

***Public financial report
for the 2nd quarter 2016
Bank M2M Europe AS***



Riga, August 30, 2016

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I MANAGEMENT REPORT

Global environment in the 2nd quarter 2016 remained largely unchanged. UK referendum vote on leaving EU, although unexpected in outcome by the markets, provided only short volatility with following recovery of global equity indexes and fixed income prices, fueled by reiterated commitment of the world leading Central Banks to implement further easing measures when necessary. Referendum impact on UK itself and Europe in general of course is still to be seen, but we do not see significant impact on the Bank's business. We also do not foresee any changes from our clients residing in UK.

Currently Bank is servicing about 400 HNW families, thus currently we focus more on broadening of the range of products and servicing larger share of the wallet of existing clients, rather than expanding our client base. We are committed to maintaining boutique profile with as much attention as needed to each client's individual needs. We see this approach as a cornerstone of our strategy and key competitive advantage.

According to our plans Bank increased capital once again in the 2nd quarter of 2016 through investment by a group of international entrepreneurs. This planned capital increase strengthens the capital base and provides support for potential growth of the Bank's balance sheet. Although we are focused on growing investment management, advisory and other off-balance sheet business more than growing client's deposits with the Bank, we see gradual increase of the Bank's capital as necessary element to support increase in business volumes.

Bank continues to implement measures aimed to strengthen compliance procedures, with special focus on anti-money laundering and countering financing of terrorism (further - AML/CFT) matters. These elements have become extremely important in modern banking. International standards and regulation are constantly evolving and we are putting all efforts and resources necessary to keep the pace with new developments. We will continue to communicate and explain to our clients newly implemented elements in due course.

The Bank continues to keep conservative balance sheet profile – the capital adequacy ratio was almost unchanged from the end of 1st quarter at 23% and the liquidity ratio slightly increased from 90% to 93% 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

II GENERAL INFORMATION

1.Shareholders of the Bank

30.06.2016			
Shareholder	Country	Total, EUR	% of total share capital
Andrey Vdovin	Russia	24 161 690	75.34
DMD HOLDING SIA	Latvia	1 895 600	5.91
Roberts Idelsons	Latvia	1 579 970	4.93
Tatiana Rapoport	Latvia	1 516 480	4.73
Igor Rapoport	Latvia	1 516 480	4.73
Arseniy Vdovin	Russia	1 400 490	4.36

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

On June 29, 2016 an increase of the share capital of the Bank in the amount of EUR 1 249 990 was registered. Paid up share capital of the Bank as of June 30, 2016 was EUR 32 070 710 and it consisted of 458 153 name shares with voting rights. The nominal value of each share is EUR 70 and all shares are dematerialized shares.

Since June 29, 2016 there is a new shareholder among shareholders of the Bank - SIA "DMD Holdings".

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.

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

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:

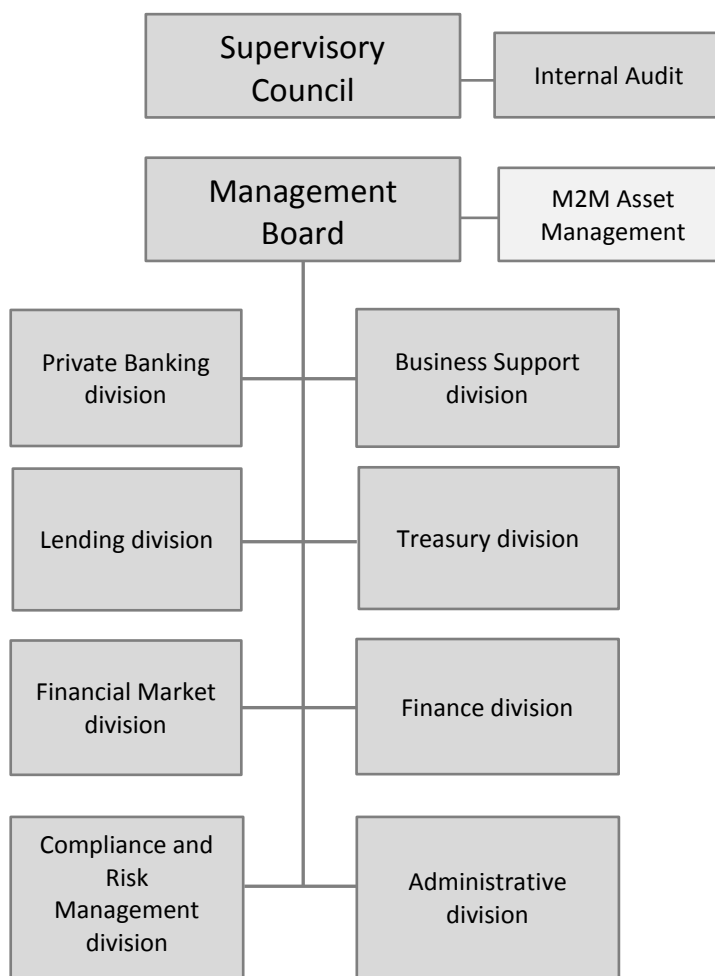
- (a) to become one of the leading banks in the *private banking* segment in the Baltics;
- (b) to develop and expand the range of top quality products and services for high net worth clients from Russia and other CIS, Latvia and other European countries;
- (c) to develop the loyal client base and grow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

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III THE BANK'S FINANCIAL POSITION AND PERFORMANCE

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

(EUR 000's)

Title of entry	30.06.2016. Group (Unaudited)	30.06.2016. Bank (Unaudited)	31.12.2015 Group (Audited)*	31.12.2015 Bank (Audited)*
Assets				
Cash and demand deposits with central banks	4 084	4 084	23 322	23 322
Demand deposits with credit institutions	42 037	41 787	52 431	52 094
Financial assets held for trading	1 115	1 115	1 141	1 141
Financial assets at fair value through profit or loss	3 420	3 420	4 432	4 432
Available-for-sale financial assets	48 407	48 407	32 794	32 794
Loans and receivables:	90 328	90 328	91 934	91 934
• <i>Short term deposits with credit institutions</i>	25 018	25 018	41 703	41 703
• <i>Other deposits with financial institutions</i>	3 901	3 901	1 748	1 748
• <i>Loans to companies and private individuals</i>	61 409	61 409	48 483	48 483
Held to maturity investments	18 301	18 301	26 455	26 455
Change of fair value of hedge portfolio hedged against interest rate risk	-	-	-	-
Prepaid expense and accrued income	476	475	257	220
Property and equipment	2 284	2 281	2 350	2 344
Investment properties	-	-	-	-
Goodwill and other intangible assets	1 129	341	1 179	391
Investments in share capital of related and associated companies	-	1 874	-	1 874
Tax assets	1 243	1 151	1 219	1 127
Other assets	3 094	3 075	441	415
Non-current assets and disposal groups classified as held for sale	544	544	-	-
Total assets	216 462	217 183	237 955	238 543
Liabilities				
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	3 777	3 777	653	653
Financial liabilities at the amortized cost	191 273	192 388	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	949	923	848	822
Provisions	-	-	-	-
Tax liabilities	10	9	-	-
Other liabilities	1 886	1 883	65	58
Total liabilities	197 895	198 980	222 751	223 715
Total shareholders' equity	18 567	18 203	15 204	14 828
Total liabilities and shareholders' equity	216 462	217 183	237 955	238 543
Assets under management	166 295	110 292	181 149	126 129
Memorandum items	8 528	8 528	10 671	10 671
Contingent liabilities	2 702	2 702	3 521	3 521
Financial commitments	5 826	5 826	7 150	7 150
Custody assets	147 766	147 766	148 345	148 345

* Auditor: KPMG Baltics SIA

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2. Income statement for the 6 Month Period, Ended on June 30, 2016 and 2015

(EUR 000's)

Title of entry	30.06.2016. Group (Unaudited)	30.06.2016. Bank (Unaudited)	30.06.2015. Group (Unaudited)	30.06.2015. Bank (Unaudited)
Interest income	3 446	3 446	2 654	2 654
Interest expense	(1 809)	(1 814)	(655)	(663)
Dividends received	35	35	32	32
Commission and fee income	1 656	1 549	1 515	1 313
Commission and fee expense	(301)	(301)	(466)	(453)
Net realised gain/ (loss) from financial assets and financial liabilities measured at amortised cost	-	-	-	-
Net realised gain/(loss) from available-for-sale financial assets	(172)	(172)	88	88
Net realised gain/(loss) from financial assets and financial liabilities held for trading	597	597	875	876
Net realised gain/(loss) from financial assets and financial liabilities at fair value through profit or loss	12	12	(1)	(1)
Changes in fair value hedge accounting	-	-	-	-
Net result from foreign exchange trading and revaluation	818	821	362	350
Gain/loss from sale of tangible and intangible fixed assets	-	-	-	-
Other income	80	78	46	45
Other expense	(194)	(190)	(146)	(143)
Administrative expense	(2 966)	(2 851)	(2 465)	(2 353)
Depreciation	(246)	(243)	(154)	(151)
Impairment allowance	(52)	(052)	32	32
Reversal of impairment on financial instruments and non-financial assets	14	14	-	-
Profit/(loss) before corporate income tax (+/-)	918	929	1 717	1 626
Corporate income tax	(41)	(41)	(28)	(13)
Net profit/(loss) for the period (+/-)	877	888	1 689	1 613

3. Performance Indicators

Title of entry	30.06.2016. Group (Unaudited)	30.06.2016. Bank (Unaudited)	30.06.2015. Group (Unaudited)	30.06.2015. Bank (Unaudited)
Return on equity (ROE)	10.31%	10.96 %	25.60 %	24.54 %
Return on assets (ROA)	0.78 %	0.79 %	2.07 %	1.89 %

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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 June 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	13 543	1 012	14 555	48%
United States of America	9 021	25	9 046	30%
Austria	-	6 295	6 295	21%
Latvia	6 276	-	6 276	21%
United Kingdom	6 043	23	6 066	20%
Lithuania	5 393	-	5 393	18%
Other countries	10 132	10 060	20 192	X
Total securities portfolio	50 408	17 415	67 823	X

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	30.06.2016. Group (Unaudited)	30.06.2016. Bank (Unaudited)
1.	Liquid assets (1.1.+1.2.+1.3.+1.4.)	132 052	131 802
1.1.	Cash	415	415
1.2.	Demand deposits with central banks	3 670	3 670
1.3.	Deposits with solvent credit institutions	67 021	66 771
1.4.	Liquid securities	60 946	60 946
2.	Current liabilities (with residual maturity up to 30 days) (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.)	141 790	142 206
2.1.	Deposits and balances due to financial institutions	-	-
2.2.	Deposits	125 027	125 558
2.3.	Issued debt securities	-	-
2.4.	Cash in transit	1 156	1 156
2.5.	Other current liabilities	7 258	7 143
2.6.	Off-balance sheet liabilities	8 349	8 349
3.	Liquidity ratio (1.:2.)	93.13%	92.68%
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	30.06.2016. Group (Unaudited)	30.06.2016. Bank (Unaudited)
1.	Own funds (1.1.+1.2.)[‡]	30 062	30 473
1.1.	Tier 1 capital (1.1.1.+1.1.2.)	15 286	15 697
1.1.1.	Common Equity Tier (CET) 1 capital	15 286	15 697
1.1.2.	Additional Tier 1 capital	-	-
1.2.	Tier 2 capital	14 776	14 776
2.	Total Risk exposure value (2.1.+2.2.+2.3.+2.4.+2.5.+2.6.+2.7.)	130 206	130 970
2.1.	Risk weighted exposure value for credit, counterparty credit and dilution risk and free deliveries	114 775	116 346
2.2.	Total risk exposure value for settlements/delivery	-	-
2.3.	Total risk exposure value for position risk, foreign exchange and commodity risks	5 745	5 490
2.4.	Total risk exposure value for operational risk	8 327	7 775
2.5.	Total risk exposure value for credit valuation adjustment	1 359	1 359
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)	11.74%	11.99%
3.2.	Surplus (+) / deficit (-) of CET 1 capital (1.1.1.-2.*4.5%)	9 427	9 803
3.3.	Tier 1 capital ratio (1.1./2.*100)	11.74%	11.99%
3.4.	Surplus (+) / deficit (-) of Tier 1 capital (1.1.-2.*6%)	7 474	7 839
3.5.	Total capital ratio (1./2.*100)	23.09%	23.27%
3.6.	Surplus (+) / deficit (-) of total capital (1.-2.*8%)	19 646	19 995
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	-	-
5.2.	Common equity tier 1 capital ratio, including adjustments in row 5.1.	11.74%	11.99%
5.3.	Tier 1 capital ratio, including adjustments in row 5.1.	11.74%	11.99%
5.4.	Total capital ratio, including adjustments in row 5.1.	23.09%	23.27%

[‡] 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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