorandum items</b>	<b>11 509</b>	<b>11 509</b>	<b>19 476</b>	<b>19 476</b>
Contingent liabilities	3 749	3 749	3 494	3 494
Financial commitments	7 760	7 760	15 982	15 982
<b>Custody assets</b>	<b>144 120</b>	<b>-</b>	<b>144 114</b>	<b>-</b>

\*Auditor: KPMG Baltics SIA

## 2. Income statement for the 6 month period, ended June 30, 2015 and 2014

(EUR 000's)

Title of entry	30.06.2015. Group (Unaudited)	30.06.2015. Bank (Unaudited)	30.06.2014. Group (Unaudited)	30.06.2014. Bank (Unaudited)
Interest income	2 654	2 654	897	896
Interest expense	(655)	(663)	(290)	(297)
Dividends received	32	32	-	-
Commission and fee income	1 515	1 313	621	443
Commission and fee expense	(466)	(453)	(52)	(39)
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	88	88	124	124
Net realised gain/(loss) from financial assets and liabilities held for trading	875	876	6	6
Net realised gain/(loss) from financial assets and liabilities at fair value through profit or loss	(1)	(1)	32	32
Changes in fair value hedge accounting	-	-	-	-
Net result from foreign exchange trading and revaluation	362	350	252	251
Gain/loss from sale of tangible and intangible fixed assets	-	-	-	-
Other income	46	45	47	48
Other expense	(146)	(143)	(95)	(93)
Administrative expense	(2 465)	(2 353)	(1 987)	(1 878)
Depreciation	(154)	(151)	(192)	(188)
Impairment allowance	32	32	-	-
Impairment of financial instruments and non-financial assets	-	-	-	-
<b>Profit/(loss) before corporate income tax (+/-)</b>	<b>1 717</b>	<b>1 626</b>	<b>(637)</b>	<b>(695)</b>
Corporate income tax	(28)	(13)	(4)	(4)
<b>Net profit/(loss) for the period (+/-)</b>	<b>1 689</b>	<b>1 613</b>	<b>(641)</b>	<b>(699)</b>

### Statement of Comprehensive Income:

(EUR 000's)

Title of entry	30.06.2015. Group (Unaudited)	30.06.2015. Bank (Unaudited)	30.06.2014. Group (Unaudited)	30.06.2014. Bank (Unaudited)
Net change in fair value revaluation reserve of securities and other reserves	443	443	105	105
<b>Other comprehensive income for the period</b>	<b>443</b>	<b>443</b>	<b>105</b>	<b>105</b>
<b>Total comprehensive income for the period (+/-)</b>	<b>2 132</b>	<b>2 056</b>	<b>(536)</b>	<b>(594)</b>

## 3. Performance indicators

Title of entry	30.06.2015. Group (Unaudited)	30.06.2015. Bank (Unaudited)	30.06.2014. Group (Unaudited)	30.06.2014. Bank (Unaudited)
Return on equity (ROE)	25.60%	24.54%	-10.29%	-11.41%
Return on assets (ROA)	2.07%	1.89%	-1.90%	-1.98%



#### 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 own funds as at 30 June 2015. 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	6 037	691	6 728	30%
United Kingdom	-	4 522	4 522	20%
Sweden	4 479	-	4 479	20%
Latvia	3 859	502	4 361	19%
Netherlands	3 479	-	3 479	15%
Russia	-	2 898	2 898	13%
France	-	3 123	3 123	14%
Bulgaria	1 875	1 012	2 887	13%
Denmark	2 690	-	2 690	12%
Romania	2 562	-	2 562	11%
Other countries	4 014	11 842	15 856	X
<b>Total securities portfolio</b>	<b>28 995</b>	<b>24 590</b>	<b>53 585</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 – Disclosure of Information <http://www.bankm2m.com/en/about-bank/in-reporting>.

##### Liquidity ratio calculation

(EUR 000's)

No	Title of entry	30.06.2015. Group (Unaudited)	30.06.2015. Bank (Unaudited)
1.	<b>Assets with high liquidity (1.1.+1.2.+1.3.+1.4.)</b>	<b>80 615</b>	<b>80 205</b>
1.1.	Cash in vault	360	360
1.2.	Demand deposits with central banks	1 090	1 090
1.3.	Deposits with solvent credit institutions	51 492	51 082
1.4.	Securities with high liquidity	27 673	27 673
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>106 136</b>	<b>106 278</b>
2.1.	Deposits and balances due to financial institutions	-	-
2.2.	Deposits from customers	91 231	91 405
2.3.	Issued securities	-	-
2.4.	Money in transit	404	404
2.5.	Other current liabilities	3 042	3 010
2.6.	Off-balance liabilities	11 459	11 459
3.	<b>Liquidity ratio (1.:2.)</b>	<b>75.95%</b>	<b>75.47%</b>
4.	<b>Minimal liquidity ratio</b>	<b>30.00 %</b>	<b>30.00 %</b>

## 2.Capital adequacy

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

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

### Summary report of equity and minimum capital requirements

(EUR 000's)

No	Title of entry	30.06.2015. Group (Unaudited)	30.06.2015. Bank (Unaudited)
1.	<b>Own funds (1.1.+1.2.)</b>	<b>22 579</b>	<b>23 108</b>
1.1.	Tier 1 capital (1.1.1.+1.1.2.)	11 267	11 796
1.1.1.	Common tier 1 capital	11 267	11 796
1.1.2.	Additional tier 1 capital	-	-
1.2.	Tier 2 capital	11 312	11 312
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>102 735</b>	<b>103 502</b>
2.1.	Amount of the risk weighted assets for credit, counterparty credit and dilution risk and free deliveries	92 379	93 792
2.2.	Risk exposure amount for settlement/delivery risk	-	-
2.3.	Risk exposure amount for position, foreign exchange and commodity risks	6 722	6 583
2.4.	Risk exposure amount for operational risk	3 567	3 060
2.5.	Risk exposure amount for credit value adjustments	67	67
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)	10.97 %	11.40 %
3.2.	Surplus (+) / deficit (-) of common equity tier 1 capital (1.1.1.-2.*4.5%)	6 644	7 138
3.3.	Tier 1 capital ratio (1.1./2.*100)	10.97 %	11.40 %
3.4.	Surplus (+) / deficit (-) of tier 1 capital (1.1.-2.*6%)	5 103	5 586
3.5.	Total capital ratio (1./2.*100)	21.98 %	22.33 %
3.6.	Surplus (+) / deficit (-) of own funds (1.-2.*8%)	14 360	14 828
4.	<b>Total requirements for capital buffers (4.1.+4.2.+4.3.+4.4.+4.5.)</b>	<b>2.5 %</b>	<b>2.5 %</b>
4.1.	Capital conservation buffer (%)	2.5 %	2.5 %
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>10.97 %</b>	<b>11.40 %</b>
5.3.	Tier 1 capital ratio, including adjustments in row 5.1.	<b>10.97 %</b>	<b>11.40 %</b>
5.4.	Total capital ratio, including adjustments in row 5.1.	<b>21.98 %</b>	<b>22.33 %</b>



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**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**