

***Public financial report
for the 1st quarter 2016
Bank M2M Europe AS***



Riga, May 31, 2016

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I MANAGEMENT REPORT

In the European banking sector the beginning of 2016 was marked by further enabling measures implemented by the European Central Bank (further – the ECB) – the base rate remained close to zero in Europe, the interest rate applied to bank account balances with the ECB was decreased to -0.4%. Considering the above, as well as the high level of liquidity of the Bank, we decreased the deposit interest rates.

We continue offering our clients alternative instruments of placement of funds: bonds and structured products with fixed income. We are convinced that in the current circumstances the most favorable way of placement of funds is not a deposit with the bank but investments in structured products with fixed income. In the next months we are planning to offer our clients new opportunities of placement of funds in these products.

In the first quarter of 2016, new shareholders joined the Bank – the family of Rapoport – Igors and Tatjana Rapoport. Along with the new shareholders the Bank has more opportunities to attract Latvian and European businesspeople to the Bank, as Mr. Rapoport has a very good reputation and a network of business contacts. Another positive aspect is the regional diversification of the shareholders, as the amount of shares owned by the European shareholders has increased. The Bank continues strengthening its capital base – during the quarter the share capital was increased by 2 million EUR.

In the Latvian banking sector the year 2016 is marked with an increasing attention of the regulating authority to anti-money laundering and countering financing of terrorism (further - AML/CFT) matters. The most important initiative is an audit of AML/CFT procedures that all Latvian banks servicing international clients, including Bank M2M Europe, plan to conduct. The Bank plans to complete the audit in the second quarter.

The Bank has retained stable financial ratios – the capital adequacy ratio was 23.61 % and the liquidity ratio was 90.49 % at the end of the quarter.

The Bank's performance indicators have been stable for several quarters, ensuring return on equity above 10%.

Roberts Idelsons

Chairman of the Board

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

II GENERAL INFORMATION

1.Shareholders of the Bank

31.03.2016			
Shareholder	Country	Total, EUR	% of total share capital
Andrey Vdovin	Russia	26 057 290	84.54
Roberts Idelsons	Latvia	1 579 970	5.13
Tatiana Rapoport	Latvia	1 516 480	4.92
Igor Rapoport	Latvia	1 516 480	4.92
Arseniy Vdovin	Russia	150 500	0.49

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

An increase in share capital was registered in March, 2016. As of 31 March 2016, the paid-up share capital of the Bank is equal to EUR 30 820 720 and consists of 440 296 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.

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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.

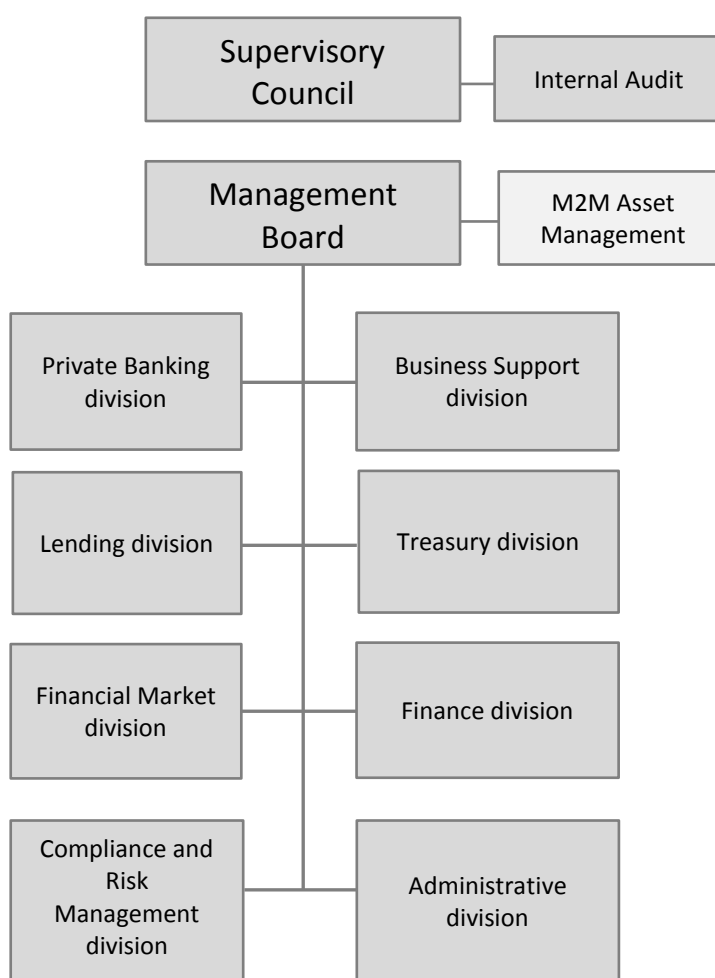
5.Consolidation Group


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

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6.The Organisational Structure of the Group



 - Subsidiary of the Bank

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III THE BANK'S FINANCIAL POSITION AND PERFORMANCE

1.Statement of Financial Position as at 31 March, 2016 and 31 December, 2015

(EUR 000's)

Title of entry	31.03.2016. Group (Unaudited)	31.03.2016. Bank (Unaudited)	31.12.2015 Group (Audited)*	31.12.2015 Bank (Audited)*
Assets				
Cash and demand deposits with central banks	13 657	13 657	23 322	23 322
Demand deposits with credit institutions	25 426	25 137	52 431	52 094
Financial assets held for trading	3 514	3 514	1 141	1 141
Financial assets at fair value through profit or loss	1 713	1 713	4 432	4 432
Available-for-sale financial assets	53 929	53 929	32 794	32 794
Loans and receivables:	96 683	96 683	91 934	91 934
• <i>Short term deposits with credit institutions</i>	40 206	40 206	41 703	41 703
• <i>Other deposits with financial institutions</i>	3 820	3 820	1 748	1 748
• <i>Loans to companies and private individuals</i>	52 657	52 657	48 483	48 483
Held to maturity investments	23 506	23 506	26 455	26 455
Change of fair value of hedge portfolio hedged against interest rate risk	-	-	-	-
Prepaid expense and accrued income	342	341	257	220
Property and equipment	2 348	2 344	2 350	2 344
Investment properties	-	-	-	-
Goodwill and other intangible assets	1 157	368	1 179	391
Investments in share capital of related and associated companies	-	1 874	-	1 874
Tax assets	1 233	1 141	1 219	1 127
Other assets	1 108	1 087	441	415
Total assets	224 616	225 294	237 955	238 543
Liabilities				
Liabilities due to central banks	1	1	10 001	10 001
Demand liabilities from credit institutions	-	-	-	-
Financial liabilities held for trading	-	-	-	-
Financial liabilities designated at fair value through profit or loss	994	994	653	653
Financial liabilities at the amortized cost	204 896	205 967	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	902	876	848	822
Provisions	-	-	-	-
Tax liabilities	5	4	-	-
Other liabilities	530	523	65	58
Total liabilities	207 325	208 365	222 751	223 715
Total shareholders' equity	17 293	16 929	15 204	14 828
Total liabilities and shareholders' equity	224 616	225 294	237 955	238 543
Assets under management	168 311	113 685	181 149	126 129
Memorandum items	4 952	4 952	10 671	10 671
Contingent liabilities	2 635	2 635	3 521	3 521
Financial commitments	2 317	2 317	7 150	7 150
Custody assets	164 408	164 408	148 345	148 345

*Auditor: KPMG Baltics SIA

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2. Income statement for the 3 Month Period, Ended on March 31, 2016 and 2015

(EUR 000's)

Title of entry	31.03.2016. Group (Unaudited)	31.03.2016. Bank (Unaudited)	31.03.2015. Group (Unaudited)	31.03.2015. Bank (Unaudited)
Interest income	1 777	1 776	1 315	1 315
Interest expense	(877)	(881)	(325)	(329)
Dividends received	16	16	1	1
Commission and fee income	804	751	652	549
Commission and fee expense	(162)	(162)	(163)	(157)
Net realised gain/ (loss) from financial assets and financial liabilities measured at amortised cost	-	-	-	-
Net realised gain/(loss) from available-for-sale financial assets	(125)	(125)	83	83
Net realised gain/(loss) from financial assets and financial liabilities held for trading	414	414	503	504
Net realised gain/(loss) from financial assets and financial liabilities at fair value through profit or loss	(65)	(65)	6	6
Changes in fair value hedge accounting	-	-	-	-
Net result from foreign exchange trading and revaluation	402	411	174	161
Gain/loss from sale of tangible and intangible fixed assets	-	-	-	-
Other income	58	58	31	32
Other expense	(67)	(66)	(48)	(48)
Administrative expense	(1 387)	(1 331)	(1 197)	(1 143)
Depreciation	(118)	(117)	(76)	(75)
Impairment allowance	6	6	6	6
Impairment of financial instruments and non-financial assets	(183)	(183)	-	-
Profit/(loss) before corporate income tax (+/-)	493	502	962	905
Corporate income tax	(18)	(18)	(17)	(7)
Net profit/(loss) for the period (+/-)	475	484	945	898

3. Performance Indicators

Title of entry	31.03.2016. Group (Unaudited)	31.03.2016. Bank (Unaudited)	31.12.2015. Group (Audited)	31.12.2015. Bank (Audited)
Return on equity (ROE)	11.67 %	12.86 %	29.72 %	28.82 %
Return on assets (ROA)	0.82 %	0.84 %	2.30 %	2.04 %

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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 March 31, 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	13 212	1 010	14 222	49%
United States of America	13 230	243	13 473	47%
United Kingdom	10 098	-	10 098	35%
Germany	-	8 061	8 061	28 %
Latvia	4 592	911	5 503	19%
Lithuania	5 280	-	5 280	18%
Other countries	12 164	12 148	24 312	X
Total securities portfolio	58 576	22 373	89 949	X

During the reporting period an impairment of available for sale financial assets for the total amount of EUR 183 thousand has been recognized.

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>; in the section Disclosure of Information; sub – section Risk Management).

Liquidity Ratio Calculation

(EUR 000's)

No	Title of entry	31.03.2016. Group (Unaudited)	31.03.2016. Bank (Unaudited)
1.	Liquid assets (1.1.+1.2.+1.3.+1.4.)	141 533	141 245
1.1.	Cash	389	389
1.2.	Demand deposits with central banks	13 268	13 268
1.3.	Deposits with solvent credit institutions	59 467	59 179
1.4.	Liquid securities	68 409	68 409
2.	Current liabilities (with residual maturity up to 30 days) (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.)	155 726	156 097
2.1.	Deposits and balances due to financial institutions	-	-
2.2.	Deposits	147 148	147 638
2.3.	Issued debt securities	-	-
2.4.	Cash in transit	217	217
2.5.	Other current liabilities	3 558	3 439
2.6.	Off-balance sheet liabilities	4 803	4 803
3.	Liquidity ratio (1.:2.)	90.89%	90.49%
4.	Minimum liquidity ratio	30.00%	30.00%

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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>; in the section Disclosure of Information; sub – section Capital Management).

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	31.03.2016. Group (Unaudited)	31.03.2016. Bank (Unaudited)
1.	Own funds (1.1.+1.2.)	28 821	29 234
1.1.	Tier 1 capital (1.1.1.+1.1.2.)	14 568	14 981
1.1.1.	Common Equity Tier (CET) 1 capital	14 568	14 981
1.1.2.	Additional Tier 1 capital	-	-
1.2.	Tier 2 capital	14 253	14 253
2.	Total Risk exposure value (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)	124 644	123 817
2.1.	Risk weighted exposure value for credit, counterparty credit and dilution risk and free deliveries	105 775	105 460
2.2.	Total risk exposure value for settlements/delivery	-	-
2.3.	Total risk exposure value for position risk, foreign exchange and commodity risks	9 142	9 182
2.4.	Total risk exposure value for operational risk	8 327	7 775
2.5.	Total risk exposure value for credit valuation adjustment	1 400	1 400
2.6.	Total risk exposure risk value related to large exposures in trading book	-	-
2.7.	Other risk exposure values	-	-
3.	Capital ratios and capital levels		
3.1.	CET 1 capital ratio (1.1.1./2.*100)	11.69%	12.10%
3.2.	Surplus (+) / deficit (-) of CET 1 capital (1.1.1.-2.*4.5%)	8 959	9 409
3.3.	Tier 1 capital ratio (1.1./2.*100)	11.69%	12.10%
3.4.	Surplus (+) / deficit (-) of Tier 1 capital (1.1.-2.*6%)	7 089	7 552
3.5.	Total capital ratio (1./2.*100)	23.12%	23.61%
3.6.	Surplus (+) / deficit (-) of total capital (1.-2.*8%)	18 849	19 329
4.	Combined buffer requirement (4.1.+4.2.+4.3.+4.4.+4.5.)	2.52%	2.52%
4.1.	Capital conservation buffer (%)	2.50%	2.50%
4.2.	Institution-specific countercyclical capital buffer (%)	0.02%	0.02%
4.3.	Systemic risk buffer (%)	-	-
4.4.	Systemically important institution buffer (%)	-	-
4.5.	Other systemically important institution buffer (%)	-	-
5.	Capital adequacy ratios including adjustments		
5.1.	Adjustment for provisions or assets, applying special policy for the purpose of the own funds calculation	2 069	2 069
5.2.	Common equity tier 1 capital ratio, including adjustments in row 5.1.	11.69%	12.10%
5.3.	Tier 1 capital ratio, including adjustments in row 5.1.	11.69%	12.10%
5.4.	Total capital ratio, including adjustments in row 5.1.	23.12%	23.61%



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