

**OPEN-END INVESTMENT FUND
AUSTRUMEIROPAS SABALANSĒTAIS FONDS**

**ANNUAL REPORT FOR THE PERIOD
26 SEPTEMBER 2003 (INCORPORATION DATE)
THROUGH 31 DECEMBER 2003**

AIF Austrumeiropas Sabalansētais fonds
Table of contents

General information on investment fund	3
Investment company's report	4
Statement of responsibility of the Board of the investment company	5
Custodian bank's report	6
Financial statements:	
Statement of assets and liabilities	8
Statement of income and expense	9
Statement of changes in net assets	10
Statement of investment portfolio	11
Notes	12
Auditors' report	19

AIF Austrumeiropas Sabalansētais fonds
Investment fund

Name of the fund:	AIF Austrumeiropas Sabalansētais fonds	
Type of the fund:	Open-end investment fund	
Registration date of the fund:	26 September 2003	
Number of the fund:	06.03.04.098/7	
Name of the investment company:	IAS Parekss ieguldījumu sabiedrība	
Registered office of the investment company:	Smilšu 3, Rīga LV – 1522, Latvia	
Registration number of the investment company:	40003577500	
License number of the investment company:	7	
Date of issue:	15 February 2002	
Name of the custodian bank:	Joint stock company Parekss Banka	
Registered office of the custodian bank:	Smilšu 3, Rīga LV – 1522, Latvia	
Registration number of the custodian bank:	40003074590	
Names and positions of Council members, Board members and Fund managers:	<p>Council of investment company:</p> <p>Chairman of the Council – Jakovs Maņkova Deputy Chairman of the Council – Juris Punculs Council member – Jurijs Cunajevs Council member – Andris Miķelsons Council member – Raimondas Kutra</p> <p>Board of investment company:</p> <p>Chairman of the Board (President) – Sergejs Medvedevs Deputy Chairperson of the Board (Vice-president) – Aija Kļāševa Board member – Guntars Vītols (resigned 22/12/2003) Board member – Roberts Idelsons (appointed 22/12/2003)</p> <p>Management of Fund:</p> <p>Sergejs Medvedevs Aija Kļāševa Guntars Vītols - resigned 22/12/2003 Roberts Idelsons – appointed 22/12/2003</p>	
Auditor:	Diāna Krišjāne Sworn Auditor Certificate No. 124	SIA Ernst & Young Baltic 11. Novembra krastmala 23 Latvia, LV – 1050

AIF Austrumeiropas Sabalansētais fonds
Investment company's report

The objective of the open-end investment fund Austrumeiropas Sabalansētais fonds (hereinafter – the Fund) is to achieve long-term capital gains through investments mainly in securities issued or guaranteed by governments, municipalities, central banks and credit institutions of the East European countries, as well as debt securities and equity shares of corporate entities. The investment portfolio is balanced in terms of investments both in equity shares and debt securities, different currencies and countries, thus ensuring safety of investments and protection against excessive fluctuations of portfolio inherent to investments only in one class, currency or country securities.

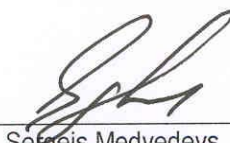
As at 31 December 2003, the net assets of the Fund totalled to EUR 693,871, whereas the value per investment certificate amounted to EUR 9.99. This can be explained by the fact that year 2003 was the first year of the Fund's operations, therefore the key tasks set for the year were to attract investors and establish an investment portfolio, which has been successfully completed.

The investment portfolio of the fund has been formed on the diversification and prudence principle basis, which ensures hedging and liquidity of investments. The investments have been made mainly in corporate debt securities (48.50%) and government bonds (24.47%), equity shares and other investment funds (9.63%). Part of the assets has been invested in other currencies (16.45%), mainly in securities denominated in Latvian lats. The diversification of investments is ensured through varying geographical placement of assets, with major investments covering the European Union (25.74%), Latvia (21.20%), Russia (20.05%) and Estonia (10.39%). As at the year end, the average maturity of investment portfolio was 3.6 years, whereas the average yield to maturity – 5.31% per annum.

During the year, the Fund mainly focused on investments in Russian corporate debt securities, as this region is characterised by considerably higher yield. The Fund's investments covered also securities denominated in other currencies, e.g., Latvian lats, GB pounds and US dollars. It should be noted, however, that US dollar risks have been minimised to maximum extent.

In the reporting year, the fees payable by the Fund for management services amounted to 0.63% of the average asset value of the Fund, and thus do not exceed the maximum expense limit under the Prospectus, i.e. 5%.

IAS Parekss ieguldījumu sabiedrība will seek to provide the utmost efficiency in management of the Fund's assets also in future, in order to increase the number of investors and achieve material growth of net assets. To attract new customers and enhance the public trust in the Fund, in 2004 it is planned to include the Fund's certificates in Riga Stock Exchange listings.



Sergejs Medvedevs
President/ Chairman of the Board

Riga, 20 April 2004

AIF Austrumeiropas Sabalansētais fonds
Statement of responsibility of the Board of Investment company

The Management of the Investment company (hereinafter – Company) are responsible for the preparation of the financial statements of the open-end investment fund Austrumeiropas Sabalansētais fonds (hereinafter – Fund).

The financial statements set out on pages 8 to 18 are prepared in accordance with the source documents and present fairly the financial position of the Fund as at 31 December 2003 and the results of its operations for the period from 26 September 2003 (incorporation date) through 31 December 2003.

The financial statements are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the Management in the preparation of the financial statements.

The Management of the Company are responsible for the maintenance of proper accounting records, the safeguarding of the Fund's assets and the prevention and detection of fraud and other irregularities in the Fund. They are also responsible for operating the Fund in compliance with the Law on Investment Companies, regulations of the Financial and Capital Market Commission (FCMC) and other laws and regulations of the Republic of Latvia.



Sergejs Medvedevs
President/ Chairman of the Board

Riga, 20 April 2004



Smilšu iela 3
Rīga, LV-1522, Latvia
VAT: 40003074590
Phone: 371 7010000
Fax: 371 7010001
e-mail: inquiry@parex.lv
www.parex.lv
SWIFT: PARXLV22

THE MESSAGE OF CUSTODIAN BANK

For holders of
OIF "Parex Austrumeiropas Sabalansētais fonds"
Investment fund applications

#2012.3.15/615

With this Parex Bank JSC, which is registered in LR Enterprise register on May 14, 1992 with No. 000307459 and located at Smilšu str. 3, Riga, certifies, that:

According to the law "On investment companies" of Republic of Latvia, regulations of Financial and Capital Market Commission (FCMC), other requirements of LR legislation and contract with Custodian bank, which is concluded on the September 15th, 2003., Parex Bank JSC, (further in the text - Custodian) carries out functions of custodian bank for the OIF "Parex Austrumeiropas Sabalansētais fonds" (further in the text – Fund) founded by IJSC "Parex leguldījumu sabiedrība";

Custodian is responsible for fulfilling of Custodian bank contract and requirements of LR legislation related to custodian banks. The main obligations of the Custodian are the following:

- to store assets of the Fund, as well as documents, which confirm title according to the requirements of LR legislation;
- to ensure maintenance of the Fund account, reception and execution of Company's orders, as well as performance of transactions according with requirements of LR legislation and current market practice;
- to ensure the Company with regular reports on assets of the Fund and its value (prices of the securities);
- to follow the correctness of the value of the Fund and its certificates set by the Company and its conformity with LR legislation acts;
- to follow the correctness and legal status of issuing, sales and repurchasing of investment certificates performed by the Company;

Issuing, sales and repurchasing of the investment certificates is performed according to the requirements of the law "On investment companies", fund prospect and Fund management regulations;

Storage of the Fund assets is performed according to the requirements of the law "On investment companies" and Custodian bank contract;

Calculation of the net value of the Fund assets is performed according to the requirements of the law "On investment companies", regulations of Financial and Capital Market Commission (FCMC), Fund prospect and Fund management regulations;

Orders of the Company, as well as transactions with the assets of OIF "Parex Austrumeiropas Sabalansētais fonds" are performed according to the requirements of the law "On investment companies", Fund prospect and Fund management regulations and Custodian bank contract .

In the accounting period no mistakes and illegal matters were observed in performance of the Company with Fund assets. Parekss bank JSC is very satisfied with co-operation in performing of the functions of Custodian bank.



Valerijs Kargins
President/ Head of the Board

Riga, April 19, 2004

AIF Austrumeiropas Sabalansētais fonds
Statement of assets and liabilities
(LVL)

Notes		31/12/2003
Assets		
3	Demand deposits with credit institutions	30,910
3	Deposits with credit institutions	10,000
4	Debt securities and other fixed income securities	378,412
5	Shares and other non-fixed income securities	31,691
6	Investment certificates and similar securities	13,464
7	Derivatives	4,174
	Accrued income	72
	Total assets	468,723
Liabilities		
8	Accrued expense	(707)
	Total liabilities	(707)
	Net assets	468,016



 Sergejs Medvedevs
 President/ Chairman of the Board

Riga, 20 April 2004

AIF Austrumeiropas Sabalansētais fonds
Statement of income and expense
(LVL)

Notes	26/09/2003 – 31/12/2003
Income	
9 Interest income	2,726
Total income	
	2,726
Expense	
Remuneration to investment company	(2,158)
Remuneration to custodian bank	(358)
Total expense	
	(2,516)
Increase in investment	
Income from sale of investments	5,036
Acquisition value of investments sold	(5,019)
Realised gain on sales of investments	17
Unrealised increase in investment value	2,443
13 Total increase in investment	2,460
13 Foreign currency revaluation gain	8,958
Increase in net assets from investment	
	11,628



 Sergejs Medvedevs
 President/ Chairman of the Board

Riga, 20 April 2004

AIF Austrumeiropas Sabalansētais fonds
Statement of changes in net assets
(LVL)

	26/09/2003 – 31/12/2003
Net assets as at the beginning of the period	-
Increase in net assets	11,628
Transactions with investment certificates:	
<i>Inflow from sale of investment certificates</i>	456,388
<i>Outflow of redemption of investment certificates</i>	-
Increase in net assets from transactions with investment certificates	456,388
Increase in net assets for the period	468,016
Net assets as at the end of the period	468,016
Issued investment certificates as at the beginning of the period	-
Issued investment certificates as at the end of the period	69,448
Net asset value per investment certificate as at the beginning of the period	-
Net asset value per investment certificate as at the end of the period	6.74

The accompanying notes form an integral part of these financial statements.

AIF Austrumeiropas Sabalansētais fonds
Statement of investment portfolio
(LVL)

<u>Notes</u>	<u>31/12/2003</u>
3 Term deposits with credit institutions	10,000
4 Debt securities and other fixed income securities	378,412
5 Shares and other non-fixed income securities	31,691
6 Investment certificates and similar securities	13,464
7 Derivatives	<u>4,174</u>
Total investment portfolio	<u>437,741</u>

The accompanying notes form an integral part of these financial statements.

AIF Austrumeiropas Sabalansētais fonds
Notes
(LVL)

1. Summary of significant accounting policies

Basis of preparation

The financial statements of AIF Austrumeiropas Sabalansētais fonds have been prepared in accordance with International Financial Reporting Standards and the Regulations of the Financial and Capital Market Commission (FCMC) On Financial Statements of Investment Funds.

The financial statements are prepared on a historical cost basis, as modified for the measurement at fair value of derivatives and held-for-trading investment securities.

The monetary unit used in the financial statements is lat (LVL), the monetary unit of the Republic of Latvia. The financial statements cover the period 26 September 2003 (incorporation date) through 31 December 2003.

Income and expense recognition

Interest income and expense items are recognized on an accrual basis. Interest income and expense are recognized by the effective interest method.

Commissions and fees as well as all other major income and expense items are credited and/ or charged to the statement of income at the time of the related business.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Latvian lats applying the official exchange rate established by the Bank of Latvia at the last day of the reporting year. The differences arising on settlements of transactions or on reporting foreign currency transactions at rates different from those at which these transactions have originally been recorded are netted in the income statement accounts.

The exchange rates established by the Bank of Latvia mainly applied when preparing of Statement of Assets and Liabilities of the Fund can be specified as follows:

<u>Currency</u>	<u>31/12/2003</u>
USD	0.541
EUR	0.674

Investment in securities

Investments in securities (debt securities and other fixed income securities, shares and other non-fixed income securities, investment certificates and similar securities) are classified as held for trading securities, i.e. securities are acquired for generating a profit from short-term fluctuations in price or dealer's margin.

Held for trading securities are initially recognized at cost and subsequently re-measured at fair value based on available market prices. The result of re-measuring trading securities at fair value is included in the statement of income and expense as increase/ (decrease) in investment.

Securities are revaluated on the basis of *Bloomberg* 's and *Riga Stock Exchange* financial information on the current market value of respective securities.

AIF Austrumeiropas Sabalansētais fonds
Notes
(LVL)

Derivatives

In the ordinary course of business, the Fund engages as a party to contracts for forward foreign exchange rate instruments. For the accounting purposes, all derivatives are classified as held for trading purposes and accounted for as follows.

Subsequent to initial recognition and measurement, outstanding forward foreign exchange rate contracts are carried in the balance sheet at their fair value. The fair value of these instruments is recognised on the balance sheet under designated assets and liabilities caption "Derivatives". The notional amounts of these financial instruments are reported in notes to the financial statements.

Gains or losses from changes in assets and liabilities arising on forward contracts, are recognised in the statement of income and expense as foreign currency revaluation result

Fair values of financial assets and liabilities

Fair value represents the amount at which an asset could be exchanged or a liability settled on an arm's length basis. Where, in the opinion of the Management, the fair values of financial assets and liabilities differ materially from their book values, such fair values are separately disclosed in the notes to the financial statements.

2. Risk management

The key investment risks are: market risk, liquidity risk, credit risk, legal risks, informational risk, financial risk, foreign investment risk and business-related risks.

To mitigate the investment risks the Management of the Fund follows the risk diversification and hedging principles.

The Management of the Fund acquires sufficient information on potential or current investment objects, as well as supervises financial and economic position of issuers of the securities in which the Fund's property has been or is to be invested.

The Company, when developing the strategy of the investment fund and stating limits, performs the analysis of the Fund's investments by maturity, geographic placements, currency profile and assesses the risks inherent to each of the above factors. The Company acts in strict compliance with the Fund prospectus, Fund management regulations, as well as regulations and restrictions imposed by legislation of the Republic of Latvia.

When investments are made abroad, particular attention is paid to expected currency fluctuations against euro. For risk mitigation purposes the Company performs:

- Country assessment according to international rating agencies scale;
- Assessment of political situation in the country;
- Assessment of economic situation of the country.

The investment strategy of the Fund is aimed at minimising the aforementioned risks, however, the Company cannot guarantee that these risks can be completely avoided in future.

AIF Austrumeiropas Sabalansētais fonds
Notes
(LVL)

3. Demand deposits and deposits with credit institutions

	31/12/2003	% of total assets
Demand deposits with credit institutions, a/s Parekss-banka	30,910	6.59%
Deposits with credit institutions	10,000	2.13%
Total demand deposits and deposits with credit institutions	40,910	8.72%

The Fund holds a term deposit of LVL 10,000 with a/s Parekss-banka. The deposit matures on 29 October 2004 and bears 4,20% interest.

4. Debt securities and other fixed income securities

	31/12/2003	Annual yield before the maturity	% of total assets
Government bonds:	114,693	4.46%	24.47%
<i>Latvian government bonds</i>	39,082	3.84%	8.34%
<i>Non-OECD government bonds (excluding Latvia)</i>	75,611	4.77%	16.13%
Municipality bonds:	36,363	5.09%	7.76%
<i>Non-OECD municipality bonds (excluding Latvia)</i>	36,363	5.09%	7.76%
Credit institution bonds:	63,246	5.28%	13.49%
<i>Latvian credit institution bonds</i>	15,132	4.70%	3.23%
<i>OECD credit institution bonds</i>	21,093	3.94%	4.50%
<i>Non-OECD credit institution bonds (excluding Latvia)</i>	27,021	6.64%	5.76%
Corporate bonds:	164,110	5.96%	35.01%
<i>OECD corporate bonds</i>	30,276	4.53%	6.46%
<i>Non-OECD corporate bonds (excluding Latvia)</i>	133,834	6.29%	28.55%
Total debt securities and other fixed income securities	378,412	5.31%	80.73%

All debt securities and other fixed income securities are classified as held-for-trading securities.

AIF Austrumeiropas Sabalansētais fonds
Notes
(LVL)

5. Shares and other non-fixed income securities

	31/12/2003	% of total assets
Equity shares	31,691	6.76%
<i>Non-OECD equity shares and other non-fixed income securities of non-OECD countries (excluding Latvia)</i>	<u>31,691</u>	<u>6.76%</u>
Total shares and other non-fixed income securities	<u>31,691</u>	<u>6.76%</u>

All shares and other non-fixed income securities are classified as held-for-trading securities.

6. Investment certificates and similar securities

	31/12/2003	% of total assets
<i>Investment certificates of OECD investment funds</i>	<u>13,464</u>	<u>2.87%</u>
Total investment certificates and similar securities	<u>13,464</u>	<u>2.87%</u>

Due to the fact that the Company does not possess detailed information on assets of these investment funds managed on behalf of investors by financial institutions registered in OECD countries, they are not realised by their ultimate issuer.

7. Derivatives

The below table presents the notional amounts and fair values of forward foreign Exchange instruments. The notional value of foreign exchange transactions is stated on the basis of amounts receivable arising thereon.

	31/12/2003			% of total assets
	Notional amount	Fair value		
		Assets	Liabilities	
Forward foreign exchange instruments	83,671	4,174	-	0.89%
Total:	<u>83,671</u>	<u>4,174</u>	<u>-</u>	<u>0.89%</u>

AIF Austrumeiropas Sabalansētais fonds
Notes
(LVL)

8. Accrued expense

	31/12/2003
Accrued commission fees payable to investment company	568
Accrued commission fees payable to custodian bank	139
Total accrued expense	707

9. Interest income

	26/09/2003- 31/12/2003
Interest income from demand deposits with credit institutions	244
Interest income from debt securities and other fixed income securities	2,410
Interest income from deposits with credit institutions	72
Total interest income	2,726

10. Assets and liabilities by currency profile

	LVL	USD	EUR	Other	Total
Assets					
Demand deposits with credit institutions	-	-	30,910	-	30,910
Deposits with credit institutions	10,000	-	-	-	10,000
Debt securities and other fixed income securities	46,326	68,523	263,563	-	378,412
Shares and other non-fixed income securities	-	22,686	-	9,005	31,691
Investment certificates and similar securities	-	-	13,464	-	13,464
Derivatives	-	(79,497)	83,671	-	4,174
Accrued income	72	-	-	-	72
Total assets	56,398	11,712	391,608	9,005	468,723
Liabilities					
Accrued expense	-	-	(707)	-	(707)
Total liabilities	-	-	(707)	-	(707)
Net assets	56,398	11,712	390,901	9,005	468,016

AIF Austrumeiropas Sabalansētais fonds
Notes
(LVL)

11. Assets by geographical placement

	Latvia	OECD countries	Other non-OECD countries	Total
Assets				
Demand deposits with credit institutions	30,910	-	-	30,910
Deposits with credit institutions	10,000	-	-	10,000
Debt securities and other fixed income securities	54,214	51,369	272,829	378,412
Shares and other non-fixed income securities	-	-	31,691	31,691
Investment certificates and similar securities	-	13,464	-	13,464
Derivatives	4,174	-	-	4,174
Accrued income	72	-	-	72
Total assets	99,370	64,833	304,520	468,723
Liabilities				
Accrued expense	(707)	-	-	(707)
Total liabilities	(707)	-	-	(707)
Net assets	98,663	64,833	304,520	468,016

12. Liquidity

	Within 1 month	1-3 months	3-6 months	6-12 months	More than 1 year	Total
Assets						
Demand deposits with credit institutions	30,910	-	-	-	-	30,910
Deposits with credit institutions	-	-	-	10,000	-	10,000
Debt securities and other fixed income securities	-	-	-	5,763	372,649	378,412
Shares and other non-fixed income securities	31,691	-	-	-	-	31,691
Investment certificates and similar securities	13,464	-	-	-	-	13,464
Derivatives	-	562	735	2,877	-	4,174
Accrued income	72	-	-	-	-	72
Total assets	76,137	562	735	18,640	372,649	468,723
Liabilities						
Accrued expense	(707)	-	-	-	-	(707)
Total liabilities	(707)	-	-	-	-	(707)
Net assets	75,430	562	735	18,640	372,649	468,016

As at 31 December 2003, the Fund's investments in debt securities included securities with maturity over 5 years for the total amount LVL 58,627.

AIF Austrumeiropas Sabalansētais fonds
Notes
(LVL)

13. Change in assets during the reporting year

	Increase/ (decrease) during the reporting period	Foreign currency revaluation result	Fair value revaluation result	Total
Assets				
Demand deposits with credit institutions	31,224	(314)	-	30,910
Deposits with credit institutions	10,000	-	-	10,000
Debt securities and other fixed income securities	372,676	5,079	657	378,412
Shares and other non-fixed income securities	30,323	(101)	1,469	31,691
Investment certificates and similar securities	13,010	120	334	13,464
Derivatives	-	4,174	-	4,174
Accrued income	72	-	-	72
Total assets	457,305	8,958	2,460	468,723
Liabilities				
Accrued expense	(707)	-	-	(707)
Total liabilities	(707)	-	-	(707)
Net assets	456,598	8,958	2,460	468,016

14. Pledged assets

As at the end of the reporting period no guarantees or collaterals have been issued by the Fund, neither it has pledged or otherwise caused any encumbrance or lien on its assets.

15. Dynamics of net asset value

	31/12/2003	30/09/2003	30/06/2003	31/03/2003
Net assets	468,016	-	-	-
Number of investment plan's shares	69,448	-	-	-
Value of investment plan's shares	6.74	-	-	-
Performance on investment plan's shares	13.38%	-	-	-
Value of investment plan's shares (EUR)	9.99	-	-	-
Performance on investment plan's shares (EUR)	-0.42%	-	-	-

The fund's performance in breakdown by quarters is stated in terms of annualised performance. Given that the base value of the Fund is EUR, also the quarterly performance has been presented in the Fund's base currency.

AUDITORS' REPORT

To the holders of investment certificates
of AIF "Austrumeiropas Sabalansētais fonds"

We have audited the accompanying financial statements of open-end investment fund "Austrumeiropas Sabalansētais fonds" (hereinafter – the Fund) for the period from 26 September 2003 through 31 December 2003, set out on pages 8 through 18, which comprise the statements of assets and liabilities, income, changes in net assets and investment portfolio and the related notes. These financial statements are the responsibility of IAS "Parekss ieguldījumu sabiedrība" management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing issued by the International Federation of Accountants. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above give a true and fair view of the financial position of AIF "Austrumeiropas Sabalansētais fonds" as at 31 December 2003 and of the results of its operations for the period from 26 September 2003 through 31 December 2003 in accordance with the Financial and Capital Market Commission regulations On the Financial Statements of Investment Funds and International Financial Reporting Standards issued by the International Accounting Standards Board.

Ernst & Young Baltic SIA
License No. 17



Diāna Krišjāne
Personal ID code: 250873-12964
Chairman of the Board
Latvian Sworn Auditor
Certificate No. 124

Rīga,
20 April 2004