

**PROSPECTUS**

OF AN SERIES MORTGAGE BONDS

**State-owned Joint Stock Company  
"Mortgage and Land Bank of Latvia"**

Amount of Issue – LVL 3,000,000  
Face Value of One Mortgage Bond – LVL 100

The Financial and Capital Market Commission does not bear any responsibility for the information provided in the Prospectus, the registration of Prospectus within the Financial and Capital Market Commission does not express its attitude towards the securities that are offered for public circulation and that are entered into the regulated market.

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**1. Terms and Abbreviations Used, and Explanations**

<b>Mortgage Bank</b>	The state-owned joint stock company “Mortgage and Land Bank of Latvia”
<b>Mortgage Bond</b>	Securities issued by the Bank in which debt commitments are secured that are covered by mortgages and other cover provided by Law on Mortgage Bonds
<b>RIGIBOR</b>	Riga Interbank Borrowing Rate
<b>Interest Income Rate</b>	An annual percentage rate of the Mortgage Bonds that the Mortgage Bank undertakes to pay on the dates defined in the Prospectus
<b>Interest Income Period</b>	Period between the two Interest income payment dates i.e. from 15 February till 15 August and from 15 August till 15 February
<b>RSE</b>	Joint stock company “Riga Stock Exchange”
<b>CDL</b>	Central Depository of Latvia
<b>FCMC</b>	Financial and Capital Market Commission
<b>Cover Register</b>	Mortgage bond cover register held by the Mortgage Bank
<b>Organizer of Issue</b>	Joint stock company “Latvijas Unibanka”, registered within the Commercial Register of the Republic of Latvia on 2 April 2002, registration No 40003151743, legal address Kekavas pagasts, Riga region “Unicentrs”, LV-1076 - person that buys out the AN series Mortgage Bonds for initial placement
<b>Initial Public Offer</b> (hereinafter “ <b>Public Offer</b> ”)	Offer made by the Mortgage Bank to acquire Mortgage Bonds as well as submission of any information in any media about possibility to acquire them if such offer has been made for the first time

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**2. Persons Responsible for Information Provided in Prospectus**

**2.1. Information about Persons who are Responsible for Information Provided in Prospectus**

Name, surname	ID No	Position
<b>Inesis Feiferis</b>	140849-10148	Chairman of the Board, President
<b>Rolands Paņko</b>	271165-10505	The First Vice-Chairman of the Board
<b>Jēkabs Krieviņš</b>	310369-10041	Member of the Board, Lending Director

**2.2. Statement by Persons Responsible for Prospectus**

Herewith we confirm that the information provided in this Prospectus is true and facts that might affect the meaning of the information provided in the Prospectus or decision of the potential investor on acquisition of the securities have not remained secret:

**Inesis Feiferis**

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**Rolands Paņko**

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**Jēkabs Krieviņš**

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### **3. Public Offer and Listing of AN series Mortgage Bonds with Bonds' List of Stock Exchange**

#### **3.1. Information about conditions of the Public Offer of AN series Mortgage Bonds**

Amount of issue	LVL 3,000,000.00 (three million Latvian lats)
Type of Mortgage Bonds	Bearer
Number of Mortgage Bonds	30,000 (thirty thousand)
Face value of one Mortgage Bond	LVL 100.00 (a hundred Latvian lats)
Annual Interest Income Rate	Six months RIGIBOR rate plus 0.50% (five tithes of percent)
Interest income payments per year	2 (two) times
Interest income payment dates	15 February and 15 August of each year, starting on 15 August 2005 and ending on 15 August 2010.
Starting date for calculation of Interest Income	15 February 2005
Opening date of public placement	10 February 2005
Redemption date of Mortgage Bonds	15 August 2010
Premature redemption of Mortgage Bonds	Mortgage Bank is not entitled to redeem the AN series Mortgage Bonds prior to their maturity, except cases mentioned in clause 3.7.6
Rating of Mortgage Bonds	A1 (Moody's Investors Service Limited)

#### **3.2. Aim of Public Offer**

The aim of the Public Offer of the Mortgage Bonds is to attract resources for refinancing of the long-term mortgage loans granted by Mortgage Bank.

#### **3.3. Determination Order of Interest Income Rate**

3.3.1. The Interest Income Rate applicable to the next Interest Income Period is determined 5 (five) business days before the current Interest income payment date and it shall be in force during all the next Interest Income Period. The Mortgage Bank shall put up an announcement about the determined Interest Income Rate on its website [www.hipo.lv](http://www.hipo.lv) at the latest 3 (three) business days before the current Interest Income payment date.

3.3.2. The Interest Income Rate is rounded off to the nearest 1/8 (one eighth) of one percent.

3.3.3. Six months RIGIBOR rate is published on the website of the Bank of Latvia [www.bank.lv](http://www.bank.lv).

3.3.4. The Interest Income Rate for the first Interest Income Period from 15 February 2005 till 15 August 2005 shall be determined on 01 February 2005 and will be announced in information about Public Offer in the official gazette "Latvijas Vēstnesis" and on website of the Mortgage Bank [www.hipo.lv](http://www.hipo.lv) that is published according to the clause 3.8.1.

#### **3.4. Taxation of the Income Derived from the Mortgage Bonds**

3.4.1. As at drawing up of the present Prospectus, the legislation of the Republic of Latvia stipulates the following procedure for taxation of the income derived from the Mortgage Bonds:

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3.4.1.1. Income paid out to the natural persons - residents and non-residents shall not be levied with an income tax;

3.4.1.2. Income paid out to the resident legal entities shall be levied with an income tax in accordance with the Law "On Enterprise Income Tax";

3.4.1.3. Income paid out to the non-resident legal entities shall not be levied with an income tax;

3.4.1.4. Income paid out to the non-resident legal entities, natural persons and other persons who are situated, placed or established in the tax-free and low tax states or territories defined as such by the Cabinet of Ministers regulations, the person who pays out the income shall withhold a corporate income tax from the income to be paid out at the moment of disbursement as required by Article 3 (8) of the Law of the Republic of Latvia "On Enterprise Income Tax", Article 14 of the Cabinet of Ministers Regulations No 319 Regarding Implementation of the Procedures Stipulated by Law on Enterprise Income Tax dated 19 September 2000, Cabinet of Ministers Regulations No 276 Regarding Low Tax or Tax Free States and Territories dated 20 September 2001.

3.4.2. Should an intergovernmental agreement to which the Republic of Latvia is a member state, stipulate a procedure for taxation of income that differs from the procedure stipulated by Article 3.4.1 of this Prospectus, the requirements of the intergovernmental agreement should be applied.

3.4.3. The Mortgage Bank urges the investors to follow the changes made to the legislation effective in the Republic of Latvia pertaining to the taxation of income derived from the securities on a regular basis, since the Prospectus describes only the general taxation procedures in accordance with the legislation effective as at drawing up of the Prospectus. Information given in the Prospectus should not be treated as a consultation on taxes or legal opinion. We solicit Investors to consult with their tax advisers about taxes levied from the income gained.

### **3.5. Rights Embedded in Mortgage Bonds**

3.5.1. The Law on Mortgage Bonds and the Credit Institutions Law protect rights of the holders embedded in the Mortgage Bonds.

3.5.2. In the event of insolvency or bankruptcy of the Mortgage Bank Articles 24 – 26 of the Law on Mortgage Bonds stipulating the activities of the Issuer to provide for full satisfaction of the claims of the holders of the Mortgage Bonds ensure protection and execution of the rights of the holders of the Mortgage Bonds.

3.5.3. Article 191 of the Credit Institution Law stipulates that in the event of bankruptcy of the Mortgage Bank, funds derived from the assets included in the Cover Register shall be used to meet the liabilities resulting from the issue of the Mortgage Bonds before the claims of other creditors.

### **3.6. Cover of Issue of Mortgage Bonds**

3.6.1. As at drawing up of the Prospectus, the mortgage loans included in the Cover Register that are secured by pledge (mortgage) on a real estate registered with the Land Book form the cover of the Mortgage Bonds. The loan to value ratio of the mortgage loans shall not exceed the ratio defined in Article 14 of the Law on Mortgage Bonds.

3.6.2. The Mortgage Bank may replace the mortgage loans and loans covered by guarantees of the state of Latvia or municipalities included in the Cover Register as well as interest income by substitute cover in accordance with Article 9 (4) of the Law on Mortgage Bonds that shall

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not exceed 20 (twenty) percent of the total face value of the Mortgage Bonds in circulation together with interest expenses.

3.6.3. To prevent currency risk, the Mortgage Bonds are secured by the mortgage loans included in the Cover Register that shall be denominated in the currency of the Mortgage Bonds.

3.6.4. The amount of the assets to be used for the cover of the Mortgage Bonds shall exceed the face value of the Mortgage Bonds in circulation at least by 10 (ten) percent of the total amount of the weighted assets included in the Cover Register in each currency and in the aggregate.

3.6.5. The payments of the hedging contracts of the assets and cover assets used for cover of the Mortgage Bonds shall exceed the payments of the Mortgage Bonds in circulation at any payment date of the Mortgage Bonds in each currency and in the aggregate.

3.6.6. Information about the cover of the Mortgage Bonds as at 31.12.2004.:

3.6.6.1. As at drawing up of the Prospectus, the cover of the Mortgage Bonds consists of the mortgage loans issued in Latvian lats, US dollars and euros for the total amount of LVL 52,529 thousand. As at drawing up of the Prospectus, the Mortgage Bank had used the substitute cover in amount of LVL 1,241 thousand to secure the Mortgage Bonds.

3.6.6.2. Structure of the mortgage loans included in the Cover Register by currency:

	<u>Amount ('000)</u>	<u>Number</u>
LVL	30,320	2,108
USD	29,721	478
EUR	9,830	191
Total, LVL*	<u>52,529</u>	<u>2,777</u>

\* here and hereinafter currencies are recalculated according to the currency exchange rate on 31.12.2004.

3.6.6.3. Over-collateralization ratio of the cover of the Mortgage Bonds:

	<u>Total cover</u>	<u>LVL cover</u>
Over-collateralization ratio (minimum requirement 10%)	33.99%	24.29%

3.6.6.4. Structure of the mortgage loans included in the Cover Register:

	<u>Total amount (LVL '000)</u>	<u>Total number</u>	<u>including</u>	
	<u>Total amount (LVL '000)</u>	<u>Number</u>	<u>amount (LVL '000)</u>	<u>number</u>
Mortgage loans	52,529	2,777	30,320	2,108
including				
<i>by aim of the loan</i>				
Housing loans to natural persons	25,424	2,128	15,119	1,629
Other loans	27,105	649	15,201	479
	<u>52,529</u>	<u>2,777</u>	<u>30,320</u>	<u>2,108</u>
<i>by loan to value ratio</i>				
< 15%	7,055	454	2,585	323
15% - 30%	5,527	409	3,673	346
30% - 45%	10,496	560	6,724	472
	16,077	652	9,550	485

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45% - 60%	13,374	702	7,788	482
60% - 75%	52,529	2,777	30,320	2,108
	7,055	454	2,585	323

*by size of the loan*

< 5,000	1,956	750	67	26
5,000 – 25,000	13,849	1,329	3,358	213
25,000 – 50,000	6,731	246	3,402	99
50,000 – 100,000	6,653	123	3,377	48
100,000 – 500,000	9,620	71	6,330	36
500,000 – 1,000,000	3,210	7	2,162	3
> 1,000,000	6,211	5	9,134	4
	48,230	2,531	27,830	429

### 3.7. Redemption of Mortgage Bonds and Order of Payment of Interest Income

3.7.1. The Mortgage Bonds shall be redeemed at their face value.

3.7.2. Interest Income for one Mortgage Bond per each Interest Income Period is calculated based on the face value of the Mortgage Bond, the Interest Income Rate for the respective Interest Income Period and number of the days of the Interest Income Period that consists of 180 (one hundred and eighty) days. It is assumed that a year consists of 360 (three hundred and sixty) days.

3.7.3. In the event of premature redemption of the Mortgage Bonds in accordance with Article 3.7.6 Interest Income shall be calculated from the previous Interest Income payment date to the date of premature redemption.

3.7.4. The Mortgage Bank shall settle Interest Income payments on the Interest Income payment date through intermediation of CDL in accordance with CDL Regulations No 8 Regarding Disbursement of the Dividends, Interest, Principal Amount and Other Income dated 23 January 2004.

3.7.5. On the redemption date of the Mortgage Bonds or on the date of premature redemption of Mortgage Bonds the Mortgage Bank shall settle the payments for the face value of the Mortgage Bonds through intermediation of CDL in accordance with CDL regulations No 8 Regarding Disbursement of the Dividends, Interest, Principal Amount and Other Income dated 23 January 2004.

3.7.6. The Mortgage Bank has no right to redeem the AN series Mortgage Bonds prior to maturity except cases when the Mortgage Bank redeems the part of the Mortgage Bonds That it has acquired in the secondary securities market.

3.7.7. Redeeming the AN series Mortgage Bonds prior to maturity, the Mortgage Bank shall announce the reduction of the amount of issue (according to the Article 3.7.6.2.) in the RSE information system and on the website of the Mortgage Bank [www.hipo.lv](http://www.hipo.lv) at the latest 10 (ten) business days prior to the date of premature redemption of the Mortgage Bonds indicating in the announcement the number of the Mortgage Bonds to be redeemed, their volume by face value and date of premature redemption.

3.7.8. If the Interest Income payment date or redemption date of the Mortgage Bonds is a weekend or holiday, the Mortgage Bank shall pay the Interest or face value of the Mortgage Bonds on the first business day following the weekend or holiday.

3.7.9. In case the Mortgage Bank has not made settlements on Interest Income payments or redemption of the face value of the Mortgage Bonds claims may be submitted starting with the next business day after the date of Interest Income payment or redemption of the face value of the Mortgage Bonds.

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#### **3.8. Procedure of the Placement of Mortgage Bonds**

3.8.1. A placement of the Mortgage Bonds takes place one business day – on 10 February 2005. The information about the Public Offer is published in the official gazette of the Republic of Latvia “*Latvijas Vēstnesis*” and on the Internet home page of the Mortgage Bank [www.hipo.lv](http://www.hipo.lv) not later than on 08 February 2005.

3.8.2. According to the Agreement concluded on 11 January 2004 between the Mortgage bank and the Organizer of the Issue, the Mortgage Bonds for the public placement shall be bought out and their placement executed by the Organizer of the Issue.

3.8.3. Procedure for conclusion of the transactions of the initial placement of the Mortgage Bonds:

3.8.3.1. transactions shall be concluded on 10 February 2005 from 10<sup>00</sup> – 12<sup>00</sup> in the framework of the Bonds Issue amount;

3.8.3.2. the parties to the transaction shall conclude the transactions by telephone (+371) 7215622 (Organizer’s of the Issue Resource Department Brokers’ Section) agreeing on the essential provisions of the transaction.

3.8.4. The investors may submit their applications for purchase of the Mortgage Bonds to the banks or brokerage companies that have obtained licenses for supply of investment services or investments’ side-services.

3.8.5. The Mortgage Bonds at the initial placement shall be sold at the price that will be determined by the decision of the Board of the Mortgage Bank. The price of the Mortgage Bonds at the initial placement will be determined estimating demand at the securities market, Interest Income Rate for the first Interest Income Period, profitability of comparable market instruments and parameters of the Mortgage bond cover register.

The initial placement price shall be announced in the information about the Public Offer in the official gazette of the Republic of Latvia “*Latvijas Vēstnesis*” and on the Internet home page of the Mortgage Bank [www.hipo.lv](http://www.hipo.lv).

3.8.6. For transactions on the initial placement of the AN series Mortgage Bonds the date of settlement (T+3) coincides with the Starting date for calculation of Interest Income (15 February 2005). Therefore the accrued interest for the transactions on the initial placement will not be calculated.

3.8.7. The payment for the transactions of the initial placement of the Mortgage Bonds shall be made in accordance with DVP (Delivery Versus Payment) principle according to the CDL Regulations No 5 “On DVP settlements of Financial Instruments” dated 23 January 2004 or as agreed separately by the parties to the transaction.

3.8.8. The Mortgage Bonds that the Organizer of the Issue has not sold at the Public Offer shall be considered as sold to the Organizer of the Issue at the initial placement.

#### **3.9. Decisions underlying Public Offer of Mortgage Bonds and listing of BB series Mortgage Bonds with Bonds’ List of Stock Exchange**

3.9.1. The AN series Mortgage Bonds are issued and the Public offer is made in accordance with the decision (Minutes No 5) passed at the extraordinary shareholders’ meeting of the Mortgage Bank that took place on 12 September 2003 and the decision (Minutes No 1) passed at the extraordinary shareholders’ meeting of the Mortgage Bank that took place on 04 February 2004.

3.9.2. The decision about the Issue of the AN series Mortgage Bonds and Public Offer passed at the Board meeting of the Mortgage Bank on 5 January 2005 (Minutes No 1).

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3.9.3. The Prospectus of the AN series Mortgage Bonds is approved at the board meeting of the Mortgage Bank that took place on 19 January 2005 (Minutes No 3).

#### **3.10. Legislation Underlying Issue of Mortgage Bonds**

3.10.1. Law on Mortgage Bonds of the Republic of Latvia passed on 10 September 1998 (with amendments as at the drawing up of the Prospectus).

3.10.2. Law on Financial Instruments Market of the Republic of Latvia passed on 20 November 2003.

3.10.3. Law on Credit Institutions of the Republic of Latvia passed on 5 October 1995 (with amendments as at the drawing up of the Prospectus).

3.10.4. In the case of disputes the action shall be maintained in a court of the Republic of Latvia by its competence.

3.10.5. The interpretation of the Prospectus provisions in Latvian shall have priority to the interpretation in any other language.

#### **3.11. Information About Listing of Mortgage Bonds with Bonds' List**

3.11.1. The application for listing 30 000 (thirty thousand) AN series Mortgage Bonds, whose particulars have been determined in the Article 3.1 of the Prospectus, with the Bonds' List will be submitted to the RSE, legal address at Valņu iela 1, Riga, telephone (+371) 722 9411; e-mail [riga@omxgroup.com](mailto:riga@omxgroup.com), Internet home page [www.rfb.lv](http://www.rfb.lv).

3.11.2. Procedure for listing the Mortgage Bonds with the Bonds' List:

3.11.2.1. the Mortgage Bank shall submit to the RSE an application for listing the AN series Mortgage Bonds with the Official List of the RSE within 5 (five) business days since the receipt of the permission to make the public offer from FCMC;

3.11.2.2. quotation of the AN series Mortgage Bonds shall be started not earlier than on the 6<sup>th</sup> (sixth) business day after the closing date of the Public offer.

#### **3.12. Mortgage Bonds Issued by Mortgage Bank already Included in Bonds' List of Riga Stock Exchange**

3.12.1. The Mortgage Bank has registered the Mortgage Bonds of the AD, AF, AG, AI, AH, AL, AM, AJ, AK series for the total face value of LVL 28,150,000.00 (twenty-eight million one hundred fifty thousand Latvian lats).

3.12.2. The Mortgage Bank has listed with the Bonds' List of the RSE the Mortgage Bonds of the AD, AF, AG, AI, AH, AL, AJ, AM, AK series which have undergone the initial placement for the total face value amounting to LVL 25,012,400.00 (twenty-five million, twelve thousand, four hundred Latvian lats) and BA, BB series Mortgage Bonds with the total face value amounting to USD 25,000,000.00 (twenty five million US dollars).