

Registered with the Financial and Capital Market  
Commission  
Established on: 20<sup>th</sup> October 1999  
Registration number: 1  
Country where registered: Latvia

Fund Prospectus amendment registration dates, numbers and  
effective dates:

The Fund Prospectus was approved at the Meeting of the Board of  
IS Hansa Fondi on 23<sup>rd</sup> September 1999.

Amendments to the Fund Prospectus were:

- approved at the extraordinary meeting of shareholders of IS  
Hansa Fondi on 4<sup>th</sup> August 2000 and came into force on 19<sup>th</sup>  
September 2000;
- approved at the meeting of shareholders of IS Hansa Fondi on 9<sup>th</sup>  
February 2001 and came into force on 27<sup>th</sup> February 2001;
- approved at the meeting of shareholders of IS Hansa Fondi on 15<sup>th</sup>  
June 2001 and came into force on 29<sup>th</sup> June 2001;
- approved at the meeting of shareholders of IS Hansa Fondi on 19<sup>th</sup>  
March 2003 and came into force on 30<sup>th</sup> April 2003.

The full wording of the Prospectus was approved at the Meeting of  
the Board of IPS Hansa Fondi on 17<sup>th</sup> November 2004 and came into  
force on 10<sup>th</sup> January 2005.

The full restated wording of the Prospectus was approved at the  
Meeting of the Board of IPS Hansa Fondi on 8<sup>th</sup> September 2006 and  
came into force on 20<sup>th</sup> October 2006.

Amendments to the full restated wording the Fund Prospectus:

- based on changes in the composition of the Council of IPS Hansa  
Fondi, were merged into the full restated wording of the Prospectus  
and approved at the Meeting of the Board of Hansa Fondi on 17<sup>th</sup>  
January 2007 and came into force on 17<sup>th</sup> January 2007;
- based on changes in the composition of the Board and the change of  
the Fund manager, were merged into the full restated wording of the  
Prospectus and approved at the Meeting of the Board of IPS Hansa  
Fondi on 15<sup>th</sup> June 2007; the amendments came into force on 15<sup>th</sup>  
June 2007;
- based on changes in the composition of the Board and the Council ,  
were merged into the full restated wording of the Prospectus and  
approved at the Meeting of the Board of IPS Hansa Fondi on 19<sup>th</sup>  
September 2007; the amendments came into force on 19<sup>th</sup>  
September 2007;
- amendments in connection with investment certificates of a new  
class being issued and changes in the times for orders for sale and  
purchase of investment certificates, were approved at the Meeting of  
the Board of IPS Hansa Fondi on 6 November 2007 by restating the  
Prospectus. The amendments shall come into force on 13<sup>th</sup>  
December 2007.
- approved at the Meeting of the Board of AS IPS Hansa Fondi on 18th  
February 2008 and came into force on 28th March 2008;
- approved at the Meeting of the Board of AS IPS Hansa Fondi on 22<sup>nd</sup>  
August 2008 and came into force on 2<sup>nd</sup> October 2008

## FUND PROSPECTUS

*Open-Ended Investment Fund*

# HANSA LATS MONEY MARKET FUND

### **Fund Management Company**

*AS Ieguldījumu Parvaldes Sabiedrība Hansa Fondi*

*Address: Balasta dambis 1a, Rīga, LV-1048*

### **Custodian Bank of the Fund**

*AS Hansabanka*

### **Distributor of the Fund investment certificates**

*AS Hansabanka*

*Address: Balasta dambis 1a, Rīga, LV1048*

### **AUDITOR OF THE FUND**

The Fund Prospectus, Simplified Prospectus, Rules, annual and semi-annual reports of the Fund, as well as other information regarding the Fund and the Company, and details about the value of the Fund, sale and redemption prices of investment certificates are available for inspection at AS Hansabanka (at Balasta dambis 1a, Riga, LV-1048, Latvia) on business days from 09:00 to 17:00 hours, as well as on the Company's website at [www.hansafondi.lv](http://www.hansafondi.lv). The English name of the Fund is - open-ended investment fund Hansa Lats Money Market Fund.

Prior to making investments, one should get acquainted with the information provided in the Prospectus of the Fund. Please read this Fund Prospectus carefully and save it for future reference.

The Fund Prospectus may also be distributed in other languages, nevertheless the version published in Latvian will prevail.

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## **1. TERMS AND ABBREVIATIONS EXPLAINED**

**Law** – a law of the Republic of Latvia “Law on Investment Management Companies”.

**Fund** – a pool of assets composed of investments made against investment certificates, as well as any things acquired in transactions with the investment fund assets and acquired on the basis of the rights attached thereto; herein – the open-ended investment fund Hansa Lats Money Market Fund.

**Rules** – the Fund management bylaws, which prescribe the fund management procedure.

**Fund assets** – the things, the aggregate of which forms the investment fund.

**Fund investor** – a person who has invested money in the Fund.

**Investment certificate** – a transferable security that confirms the Fund investor’s share in the Fund and the rights attached to this share.

**Fund unit** – the rights of claim corroborated in one investment certificate according to the value of the Fund unit.

**Investment target** – investments with credit institutions, transferable debt securities, money market instruments and other financial instruments, which, under the Law and the Prospectus, may be acquired by the Company using the Fund assets.

**Company** – a public limited company, who carries on business in accordance with the Law, the Commercial Law, other laws and regulations, and its articles of association, herein – the public limited investment management company Hansa Fondi (*AS ieguldījumu pārvaldes sabiedrība Hansa Fondi*).

**Company officials** – the members of the board of the Company, the investment fund managers, as well as other persons who have the authority to give instructions regarding the Fund assets or to operate with them on behalf of the Company.

**Interested parties of the Company** – the Company’s council members, officials, shareholders who own 10 or more per cent of the voting stock in the Company, as well as the spouses, parents and children of the aforesaid natural persons.

**Custodian Bank** – a bank who has the Fund assets in its custody, maintains records thereof, conducts transactions in Fund assets and other duties prescribed by Law and the custodian bank agreement; herein – AS Hansabanka.

**Interested parties of the Custodian Bank** – the members of the board and the council of the Custodian Bank, the Custodian Bank shareholders who own 10 or more per cent of the voting stock in the Custodian Bank, as well as the spouses, parents and children of the aforesaid natural persons.

**Risk mitigation principle** – the mitigation of risk of financial loss by spreading the Fund assets over investment targets and complying with transaction restrictions, as well as by maintaining an opportunity to gain the maximum expected income.

**Commission** – the Financial and Capital Market Commission, the financial regulatory authority of the Republic of Latvia.

**Distributor** – the person who distributes the Fund investment certificates in accordance with the rules set out in this Prospectus and based on an agreement entered into by and between the Company and the Distributor.

**Money market instruments** – liquid short-term debt instruments that can be assessed precisely at any given time (debentures, certificates of deposit, commercial papers, etc) and that are typically traded on money markets.

**Derivative financial instruments** – financial instruments, the value of which varies depending on interest rate fixed, price of securities, foreign exchange rate, price or rate index, credit rating or on changes in similar variables and under the influence of which one or several financial risks, which are inherent in the derivative financial instrument’s underlying financial instrument, are transferred between parties to the transaction. The

acquisition of a derivative financial instrument requires no or a small initial investment as compared to other contracts, which in a similar fashion depend on changes in market conditions, furthermore, settlements related to performance of the contract take place in the future.

**Member State** – a member state of the European Union or of the European Economic Area.

**OECD** – the Organization for Economic Co-operation and Development.

G10 - A group of ten countries that have concluded the General Agreement to Borrow (GAB) with the International Monetary Fund.

**Base currency** – the currency, in which the Fund value and the Fund unit value are established.

## **2. INVESTMENT OBJECTIVE OF THE FUND**

The objective of the open-end investment fund Hansa Lats Money Market Fund is to attain a permanent and steady appreciation of the capital, following the investment policy set out in the Prospectus. The Fund's principal source of income is interest income from investments in debt securities.

## **3. INVESTMENT POLICY**

The base currency of the Fund is the Latvian lats.

The Fund has two classes of certificates – class A and class I. The assets of both classes are managed as a single investment portfolio in compliance with the principles described below.

The cash of the Fund may be invested in transferable debt securities, money market instruments, deposited with credit institutions and invested in other financial instruments referred to in the Prospectus subject to investment restrictions and procedure set out in the Law, this Prospectus and the Rules.

The Fund invests exclusively in Latvia, other Member States and the OECD countries that are members of G10.

The Fund manager may hold a part of the Fund assets in a cash account as cash with the Custodian Bank for the purposes of ensuring satisfaction of investment certificates redemption claims, if, in the opinion of the Fund manager, investments suitable for the attainment of the Fund's objectives are impossible or in cases of emergency market or economic situations.

### **3.1. Investments in debt securities**

The Fund manager may invest up to 100 per cent of the Fund assets in the debt securities or money market instruments issued or guaranteed by Latvia, other Member States or the OECD countries that are members of G10, local governments, enterprises or other organizations, subject to conditions set out in INVESTMENT RESTRICTIONS of Section 5 of the Prospectus.

### **3.2. Deposits with credit institutions**

The Fund manager may investment up to 100 per cent of the Fund assets in deposits with credit institutions, subject to conditions set out in INVESTMENT RESTRICTIONS of Section 5 of the Prospectus.

### **3.3. Investments in derivative financial instruments**

The Fund manager may use derivative financial instruments for the purposes of both risk hedging and profit. The Fund manager will predominantly use derivative financial instruments for managing interest rate risks. Such transactions will be conducted in compliance with the procedure provided for in the Law.

#### **4. THE FUND RISK PROFILE DESCRIPTION AND INVESTMENT RELATED RISKS**

The Fund is intended as a low risk investment as investments are made in fixed income financial instruments. Investing in such instruments is considered to involve less risk as compared to equity investments.

The risk means the potential loss arising from investment activity. Based on the causes giving rise to loss, risks can be divided in the following main risks: market risk, credit risk, liquidity risk, currency risk and operational risk.

**Market risk** means the risk that the prices of a certain group of assets (for instance, for bonds listed in Riga Stock Exchange) may generally drop. The Fund manager minimizes this risk through implementing a balanced investment policy and spreading investments across different groups of assets. Thus, a fall of prices in one group of assets may be counterbalanced by a rise in prices in another group of assets. The Fund manager may use appropriate derivative financial instruments for the mitigation of market risk.

**Interest rate risk** is one of the market risks. The value of debt securities may change depending on changes in interest rates: when interest rates rise, the value of these securities decreases, and vice versa. This risk is hedged through investing in financial instruments with various maturities.

**Credit risk** means the risk that the issuer of debt securities or a credit institution, with which the Fund assets are deposited, is unable to perform their obligations. The value of debt securities may change depending on changes in the creditworthiness of the issuer: if the creditworthiness worsens, the price of securities falls, and vice versa. This risk is minimized by the Fund manager by carrying out a relevant analysis of the issuer prior to investing, as well as by following the financial and economic situation of the issuer during the period of investment. The Fund manager may use appropriate derivative financial instruments for the mitigation of credit risk. Credit risk also involves counterparty credit risk, which arises when the counterparty, with whom the Fund manager has entered into a transaction on the account of the Fund, is unable to perform their obligations. To minimize this risk, the Fund manager enters into transactions with credit institutions, whose credit risk is low, as well as with reliable partners specializing in the relevant market segment.

**Liquidity risk** means the risk that an investment in certain securities is not marketable within a short period of time without causing the price of this security to fall. This risk only becomes relevant when Clients give orders for the sale of a substantial number of Fund units. To minimize this risk, the Fund manager invests a part of the Fund assets in liquid securities that are readily convertible to cash at minimum cost, as well as holds a part of assets in a cash account with the Custodian Bank.

**Currency risk** means the risk that the value of assets invested in foreign exchange may drop as foreign exchange rates change against the lats. The Fund manager may use appropriate derivative financial instruments for the mitigation of currency risk.

**Operational risk** means the possibility of incurring a financial loss in day-to-day operations of the Fund manager and the Custodian Bank, for example, due to an employee's deliberate or unintentional deviation from statutory requirements or due to a failure in the means of communication or computer systems, etc. The operational risk is minimized through a sound internal control framework, the protection and backup of information systems and databases, and through ensuring adequately qualified staff.

When opting for investing in the Fund, the Client should consider the risk that arises from the investment of the Fund assets and may affect the performance of the Fund, which may be either profit or loss. Neither Hansa Fondi, nor AS Hansabanka, or any other financial or state institution guarantees preservation of or growth in the value of investments. The historical yield of the Fund does not guarantee a similar yield in the future.

## **5. INVESTMENT RESTRICTIONS**

The Company undertakes transactions with the Fund assets in compliance with the Law, this Prospectus and the Rules.

### **5.1. General investment restrictions**

The cash of the Fund may be invested in transferable debt securities, money market instruments, deposited with credit institutions and invested in other financial instruments referred to in the Prospectus subject to investment restrictions and procedure set out in the Law, this Prospectus and the Rules.

5.1.1. The Company shall have no right to assume any liabilities on the account of the Fund assets unless directly related to the Fund. The Company may not conduct, with the Fund assets, any transactions without compensation. Claims against the Company and the claims that are part of the Fund's assets may not be set off against each other.

5.1.2. The Fund assets may not be pledged or otherwise encumbered with rights *in rem* unless:

1) it serves as a collateral in receiving loans according to the procedure set out in clause 5.6 of the Prospectus;

2) sale and repurchase (repo) transactions are performed on the account of the fund's property;

3) it serves as a collateral in conducting transactions in derivative financial instruments referred to in clause 3.3 of the Prospectus.

5.1.3. The Company may not, through a direct agreement, dispose of the Fund assets in favour of the Company or its interested parties, other fund managed by the Company, as well as may not, through a direct agreement, purchase any assets on the account of the Fund from the foregoing persons. Such restrictions do not apply to transactions with the interested parties of the Company, which are credit institutions registered in Latvia or in another Member State.

5.1.4. The Fund assets may be used for purchasing the securities issued by any of the persons referred to in clause 5.1.3 through a stock exchange or through an organized and public securities market only.

5.1.5. The following operations are not permitted on the account of the Fund:

1) to perform the liabilities of the Company incurred on its own behalf and account;

2) to issue securities other than investment certificates;

3) to assume liabilities under guarantee agreements;

4) to extend loans. The said prohibition is not applicable to asset repurchase transactions, which are allowed to be undertaken on the condition that the investment restrictions of this section are applied to the financial instruments involved in the transaction.

5.1.6. The Company may not, on the account of the Fund, sell financial instruments or assume liabilities for the sale of financial instruments unless they are a part of the Fund assets at the time of entering into the transaction. A violation of this rule will have no effect on the validity of the transaction.

5.1.7. The Company may not, on the account of the Fund, purchase assets at a price higher than the market price or to dispose of the Fund assets at a price lower than the market price.

5.1.8. The Fund assets may not be invested in precious metals, or in derivative financial instruments where precious metals or goods are the underlying asset.

5.1.9. The Fund assets may not be invested in real estate or in units of other investment funds.

### **5.2. Rules for investments in transferable debt securities and money market instruments**

5.2.1. The Fund assets may be invested in transferable debt securities and money market instruments, which meet at least one of the following conditions:

- 1) they are listed on organised markets of Latvia or another Member State;
- 2) they are listed on the main list of a stock exchange registered in an OECD Member State that is a member of G10 or are traded on organised markets of such country;
- 3) they are not on the main list of stock exchanges or are not traded on organized markets, but the terms of issue of these securities or money market instruments stipulate that an application will be lodged for the admission of these securities or money market instruments to the official listing of the stock exchanges or organized markets referred to in clause 5.2.1 (1) and (2) and the admission of these securities or money market instruments will take place within one year of commencement of subscription to these securities or money market instruments.

5.2.2. The Fund assets may be invested in money market instruments which are not traded on organized markets if they are freely transferable (no restrictions on transactions in them) and at least one of the following conditions exists:

- 1) they are issued or guaranteed by a Member State or its local government, by other state (in federal countries – one of the federation members) or international financial institution if one or several member states are its members;
- 2) they are issued or guaranteed by the central bank of Latvia or a Member State, the European Central Bank, or by the European Investment Bank;
- 3) they are issued by a business company, whose securities are traded according to the procedure laid down in clause 5.2.1 (1) and (2);
- 4) they are issued or guaranteed by a credit institution that is registered in a Member State and if its operation is supervised by a financial services supervision institution in accordance with the requirements of the European Union, or an issuer that is subject to regulating requirements at least of the same extent as those in force in the European Union and that complies with at least one of the following requirements:
  - a) it is registered in a Member State of the OECD that is a member of G10;
  - b) an investment grade rating is assigned to it;
  - c) a comprehensive analysis of the legal regulation that applies to the issuer has showed that the requirements it is subject to are of the same level as in the European Union;
- 5) they are issued by a business company of the category approved by the Commission and that has capital and reserves equivalent to 10 million euros in lats in accordance with the exchange rate set by the Bank of Latvia and if it makes and publishes annual reports in accordance with requirements for making and publishing of reports that are equal to those in force in the European Union. Such business company is in a concern with one or more business companies stocks of which are traded on an organised market and its purpose is to attract money assets to the concern or it has a special unit that is specialised in the securitisation of debts and it has concluded an agreement on ensuring liquidity with a bank that complies with the requirements for credit institutions as set out under clause 5.2.2.(4). Investor protection that is equivalent to the protection stipulated in clauses 5.2.2 (1), (2), (3) and (4) should apply to investments in such money market instruments.

5.2.3. The Fund investments, except the investments referred to under clauses 5.2.4 and 5.2.6, in transferable debt securities or money market instruments of one issuer may not exceed 5 per cent of the Fund assets. The foregoing threshold may be raised to 10 per cent

of the Fund assets, but in such an event the aggregate value of investments in excess of five per cent may not exceed 40 per cent of the Fund assets.

5.2.4. The Fund investments in transferable debt securities or money market instruments of one issuer may be increased to 35 per cent of the Fund assets if the transferable securities or money market instruments are issued or guaranteed by:

- 1) Latvia, other Member State or a local government of these countries;
- 2) an OECD country;
- 3) international financial institution if one or several Member States are its members.

5.2.5. The restriction of clause 4.2.4 of the Rules may be exceeded in respect of securities issued by Member States and debt securities issued by the OECD Member States that are members of G10 and traded on the organised markets thereof if the following conditions are met at the same time: the Fund owns transferable debt securities or money market instruments from 6 or more issues, at the value of transferable debt securities or money market instruments of each issue separately do not exceed 30 per cent of the Fund assets, or the persons, who have issued or guaranteed the transferable debt securities or money market instruments in which the Fund manager has invested, or intends to invest, more than 35 per cent of the Fund assets, are mentioned in clause 3.1 of the Prospectus.

5.2.6. The Fund investments in transferable debt securities of one issuer may be raised to 25 per cent of the Fund assets if they are debt securities issued by a credit institution registered in Latvia or another Member State the liabilities pertaining to which require that the proceeds will be invested in items, which, during whole period of circulation of the debt securities, fully secure the liabilities pertaining thereto, and these liabilities are to be discharged on a priority basis in case of insolvency of issuer of these securities. If the value of such one issuer's debt securities owned by the Fund exceeds five per cent of the Fund assets, the aggregate value of Fund investments in excess of those five per cent may not exceed 80 per cent of the Fund assets.

### 5.3. Rules for deposits with credit institutions

The Fund's deposits with one credit institutions may not exceed 20 per cent of the Fund assets. Deposits may be made in credit institutions that have received a licence to operate as a credit institution in Latvia, in another Member State or in an OECD country that is member of G10 and are entitled to render financial services in the said countries.

The foregoing 20 per cent cap is not applicable to on-demand claims against the Custodian Bank.

Deposits with credit institutions may be made if they can be withdrawn on demand, or before maturity date and their maturity does not exceed 12 months.

### 5.4. Rules for Investments in derivative financial instruments

5.4.1. The Fund assets may be invested in derivative financial instruments, which are traded on markets mentioned in clause 5.2.1 of the Prospectus or not traded on organised markets and at the same time meet the following requirements:

- 1) their underlying asset is the financial instruments referred to in clause 5.2.1 of the Prospectus and the deposits with credit institutions referred to in clause 5.3, financial indices, interest rates, currency exchange rates and currencies which are investment targets of the Fund assets under the Prospectus or the Fund Rules;
- 2) the counterparty in a transaction in derivative financial instruments that are not traded on an organised market is a credit institution that meets the requirements of clause 4.3 of the Rules or an investment brokerage company whose capital and reserves are 10 million euros equivalent in lats according to the exchange rate set by the Bank of Latvia or higher and that is registered in a Member State or an OECD Member State that is a member of G10 and the operation of which is supervised by a financial services supervision institution;

- 3) a reliable and verifiable valuation of the derivative financial instrument not traded on an organised market is conducted on a daily basis and the derivative financial instrument may be sold or liquidated at its fair value or transactions that result in closing the position (claims or liabilities related to the financial instrument) may be performed with it at any time upon initiative of the company.

5.4.2. The aggregate of risks arising from transactions in derivative financial instruments, including transferable securities or derivative financial instruments included in money market instruments, may not exceed the net value of the Fund's investment portfolio. In calculating the total risk the value of the underlying assets of the derivative financial instrument, the counterparty risk, future changes in the market and the time required to close the relevant position shall be taken into account.

5.4.3. Risk position in transactions in over-the-counter derivative financial instruments may not exceed:

- 1) 10 per cent of the Fund assets if the counterparty is a credit institution which meets the requirements of clause 5.3 of the Prospectus;
- 2) 5 per cent of the Fund assets in other cases.

5.4.4 The restrictions specified under clauses 4.2.3, 4.2.4, 4.2.5, 4.2.6, and 4.3 shall be applied to the transactions in derivative financial instruments with the purpose to gain profit.

#### 5.5. Miscellaneous Fund assets investment restrictions and deviation therefrom

5.5.1. Without prejudice to the investment restrictions laid down separately in clauses 5.2.3, 5.3, 5.4.2 and 5.4.3 of the Prospectus, the total Fund investments in transferable debt securities and money market instruments, the Fund investments and transactions in derivative financial instruments where the issuer or the guarantor, or the attractor of deposit or the counterparty is one and the same person, may not exceed 20 per cent of the Fund assets. In applying the investment restrictions prescribed by this clause, business companies belonging to one group shall be considered as one person.

5.5.2. The investment restrictions laid down separately in clauses 5.2.3, 5.2.4, 5.2.6, 5.3, 5.4.2 and 5.4.3 of the Prospectus may not be combined, consequently, the total Fund investments in transferable debt securities and money market instruments, the Fund investments and transactions in derivative financial instruments where the issuer or the guarantor, or the attractor of deposit or the counterparty is one and the same person, may not exceed 35 per cent of the Fund assets.

5.5.3. Up to 10 per cent of the Fund assets may be invested in transferable debt securities and money market instruments which do not meet the requirements laid down in clause 5.2.1 and 5.2.2 of this Prospectus.

5.5.4. The Fund investments in separate investment targets may not exceed:

- 1) 10 per cent of the total amount of debt securities issued by one issuer;
- 2) 10 per cent of the aggregate value of money market instruments issued by one issuer.

The total investments of all the funds managed by the company or the investments of every fund individually may not exceed, directly or indirectly, 10 per cent of the equity of one issuer or the total voting right of one issuer.

5.5.5. At the time of investing, it is admissible to exceed the investment restrictions specified in clause 5.5.4 (1) and (2) if at that moment it is impossible to determine or calculate the quantity or value of all issued securities with attaching indebtedness.

5.5.6. The investment restrictions laid down in the Prospectus may be deviated from if such deviation occurs due to the exercising of subscription rights arising from the transferable debt securities or money market instruments that are part of the Fund assets, or due to other circumstances that the Company could not have predicted. To eliminate the deviation from the investment restrictions, the Company shall promptly perform sales transactions in line with the risk mitigation principle and the interests of the Fund investors.

5.5.7. A deviation from the investment restrictions laid down in the Prospectus will not invalidate the transaction in question, yet the Company shall be liable before the Fund investors and third parties for any loss incurred through such action, except for events stipulated in clause 5.5.5 and 5.5.6 of the Prospectus and the Law.

#### 5.6. Borrowings on the account of the Fund

The Company may borrow on the account of the Fund with a view to ensuring protection of interests of the Fund investors. The maturity of borrowings may be up to three months and in the aggregate they may not exceed 10 per cent of the Fund value.

The Company may enter into repurchase agreements (repos) on the account of the Fund assets.

The Company may not borrow on the account of the Fund from the Fund management company, its interested persons and other funds managed by the same company, except for interest-free borrowings from the Company and borrowings from the Custodian Bank at a rate of interest that does not exceed the financial market average loan interest rate at the time of borrowing.

The Fund investment portfolio's compliance with investment restrictions shall be determined using the value of investments established according to the procedure set out in Section 17 (PRINCIPLES AND RULES OF DETERMINING THE FUND VALUE).

### **6. INVESTMENT PRACTICE APPLIED IN THE FUND MANAGEMENT**

In accordance with the Fund's investment objective, the main source of income at the Fund shall be the interest income from investments in debt securities (debentures, bonds, etc.). For this reason, the Fund assets shall be invested with a view to holding these investments until maturity or expiry of the term. In isolated cases (e.g. for ensuring liquidity of the Fund, in case of favourable market conditions), sale of investments before maturity is possible.

### **7. RIGHTS OF THE FUND INVESTORS**

The Fund investors have the right to alienate their investment certificates without restriction, in proportion to the number of investment certificates in accordance with the Law and the Fund prospectus participate in the distribution of income obtained in transactions with the Fund assets, and in proportion to the number of investment certificates participate in the distribution of the proceeds of the Fund liquidation.

The Fund investors have the right to demand that their investment certificates be redeemed by the Company.

If Company is at fault for any error in or omission of details, which are material in the assessment of investment certificates, in the Fund Prospectus or documents enclosed therewith, the Fund investor shall have the right to demand that the Company reaccepts their investment certificates. The demand for re-acceptance of investment certificates and loss reimbursement must be raised within six months of the day when the Fund investor found out about the error in or omission of the detail, but in any event not later than within three years of the day of purchase of the investment certificate.

If at the moment when the Fund investor has learned that the information contains an error or is incomplete he or she is no longer the owner of the investment certificate, he has the right to demand that the Company pays the difference by which the sum invested by him or her exceeds the redemption price of the investment certificate at the time of redemption.

The Fund investors have the right to demand and receive, free of charge, the annual and semi-annual reports of the Fund.

Other rights of the Fund investors are stipulated by the Law and this Prospectus.

The Fund investors shall not be liable for the obligations of the Company. The Fund investors' liability for the claims that may be brought against the Fund assets shall be limited to the Fund units owned by them.

The provisions of the Fund Prospectus shall become binding on the relations between the Company and the investor as soon as the investors acquire the Fund investment certificates according to the procedure laid down in the Prospectus and the Rules.

## **8. DESCRIPTION OF THE TYPICAL INVESTOR**

The Fund is suitable for companies who wish to ensure their day-to-day cash management by placing their cash in lats currency, which is available for a relatively short or an unspecified period of time.

The Fund is also suitable for private individuals who wish to place their cash in lats currency in an investment target of low risk and high liquidity.

## **9. TAXES AND DUTIES APPLICABLE TO THE FUND INVESTORS, AND PROCEDURE OF PAYMENT THEREOF**

In accordance with the Law, the Fund is not a legal person and is not subject to taxation. If any taxes are, under laws or regulations, applicable to investment targets or transactions with the Fund assets, the Company shall in such a case pay these taxes at the expense of the Fund assets.

Income received by investors may be subject to taxation in accordance with laws "On Personal Income Tax", "On Corporate Income Tax" or other laws, which may in future replace these laws and the Cabinet Regulations or other regulatory acts issued on the basis thereof.

The potential investors should consult their professional tax advisors for the legal implications of and taxation applicable to acquisition, holding and disposal of investment certificates.

## **10. INVESTMENT CERTIFICATES SALES AND REDEMPTION FEES**

No issue fee shall be applied upon purchase of the Fund investment certificates.

No redemption fee shall be applied.

Type of fee	Amount of fee (%)
Investment certificate sale	0.00
Investment certificate redemption	0.00

## **11. REMUNERATION PAYABLE OUT OF THE FUND ASSETS**

### 11.1. Remuneration payable to the Company

For the management and servicing of the Fund, the Company shall receive a remuneration of no more than 0.60% (zero point six zero per cent) per annum of the value of the Fund's class A assets less all liabilities pertaining to certificates of this class, and of no more than 0.40% (zero point four zero per cent) per annum of the value of the Fund's class I assets less all liabilities pertaining to certificates of this class. The amount of the remuneration payable to the Company may be subject to change, yet may not be in excess of the maximum size of remuneration.

The remuneration is calculated on a daily basis as the value of the relevant class of the Fund assets in the previous business day less the liabilities pertaining to certificates of this class multiplied by the amount of remuneration and dividing the result by the number of calendar days in the reporting year. The amount of total remuneration for a certain period shall be determined by summing up the amount of remuneration calculated for each day from the beginning of the period until and including the day of calculation.

The remuneration to the Company shall be calculated and accrue for each day. This remuneration shall be received by the Company once a month no later than the tenth business day of the next month for the preceding month.

#### 11.2. Remuneration payable to the Custodian Bank

For the provision of services provided for in the Custodian Bank agreement, the Custodian Bank shall receive, under that agreement, a remuneration of no more than 0.18% (zero point one eight per cent) per annum of the Fund value. The amount of the remuneration payable to the Custodian Bank may be subject to change, yet may not be in excess of the maximum size of remuneration. The remuneration to the Custodian Bank shall be payable out of the Fund assets on the basis of the Company's instruction.

The Custodian Bank's remuneration for custody of the Fund's assets shall be calculated and accrue for each day. This remuneration shall be received by the Custodian Bank once a month no later than the tenth business day of the next month for the preceding month.

The remuneration is calculated on a daily basis as the value of the Fund multiplied by the amount of remuneration and dividing the result by the number of calendar days in the reporting year. The amount of total remuneration for a certain period shall be determined by summing up the amount of remuneration calculated for each day from the beginning of the period until and including the day of calculation.

#### 11.3. Maximum amount of remuneration

The maximum size of remuneration payable out of the Fund assets is the aggregate of the maximum amounts of remunerations specified in clauses 11.1 – 11.2. It is 0.78% per annum of the average value of the Fund assets.

### **12. OTHER EXPENSES AND PAYMENTS**

#### 12.1. Other payments out of the Fund assets

Other expenses related to the operation of the Fund (fees for transactions with the Fund's cash, securities and issue accounts, etc.) shall be covered at actual cost and according to the Custodian Bank agreement.

#### 12.2. Payments by the Fund investors

All expenses incurred by the Fund investors in conducting transactions with investment certificates (such as bank fees for opening cash and securities accounts, for operations with securities and cash accounts, etc) shall be covered by the Fund investors on their own account.

### **13. AUDITOR OF THE FUND**

Deloitte & Touche Audits SIA shall be the Fund auditor. Registration number with the Register of Enterprises of the Republic of Latvia: 000324778. Registered office: Bīskapa gāte 2, Rīga, LV 1050, Latvia, sworn auditor business license No. 45.

### **14. CLASSES OF THE FUND INVESTMENT CERTIFICATES**

The Fund has two classes of certificates – class A and class I.

As of coming into force of the amendments to the Prospectus of 6 November 2007, the investment certificates issued before that shall be renamed as class A investment certificates. As of coming into force of the amendments to the Prospectus of 6 November 2007 (day T), the nominal value of these investment certificates shall be reduced from 1000.00 lats to 10.00 lats.

The rights of all the existing Fund investors shall not in any way be affected by this reduction of the nominal value of certificates, and the number of certificates owned by them will be recalculated on day T by multiplying that number by a coefficient of 100. Every investment certificate owned by an investor on day T will be replaced by 100 class A investment certificates.

After the reduction of the nominal value the number of the Fund investment certificates will be established with the precision of three digits after the decimal point.

The nominal value of class I investment certificates of the Fund is 10.00 lats. The minimum original investment in class I investment certificates is 1 million lats.

The minimum original investment in class A investment certificates of the Fund is not limited.

The minimum amount of transaction with class A and class I investment certificates of the Fund is not limited.

Where a Fund investor owns class A investment certificates of a total value of at least 1 million lats, such an investor will be entitled to exchange these certificates against class I investment certificates of the Fund in accordance with provisions of clause 12.2 and 15.2 of this Prospectus.

Rights attached to class A and class I Fund investment certificates are identical. The income distribution shall be done on *pro rata* basis, considering the number of certificates of the relevant class that are on record on the particular day and the prices of certificates in the previous business day. The amount of payments applicable to the Fund's class A and class I investment certificates is fixed in Section 11 of the Prospectus (REMUNERATION PAYABLE OUT OF THE FUND ASSETS) and Section 12 (OTHER EXPENSES AND PAYMENTS).

## **15. RULES AND PROCEDURE FOR SALE, REDEMPTION AND REACCEPTANCE OF INVESTMENT CERTIFICATES**

### **15.1. General**

The following transactions are possible with the Fund investment certificates:

- purchase of certificates
- sale of certificates
- exchange of certificates of one class for the Fund certificates of other class
- activation of automated purchase/sale functionality (on the Distributor's terms).

### **15.2. Transactions in investment certificates (sale and redemption)**

The number and period of issue of the Fund investment certificates are not limited.

The procedure for determining the Fund investment certificates sale and redemption prices is set out in Section 17 (PRINCIPLES AND RULES OF DETERMINING THE FUND VALUE).

Applications for transactions with the Fund investment certificates may be submitted through the Distributor - AS Hansabanka, registered office: Balasta dambis 1a, Riga, LV-1048. Applications can be submitted at any branch of AS Hansabanka, hanza.net and telehanza.net Internet banking sites, by completing the securities transaction application, as well as by getting in touch with the Distributor in accordance with the agreement for securities accounts and brokerage services entered into by and between the Distributor as the bank and the Fund investor as the bank's client.

To apply for purchase of the Fund investment certificates through Distributor, the Investor must have cash and securities accounts opened with the Distributor.

Submitting applications	The investor will submit an application for the purchase of investment certificates, specifying the amount to be invested in lats currency, and in case of an application for sale, specifying the number of investment certificates to be sold. The investor will submit an application for exchange of the Fund investment certificates of one class for certificates of other class according to the Distributor's application form.
Settlements	<p><b>Purchase of investment certificates:</b>          If the investor submits the application for purchase of investment certificates before 1200 hours, settlements will be done the same* business day when the investor's application was submitted.          If the investor submits the application for purchase of investment certificates after 1200 hours, settlements will be done the following* business day after the investor's application was submitted.</p> <p><b>Investment certificate sale:</b>          If the investor submits one or more applications for sale of investment certificates of one or both classes before 1200 hours for the total amount of up to 2 mln lats, settlements will be done the same* business day when the investor's application was submitted.          If the investor submits one or more applications for sale of investment certificates of one or both classes before 1200 hours for the total amount of 2 mln lats or more, settlements will be done the following* business day after the investor's application was submitted.          If the investor submits one or more applications for sale of investment certificates of one or both classes after 1200 hours for the total amount of up to 2 mln lats, settlements will be done no later than the following* business day after the investor's application was submitted.          If the investor submits one or more applications for sale of investment certificates of one or both classes after 1200 hours for the total amount of 2 mln lats or more, settlements will be done no later than within two* business days after the investor's application was submitted.</p>
Settlement price	If the investor submits the application before 1200 hours, settlements will be done at a price calculated on the day the application for investment certificates was submitted. If the investor submits the application after 1200 hours, settlements will be done at a price calculated on the following business day after the application for investment certificates was submitted.

\* If investors submit redemption claims on one business day until 1200 hours for a total amount that exceeds 10% of the Fund value, the redemption settlement term may be extended to five business days.

Investment certificates will be redeemed in the order in which the redemption applications were submitted.

The Company is only obligated to execute those orders, where all the information necessary for transactions with the Fund investment certificates is specified accurately.

Settlements shall take place on the basis of orders submitted by investors and on the terms and subject to conditions of the Distributor.

Orders submitted by investors shall be deemed null and void if the order is impossible to be executed in accordance with the terms of the agreement entered into between the Fund investor and the Distributor.

Settlements for transactions in investment certificates shall be done using the DVP (delivery versus payment) securities settlement system.

Settlements for transactions in investment certificates shall be in the lats currency.

### 15.3. Reacceptance of investment certificates

If Company is at fault for any error in or omission of details, which are material in the assessment of investment certificates, in the Fund Prospectus or in documents enclosed therewith, the investor shall have the right to demand that their investment certificates be reaccepted and losses incurred due to such error or omission be reimbursed for by the Company. The procedure for submitting and execution of applications for reacceptance of investment certificates is described further in the Rules.

### 15.4. Discontinuation of redemption and reacceptance of investment certificates

The reacceptance of investment certificates may be discontinued when the Commission exercises its right to impose restrictions on the Company's right to operate with the Fund's bank accounts.

The redemption of the Fund investment certificates may not be carried out in case of liquidation of the Fund.

The Company may temporarily suspend the redemption of the Fund investment certificates in extraordinary cases when the redemption of investment certificates is impossible as a result of force majeure circumstances that stand beyond reasonable control of the Fund (such as natural calamities and catastrophes, war, failures in means of communication and information systems) and if such suspension is reasonable considering the interests of investors.

## **16. CALCULATION OF INVESTMENT CERTIFICATES SALES AND REDEMPTION PRICES**

The sales and redemption price of the Fund investment certificates for the relevant class of Fund certificates is equivalent to the value of the unit of the Fund investment certificate of the relevant class. The value of the unit of investment certificates, the sales and redemption price are determined with precision of four digits after the decimal point, and number of investment certificates issued is determined with precision of three digits after the decimal point. There is neither sales, nor redemption fee applicable. The sales and redemption prices are determined together with the Fund unit value for each class of certificates.

The purchase, repurchase and reacceptance of investment certificates shall be recorded on the day of transaction.

The Fund unit value is determined separately for each class of investment certificates. The Fund unit value is determined each business day of the Custodian Bank until 1200 hours as the previous business day's value of the Fund assets of the relevant class less all liabilities pertaining to certificates of that class, divided by the number of investment certificates of the relevant class that are on record as at the end of the previous business day. The number of investment certificates on record in the particular class of investment certificates is the number of issued investment certificates of that class plus the applications for purchase of certificates of that class, less the number of investment certificates of the relevant class, for which claims for redemption and reacceptance have been received. Only irrevocable applications and claims may be taken into account in calculating the number of investment certificates on record.

Information about the sales and redemption prices of the Fund investment certificates, the Fund value and the Fund unit values is available from the Distributor, the Company's website, as well as on the Distributor's Internet banking sites hanza.net and telehanza.net.

## **17. PRINCIPLES AND RULES OF DETERMINING THE FUND VALUE**

17.1. The Fund value shall be calculated according to the procedure prescribed in the Law and other regulations or legislation.

17.1.1. The Fund value means the difference between the value of the Fund assets and the value of the Fund liabilities.

17.1.2. The following general principles shall be complied with in determining the Fund value:

1) going concern principle – under which it is assumed that the Fund will continue its operations as a going concern;

2) reconciliation or continuity principle – under which it is assumed that the same valuation methods will be used as were applied for establishing the value of the Fund before;

3) prudence principle – under which the valuation must be carried out with due prudence at all times;

4) accrual principle – under which, the value of the Fund is estimated by taking into account all revenues and expenses of the Fund, irrespective of the date of receipt or payment thereof and in accordance with the accrued amount until the date of estimation of the Fund's value;

5) relevance (materiality) principle – under which at the time of establishing the value of the Fund, all the material information regarding transactions and events is duly disclosed.

The general Fund value determination principles as well as the principles of determining the value of individual investment types (debt securities and money market instruments, deposits with credit institutions, derivative financial instruments) are further explained in the Fund Rules.

## **18. RULES FOR CALCULATION, UTILIZATION OF THE FUND INCOME AND DISTRIBUTION THEREOF TO FUND INVESTORS**

Any income earned through the Fund assets shall be reinvested in the Fund.

The result of a Fund investor's investment shall be determined according to growth or reduction in the value of investment certificates. The Fund investors may only access the income from their investment in the Fund by requesting that the investment certificates owned by them be redeemed, in part or in whole, by the Company, or by selling them.

## **19. START AND END OF THE REPORTING YEAR OF THE FUND**

The reporting year of the Fund is the calendar year and it starts on 1 January and ends on 31 December.

## **20. FUND MANAGEMENT**

### **20.1. Fund Management Company**

#### **General**

The Fund is managed for investors by the investment management company AS IPS Hansa Fondi. The registered office of the Company is Balasta dambis 1a, Riga, LV-1048, Latvia. The Company was founded on 17 March 1997. Single registration number of AS IPS Hansa Fondi: 40003337582.

The equity capital of the Company at the time of foundation was LVL 100,000. The registered and paid-up capital of the Company is LVL 435,000.

#### **Council of the Company**

**Toms Silinš** – the Chairman of the Council. Member of the Board and the Chief Financial Officer of AS Hansabanka. Works with AS Hansabanka since 2005. Member of the Council of AS Hansa atklātais pensiju fonds since June 2008.

Elmārs Prikšāns, CFA – Deputy Council Chairperson, AS Hansabanka Board Member. Till July 2008, Head of Corporate Banking Division of AS Hansabanka. Head of Investment Division since July 2008. From January 2007, Deputy Council Chairperson of AS Hansa atklātais pensiju fonds. Since April 2007, Council Member of Latvian Central Depository and Council Member of Riga Stock Exchange. He has no material holdings in other business companies.

**Oksana Sivokobiļska** – Member of the Council, AS Hansabanka Board Member and the Head of Retail Banking. Works with AS Hansabanka since 1998. From June 2008, Council Member of AS Hansa atklātais pensiju fonds.

#### Company's officials

**Harijs Švarcs, CFA** – Member of the Board since 2007. He has been formerly employed with the Bank of Latvia (1999-2001; 2002-2007) and Tallinna Pank Securities Latvia (1997-1999).

**Kristiāns Miķelsons** – Member of the Board and asset manager since September 2002. From 1997 to 1999, worked at AS Hansabanka Capital Market Dept, and from 2001 to 2002 – with London-based *Lehman Brothers Ltd.* as an analyst with Debt Capital Market Dept.

**Mareks Hauks, CFA** – Member of the Board, the Head of Market Risk Management and Analysis Dept, AS Hansabanka. Works with AS Hansabanka since 1993.

**Andris Ogrīņš** – a fund manager, Real Estate Investments Director since 2007.

**Pēteris Stepiņš** – a fund manager since October 2007. From 2006 to 2007, he worked as an analyst with AS Hansabanka.

#### Fund Manager

**Pēteris Stepiņš** is the Manager of the Fund. The Fund Manager operates with the Fund assets in accordance with the Fund Rules.

#### Other investment funds under the Company's management:

**Hansa East European Bond Fund** – an Estonian-based open-end investment fund, whose assets are invested in debt securities of East European states and business companies with a view to attaining appreciation of capital over a medium term.

**Hansa Baltic Real Estate Fund** – a closed-end investment fund, whose assets are invested in real estate in the Baltic countries, deposits with credit institutions, money market instruments and debt securities with a view to attaining appreciation of the investment portfolio over a long-term.

**Hansa Euro Money Market Fund** – an open-ended investment fund, whose base currency is the euro and whose assets are invested mainly in debt securities, money market instruments, deposits with credit institutions and other financial instruments with a view to ensuring a constant and stable appreciation of the capital.

The Company also manages state-funded pension investment plans and private pension fund pension plans.

#### 20.2. Custodian Bank of the Fund

AS Hansabanka carries out the duties of the Custodian Bank of the Fund.

The bank was registered with the Register of Enterprises of the Republic of Latvia on 14 May 1992. Single registration number: 40003074764.

The registered office and seat of the Bank is at: Balasta dambis 1a, Riga, LV-1048.

#### 20.3. Transfer to third parties of the right to provide Fund management services

The Company may, subject to the procedure prescribed in the Law, delegate the right to provide certain services pertaining to the management of the Fund, to other persons, who hold the relevant qualifications and are experienced in providing the services in question.

The Company has entered into agreements with AS Hansabanka, under which the Company has transferred to AS Hansabanka the right to provide the following service related to administrative management of the Fund:

- distribution of investment certificates of funds that are under the Company's management;
- establishing the Fund's value and the price of investment certificates;
  - keeping records of transactions made by the Company with the Fund's assets;
  - preparation of the Fund's financial accounts and reports;
  - dealing with legal issues concerning the Fund.

In case the provision of any of the Fund management services not mentioned above is delegated by the Company to a third party, the Company shall advise the Fund investors about the type of service delegated and furnish the information required under the Law concerning the third party, to which the service has been delegated, by publishing the relevant information on the Company's website no less than 10 days prior to the third party selected by the Company commencing the provision of the service delegated.

#### 20.4. Description of historical performance of the Fund

The Fund was launched in November 1999. The Fund has been successful in fulfilling its purpose of providing a low-risk investment opportunity with high liquidity.

#### **Tables for comparing the Fund's key performance indicators**

<b>20.4.1. STATEMENT OF ASSETS AND LIABILITIES</b>	<b>30.06.2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<i>ASSETS</i>	<b>LVL</b>	<b>LVL</b>	<b>LVL</b>	<b>LVL</b>
On-demand claims against credit institutions	2 175 515	1 259 774	1 874 874	3 302 099
Deposits with credit institutions	2 198 982	3 632 256	2 822 477	4 354 336
Classified as financial assets stated at fair value with disclosure in the profit and loss statement	5 545 603	3 355 569	4 869 651	8 234 703
Investments held until maturity	-	-	-	204 712
Accrued income	69 481	98 898	20 188	49 053
Other assets	-	-	1 272 859	16 709
<b>Total assets</b>	<b>9 989 581</b>	<b>8 346 497</b>	<b>10 860 049</b>	<b>16 161 612</b>
<i>LIABILITIES</i>				
Financial liabilities held for trade	-	-	(1 280)	-
Other liabilities	(4 740)	(4 196)	(5 542)	(26 884)
<b>NET ASSETS</b>	<b>9 984 841</b>	<b>8 342 301</b>	<b>10 853 227</b>	<b>16 134 728</b>
<b>20.4.2. INCOME STATEMENT</b>				
<i>INCOME</i>				
Interest income	189 710	283 518	290 074	389 414
<i>EXPENSES</i>				
Remuneration to the investment company	(23 681)	(56 796)	(69 521)	(83 996)
Remuneration to the Custodian Bank	(5 348)	(16 780)	(22 061)	(26 472)
Other expenses in management of the Fund	(165)	(92)	(748)	(68)
Increase in the value of investments	116 650	172 631	104 689	35 836
<i>Net asset increase resulting from investments</i>	<i>277 166</i>	<i>382 481</i>	<i>302 433</i>	<i>314 714</i>
<b>20.4.3. NET ASSET MOVEMENT STATEMENT</b>				
<i>NET ASSETS</i>				
Net assets as at the start of the reporting year	8 342 301	10 853 227	16 134 728	12 268 751
<i>INVESTMENTS</i>				
Net asset increase resulting from investments	277 166	382 481	302 433	314 714
<i>TRANSACTIONS IN INVESTMENT CERTIFICATES</i>				
Net asset increase/(decrease) resulting from transactions in inv. certif.	1 365 374	(2 893 407)	(5 583 934)	3 551 263
Net assets as at the end of the reporting year	9 984 841	8 342 301	10 853 227	16 134 728
Net asset increase / (decrease) in the reporting year	1 642 540	(2 510 926)	(5 281 501)	3 865 977
Number of issued A Class inv. certif. as at the start of the reporting year	626 661	8 507	12 986	10 102
Number of issued I Class inv. certif. as at the start of the reporting year	-	-	-	-
Number of issued A Class inv. certif. as at the end of the reporting year	482 861	626 661	8 507	12 986
Number of issued I Class inv. certif. as at the end of the reporting year	326 069	-	-	-
Net assets per one A Class inv. certif. as at the start of the reporting year	13.3123	1 276	1 242	1 214
Net assets per one I Class inv. certif. as at the start of the reporting year	-	-	-	-
Net assets per one A Class inv. certif. as at the end of the reporting year	13.7421	13.3123	1 276	1 242
Net assets per one I Class inv. certif. as at the end of the reporting year	10.2718	-	-	-
<b>FUND YIELD (% PER ANNUM)*</b>	<b>5,99%**</b>	<b>4,34%</b>	<b>2,68%</b>	<b>2,30%</b>

\* based on a year of 365 days

\*\* 1-year yield

Note: the historic performance of the Fund is not a guarantee for an equivalent performance in the future.

Chairman of the Board of *AS IPS Hansa Fondi* \_\_\_\_\_ H. Švarcs