

**OPEN-END INVESTMENT FUND  
Parex Eastern European Balanced Fund**

**ANNUAL REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2006**  
(4<sup>th</sup> financial year)

**PREPARED IN ACCORDANCE WITH  
FCMC REGULATIONS ON FINANCIAL STATEMENTS OF INVESTMENT FUNDS  
TOGETHER WITH INDEPENDENT AUDITORS' REPORT**

**Riga, 2007**

**AIF Parex Eastern European Balanced Fund**  
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**AIF Parex Eastern European Balanced Fund**  
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**General information**

Name of the fund:	Parex Eastern European Balanced Fund	
Type of 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:	IPAS Parex Asset Management	
Registered office of the investment company:	Basteja bulvāris 14, Rīga, LV-1050, Latvia	
Registration number of the investment company:	40003577500	
Licence number of the investment company:	06.03.07.098/181	
Name of the custodian bank:	Joint stock company Parex 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 the investment company:</p> <p>Chairman of the Council: Gene Zolotarev – appointed on 30/11/2005</p> <p>Council Members: Ēriks Brīvmanis – appointed on 30/11/2005 Gatis Kokins – appointed on 30/11/2005 Leonīds Jamroziks – appointed on 30/03/2006 Valdis Birkavs – appointed on 07/12/2006 Aleksandrs Kvasovs – resigned on 30/03/2006 Andris Bērziņš – resigned on 07/12/2006</p> <p>Board of the investment company:</p> <p>Chairman of the Board/ President: Roberts Idelsons — appointed on 30/11/2005</p> <p>Board Members: Sergejs Medvedevs – appointed on 30/11/2005 Normunds Vigulis – appointed on 30/11/2005 Arvīds Sīpols – appointed on 30/11/2005 Leonīds Rudermans – appointed on 30/11/2005</p> <p>Fund Managers: Roberts Idelsons Sergejs Medvedevs Edgars Makarovs</p>	
Auditors:	<p>Diāna Krišjāne Sworn Auditor Certificate No. 124</p>	<p>SIA Ernst &amp; Young Baltic Kronvalda bulv. 3-5, Rīga Latvia, LV – 1010 Certificate Nr. 17</p>

**AIF Parex Eastern European Balanced Fund**  
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**Investment company report**

The objective of the open-end investment fund Parex Eastern European Balanced Fund (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 countries in Eastern Europe, 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 the portfolio inherent to investments in only one class, currency or country's securities.

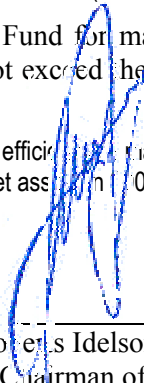
In 2006, the Fund maintained the leading position among the largest open-end investment funds managed by Parex as confirmed by the amount of the Fund's assets. During the reporting year the Fund's net assets increased by more than 33% or LVL 3,408,157 (EUR 4,798,541), reaching LVL 13,598,504 (EUR 19,302,412) as at year-end. The value per Fund's share has grown by LVL 0.89 (EUR 1.24) over the year to LVL 9.37 (EUR 13.31). The Fund's performance reached 11.57% in LVL (10.27% in EUR).

The investment portfolio of the Fund has been formed on the diversification and prudence principle basis, which ensures hedging and liquidity of investments. In the reporting period, the Fund manager continued increasing the proportion of equity shares, which grew from 15.0% of the Fund's assets at the beginning of the year to 18.8% as at year-end. Investment in investment certificates increased from 6.9% to 8.8% in the reporting period. The proportion of corporate bonds in the Fund's assets decreased to 61.3% at the end of 2006. The proportion of investments in government and municipal bonds reduced at even faster rate by 9 percentage points to just 3.9% of the Fund's assets as at 31 December 2006. As at the year end, the average maturity of debt securities was 2.2 years and the average yield to maturity was 7.2% per annum.

By currency profile, the Fund's assets were mainly in the base currency, i.e. denominated in euros (45.0%), also in 2006. Other assets were basically invested in US dollars, however, the open currency position in USD was minimised by using derivative financial instruments in the end of 2006. Other investments were made mostly in financial instruments predominantly pegged to euro. In terms of geographical placement, the major part of the Fund's assets is invested in the EU Member States (48.2%), including Latvia (20.7%), as well as in Russia (20.3%), Kazakhstan (10.1%) and Ukraine (8.2%).

In the reporting year, the fees payable by the Fund for management services amounted to 1.68% of the average asset value of the Fund, and thus do not exceed the maximum expense limit in the Prospectus, i.e. 3%.

Parex Asset Management will seek to provide the utmost efficient management of the Fund's assets also in future, in order to increase the number of investors and achieve growth of net assets in 2007.

  
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Roberts Idelsons  
President/ Chairman of the Board  
Fund Manager

Riga,  
24 April 2007

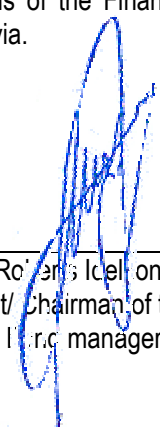
**AIF Parex Eastern European Balanced Fund**  
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**Statement of responsibility of the Board of the investment company**

The Board of the investment company (hereinafter – the Company) is responsible for the preparation of the financial statements of the investment fund Parex Eastern European Balanced Fund (hereinafter – the Fund).

The financial statements set out on pages 8 to 24 are prepared in accordance with the source documents and present fairly the financial position of the Fund as at 31 December 2006 and the results of its operations for the year 2006.

The financial statements are prepared in accordance with laws of the Republic of Latvia, the Regulations of the Financial and Capital Market Commission (FCMC) on Financial Statements of Investment Funds, and International Financial Reporting Standards (IFRS) as endorsed by the European Union 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 Board of the Company is responsible for the maintenance of proper accounting records, the safeguarding of the assets of Parex Eastern European Balanced Fund 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 of the Republic of Latvia on Investment Management Companies, regulations of the Financial and Capital Market Commission (FCMC), and other laws and regulations of the Republic of Latvia.



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Roberts Icelions  
President/ Chairman of the Board  
F.R.C manager

Riga,  
24 April 2007



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www.parexgroup.com  
SWIFT: PARXLV22

## CUSTODIAN BANK REPORT

For holders of  
OIF "Parex Eastern European Balanced fund"  
Investment fund applications

Nr. 2-01/2.3.1/\_\_\_

With this Parex Bank JSC, which is registered in LR Enterprise register on May 14, 1992 with No. 40003074590 and located at Smilšu str. 3, Rīga, 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 15<sup>th</sup>, 2003., Parex Bank JSC, (further in the text - Custodian) carries out functions of custodian bank for the OIF "Parex Eastern European Balanced fund" (further in the text – Fund) founded by IPAS "Parex Asset Management";

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 Balanced fund" 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. Parex bank JSC is very satisfied with co-operation in performing of the functions of Custodian bank.

  
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Valerijs Kargins  
President/ Head of the Board

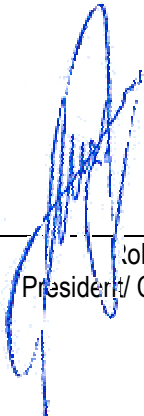


Riga, March 19, 2007

\_\_\_\_\_  
Rihards Valsons  
President Chairman of the Board

**AIF Parex Eastern European Balanced Fund**  
**Annual report 2006**  
**Statement of assets and liabilities**  
**(LVL)**

Notes	31/12/2006	31/12/2005
<b>Assets</b>		
4	876,891	98,080
	Financial assets held for trading	
5	8,854,356	7,963,067
6	3,744,657	2,230,034
7	132,436	2,274
	<b>13,608,340</b>	<b>10,293,455</b>
<b>Liabilities</b>		
	Financial liabilities held for trading	
7	-	(69,087)
8	(18,836)	(34,022)
	<b>(18,836)</b>	<b>(103,109)</b>
	<b>13,589,504</b>	<b>10,190,346</b>

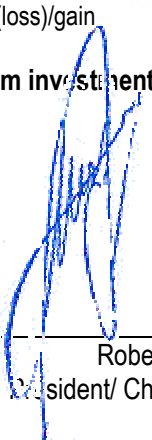
  
 \_\_\_\_\_  
 Roberts Idelsons  
 President/ Chairman of the Board

Riga,  
24 April 2007



**AIF Parex Eastern European Balanced Fund**  
**Annual report 2006**  
**Statement of income and expense**  
**(LVL)**

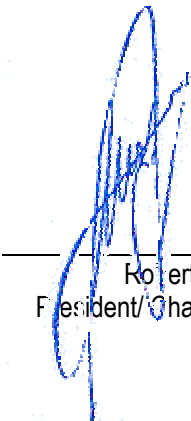
Notes	2006	2005
<b>Income</b>		
9	557,978	311,615
	34,575	14,169
	<b>592,553</b>	<b>325,784</b>
<b>Expense</b>		
10	(178,381)	(122,322)
	(21,549)	(13,142)
	(1,180)	(3)
	<b>(201,110)</b>	<b>(135,467)</b>
<b>Increase in investment</b>		
11	77,958	27,047
12	753,562	479,872
	<b>831,520</b>	<b>506,919</b>
	(40,711)	43,774
	<b>1,182,252</b>	<b>741,010</b>

  
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 Roberts Idelsons  
 President/ Chairman of the Board

Riga,  
 24 April 2007

**AIF Parex Eastern European Balanced Fund**  
**Annual report 2006**  
**Statement of changes in net assets**  
**(LVL)**

	<b>2006</b>	<b>2005</b>
Net assets as at the beginning of the period	10,190,346	2,860,982
Increase in net assets from investment activities	1,182,252	741,010
Transactions with investment certificates:		
<i>Inflow from sale of investment certificates</i>	6,923,029	8,291,776
<i>Outflow of redemption of investment certificates</i>	(4,706,123)	(1,703,422)
Increase in net assets from transactions with investment certificates	2,216,906	6,588,354
Increase in net assets for the period	3,399,158	7,329,364
<b>Net assets as at the end of the period</b>	<b>13,589,504</b>	<b>10,190,346</b>
Issued investment certificates as at the beginning of the period	1,201,770	376,549
Issued investment certificates as at the end of the period	1,450,628	1,201,770
Net asset value per investment certificate as at the beginning of the period	8.48	7.60
<b>Net asset value per investment fund's share as at the end of the period</b>	<b>9.37</b>	<b>8.48</b>

  
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 Roberts Idelsons  
 President/Chairman of the Board

Riga,  
24 April 2007

**AIF Parex Eastern European Balanced Fund**  
**Annual report 2006**  
**Statement of cash flows**  
**(LVL)**

<b>Notes</b>	<b>2006</b>	<b>2005</b>
Investment management income	595,561	341,557
Investment management expense	(216,296)	(114,610)
(Acquisition) of financial assets	(7,964,691)	(9,753,939)
Disposal of financial assets	5,977,641	2,907,391
Foreign currency conversion result	169,935	(149,092)
<b>(Decrease) in cash from operating activities</b>	<b>(1,437,850)</b>	<b>(6,768,693)</b>
Inflow from sale of investment certificates	6,923,029	8,282,988
Outflow of redemption of investment certificates	(4,706,123)	(1,703,422)
<b>Increase in cash from financing activities</b>	<b>2,216,906</b>	<b>6,579,566</b>
<b>Increase/(decrease) in cash</b>	<b>779,056</b>	<b>(189,127)</b>
<b>Cash as at the beginning of the period</b>	<b>98,080</b>	<b>276,578</b>
Result of revaluation of cash denominated in foreign currencies	(245)	10,629
<b>Cash as at the end of the period</b>	<b>876,891</b>	<b>98,080</b>

**AIF Parex Eastern European Balanced Fund**  
**Annual report 2006**  
**Notes**  
**(LVL)**

**1. General information**

Name of the fund:	Parex Eastern European Balanced Fund
Type of the fund:	Open-end investment fund
Registered office:	Basteja bulvāris, Riga, LV-1050, Latvia
Fund's business activity:	Investments in securities issued or guaranteed by governments, municipalities, central banks and credit institutions of Eastern European countries, as well as debt securities and equity shares of corporate entities. The base currency of the Fund is euro (EUR), and the maximal amount of investments in shares constitutes 30% of the Fund's value.
Name of the investment company:	IPAS Parex Asset Management, Basteja bulvāris, Riga, LV-1050, Latvia

**2. Summary of significant accounting policies**

***Basis of preparation***

The financial statements of AIF Parex Eastern European Balanced Fund have been prepared in accordance with laws of the Republic of Latvia, the Regulations of the Financial and Capital Market Commission (FCMC) on Financial Statements of Investment Funds, and International Financial Reporting Standards (IFRS) as endorsed by the European Union.

The financial statements are prepared on a historical cost basis, as modified for the measurement at fair value of held-for-trading 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 1 January 2006 through 31 December 2006.

***Income and expense recognition***

Interest income and expense items are recognised on an accrual basis. Interest income is recognised according to the effective interest method.

Dividend income is recognised at the moment of receipt.

***Foreign currency translation***

The Fund's functional currency is euro (EUR) but, according to the FCMC requirements, the Fund ensures accounting also in Latvian lats. These financial statements are prepared based on transaction accounting in Latvian lats.

Transactions denominated in foreign currencies are recorded in Latvian lats at the official exchange rate established by the Bank of Latvia at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Latvian lats at the official exchange rate established by the Bank of Latvia at the last day of the reporting period. Any gain or loss resulting from a change in exchange rates is included in the statement of income and expense as gain or loss from the revaluation of foreign currency positions.

The exchange rates established by the Bank of Latvia (LVL to 1 foreign currency unit) and mainly applied when preparing the statement of assets and liabilities of the Fund can be specified as follows:

<u>Currency</u>	<u>31/12/2006</u>	<u>31/12/2005</u>
USD	0.536	0.593
EUR	0.702804	0.702804
LTL	0.204	0.204
SEK	0.0778	0.0747
PLN	0.183	0.182

**AIF Parex Eastern European Balanced Fund**  
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Since 1 January 2005, the Bank of Latvia has stated a fixed currency exchange rate for Latvian lat against euro, i.e. 0.702804. From this moment the Bank of Latvia will also ensure that the market rate will not differ from the official rate by more than 1%. Therefore, the Fund's future profit or loss due to fluctuations of the euro exchange rate will not be material as far as the Bank of Latvia maintains the above mentioned fixed rate.

**Cash**

Cash comprises Fund's demand deposits with credit institutions.

**Investments in securities**

All investments in 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 recognised at cost and subsequently re-measured at fair value based on available market prices. The result of re-measuring held-for-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 bid prices of respective securities. Unlisted securities are evaluated on the basis of the custodian bank's information on transactions, but in case such information is not available, respective securities are evaluated at their amortised cost. Securities purchase and sale transactions are recognised on the date of settlements. The cost of securities sold is defined on a FIFO (first in, first out) basis.

**Derivatives**

For currency risk management purposes, the Fund engages as a party to contracts for forward foreign exchange rate and currency swap instruments. For the accounting purposes, all derivatives are classified as held-for-trading 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 in the statement of assets and liabilities under designated assets and liabilities caption *Derivatives*. The notional amounts of these financial instruments are reported in the notes to the financial statements.

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

**Fair values of financial assets and liabilities**

Fair value of financial assets and liabilities 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 Fund 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.

**Taxes**

The Fund's income is subject to income tax in the country of its origin. Basically, the Fund's income is exempt from income taxes. The Fund is not a Latvian corporate income tax payer, and upon annulment of the Fund's investment certificates, no income tax is charged on increase in value.

**AIF Parex Eastern European Balanced Fund**  
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**3. Risk management**

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

To mitigate the investment risks, the Fund management follows the risk diversification and hedging principles.

The Company acquires sufficient information on potential or current investment objects, as well as supervises the 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 an analysis of the Fund's investments by maturity, geographic placements, currency profile, as well as 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 the fund's functional currency. 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 the future.

**4. Demand deposits with credit institutions**

	31/12/2006	31/12/2005	% of total assets as at 31/12/2006
Demand deposits with credit institutions, AS Parex banka	876,891	98,080	6.45%
<b>Total demand deposits</b>	<b>876,891</b>	<b>98,080</b>	<b>6.45%</b>

The Fund may receive interest on demand deposits at floating rate fixed as EONIA – 0.5%. The interest rate changes daily.

**AIF Parex Eastern European Balanced Fund**  
**Annual report 2006**  
**Notes**  
**(LVL)**

**5. Debt securities and other fixed income securities**

	31/12/2006	31/12/2005	Annual yield before maturity as at 31/12/2006	% of total assets as at 31/12/2006
<b>Credit institution bonds:</b>	<b>5,532,985</b>	<b>3,763,684</b>	<b>7.05%</b>	<b>40.72%</b>
<i>Non-OECD credit institution bonds (excluding Latvia)</i>	3,888,899	3,267,988	7.71%	28.63%
<i>Latvian credit institution bonds</i>	1,252,190	495,696	5.63%	9.21%
<i>OECD credit institution bonds</i>	391,896	-	5.00%	2.88%
<b>Corporate bonds:</b>	<b>2,511,489</b>	<b>2,861,443</b>	<b>7.90%</b>	<b>18.48%</b>
<i>Non-OECD corporate bonds (excluding Latvia)</i>	1,509,736	2,203,407	8.24%	11.10%
<i>OECD corporate bonds</i>	666,753	658,036	6.04%	4.91%
<i>Latvian corporate bonds</i>	335,000	658,036	10.04%	2.47%
<b>Government bonds:</b>	<b>341,023</b>	<b>529,946</b>	<b>5.54%</b>	<b>2.51%</b>
<i>Non-OECD government bonds (excluding Latvia)</i>	341,023	529,946	5.54%	2.51%
<b>Financial institution bonds:</b>	<b>278,119</b>	<b>24,052</b>	<b>7.62%</b>	<b>2.05%</b>
<i>OECD</i>	211,347	24,052	7.44%	1.56%
<i>Non-OECD</i>	66,772	24,052	8.20%	0.49%
<b>Municipality bonds:</b>	<b>190,740</b>	<b>783,942</b>	<b>4.74%</b>	<b>1.40%</b>
<i>Non-OECD municipality bonds (excluding Latvia)</i>	190,740	783,942	4.74%	1.40%
<b>Total debt securities and other fixed income securities</b>	<b>8,854,356</b>	<b>7,963,067</b>	<b>7.20%</b>	<b>65.16%</b>

All debt securities and other fixed income securities are classified as held-for-trading securities. All fixed income securities are listed, except securities with the book value of LVL 1,495,121 (2005: LVL 86,650).

The table below presents debt securities by the issuer's country of residence:

Financial instrument	Amount	Acquisition value	Carrying amount as at 31/12/2006	% of total assets as at 31/12/2006
<b>Financial instruments traded on regulated markets</b>		<b>7,598,741</b>	<b>7,359,235</b>	<b>54.15%</b>
<b>Latvian issuers:</b>		<b>1,040,094</b>	<b>1,051,442</b>	<b>7.73%</b>
PAREX BANKA (XS0253533318)	450	315,137	324,404	2.39%
PAREX BANKA (XS0221450025)	360	255,914	256,898	1.89%
BALTIKUMS (LV0000800324)	2,500	179,053	178,044	1.31%
PARITĀTE BANKA mortgage bonds (LV0000800332)	2,500	176,285	176,914	1.30%
REGIONAL INVESTMENT BANK (LV0000800365)	140	98,491	99,625	0.73%
LHQB mortgage bonds (LV0000800167)	150	15,214	15,557	0.11%
<b>Russian issuers:</b>		<b>1,681,432</b>	<b>1,573,546</b>	<b>11.58%</b>
SIBACADEMFINANCE PLC (SIBACADEMBANK) (XS0254342347)	500	278,724	275,306	2.03%
N-INVEST (NIKOIL) (XS0188330004)	415	238,704	228,501	1.68%
EURASIA CAP (HCFB LLC) (XS0221878720)	400	228,122	223,380	1.64%
DRESDNER BK (SIBACADEMBANK) (XS0219905238)	175	212,256	193,968	1.43%
DRESDNER(CITY OF MOSCOW) (XS0202356167)	250	204,775	190,740	1.41%
AK BARS FIN (AK BARS BK) (XS0232129865)	300	178,314	163,019	1.20%
RS FINANCE (RUSSIAN STANDARD BANK) (XS0267953387)	150	105,526	107,635	0.79%
CITIGROUP (RUSSIAN STANDARD BANK) (XS0190199264)	75	89,804	82,045	0.60%
RUSSIA INTL (ROSBANK) (XS0204045669)	200	117,957	81,626	0.60%
DRESDNER (RUSSIAN STANDARD BANK) (XS0201757530)	25	27,250	27,326	0.20%

## AIF Parex Eastern European Balanced Fund

## Annual report 2006

## Notes

## (LVL)

Financial instrument	Amount	Acquisition value	Carrying amount as at 31/12/2006	% of total assets as at 31/12/2006
<b>Kazakhstani issuers:</b>		<b>1,436,372</b>	<b>1,378,573</b>	<b>10.14%</b>
TURANALEM FINANCE BV (BANK TURANALEM) (XS0269267000)	400	279,997	287,050	2.11%
NURBANK (XS0218237088)	400	237,772	219,308	1.61%
ALB FINANCE BV (ALLIANCE BANK) (XS0234283264)	400	238,116	217,241	1.60%
TEMIR CAPITAL (TEMIR BANK) (XS0248327834)	300	166,866	167,155	1.23%
NURFINANCE BV (NURBANK) (XS0269698246)	300	166,016	162,545	1.20%
ATF BANK (XS0233829463)	300	173,368	160,564	1.18%
CENTERCREDIT INTERNATIONAL (BANK INTERCREDIT) (XS0243010443)	200	115,427	110,072	0.81%
ASTANA FINANCE (XS0244275797)	100	58,810	54,638	0.40%
<b>Ukrainian issuers:</b>		<b>1,186,026</b>	<b>1,114,729</b>	<b>8.20%</b>
UKRAINE GOVERNMENT (XS0232329879)	500	343,343	341,023	2.51%
HYPO-UND (UKRSIBBANK) (XS0222883349)	450	277,266	258,728	1.90%
UKRCHEM CAPITAL (STIROL) (XS0225482719)	400	235,712	211,968	1.56%
UKRSOTS FINANCE BV (UKRSOTSBANK) (XS0219489340)	350	210,583	194,247	1.43%
DRESDNER(COMM BNK NADRA) (XS0234215696)	200	119,122	108,763	0.80%
<b>Bulgarian issuers:</b>		<b>448,603</b>	<b>456,144</b>	<b>3.36%</b>
FIRST INVESTMENT FIN BV (FIRST INVESTMENT BANK) (XS0211479745)	600	448,603	456,144	3.36%
<b>US issuers:</b>		<b>435,386</b>	<b>450,361</b>	<b>3.32%</b>
CENTRAL EUR DISTR CORP (XS0224445576)	575	435,386	450,361	3.32%
<b>Polish issuers:</b>		<b>390,881</b>	<b>391,896</b>	<b>2.88%</b>
GETIN FINANCE (GETIN BANK) (XS0251706957)	550	390,881	391,896	2.88%
<b>Romanian issuers:</b>		<b>406,095</b>	<b>368,010</b>	<b>2.71%</b>
CFR MARFA S.A. (XS0159049765)	500	406,095	368,010	2.71%
<b>Croatian issuers:</b>		<b>362,800</b>	<b>363,187</b>	<b>2.67%</b>
AGROKOR D.D (XS0275181096)	10	362,800	363,187	2.67%
<b>Luxembourgian issuers:</b>		<b>211,052</b>	<b>211,347</b>	<b>1.56%</b>
APHEX SA (XS0263303512)	3	211,052	211,347	1.56%
<b>Other financial instruments</b>		<b>1,501,798</b>	<b>1,495,121</b>	<b>11.01%</b>
<b>Latvian issuers:</b>		<b>533,889</b>	<b>535,748</b>	<b>3.94%</b>
TELEKOM BALTIJA (LV0000601185)	300	210,841	211,275	1.55%
PARITĀTE BANKA mortgage bonds (LV0000800381)	2.850	200,299	200,748	1.48%
APEX (LV0000601201)	200	122,749	123,725	0.91%
<b>Russian issuers:</b>		<b>511,543</b>	<b>512,143</b>	<b>3.78%</b>
SIBACADEMFINANCE (SIBACADEMBANK) (XS0274663383)	250	177,634	181,484	1.34%
URALVNESHTORGBANK (XS0268770160)	3	166,500	165,889	1.22%
DRESDNER BANK AG (RBC INVESTMENT) (XS0256816496)	2	109,109	108,155	0.80%
EMERGING MKTS STRUCTURED (AMTEL) (XS0223667857)	1	58,300	56,615	0.42%
<b>Finnish issuers:</b>		<b>214,586</b>	<b>216,392</b>	<b>1.59%</b>
KESKO OYJ (EE4300085412)	220	214,586	216,392	1.59%
<b>Estonian issuers:</b>		<b>133,672</b>	<b>118,704</b>	<b>0.87%</b>
MANUTENT OU (EE3300084979)	150	61,166	61,166	0.45%
BIG PANK (EE3300081801)	100	45,066	45,404	0.33%
OBER-HAUS Real Estate Advisors (EE3300074061)	40	27,440	12,134	0.09%
<b>Azerbaijani issuers:</b>		<b>108,108</b>	<b>112,134</b>	<b>0.83%</b>
MKT Istehsalat-Kommersiya MMC (LV0000601102)	200	108,108	112,134	0.83%
<b>Total debt securities and other fixed income securities</b>		<b>9,100,539</b>	<b>8,854,356</b>	<b>65.16%</b>



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**6. Shares and other non-fixed income securities**

	31/12/2006	31/12/2005	% of total assets as at 31/12/2006
Equity shares	2,547,837	1,530,730	18.75%
Non-OECD equity shares (excluding Latvia)	1,551,708	893,005	11.42%
OECD equity shares	761,373	524,280	5.60%
Latvian equity shares	234,756	113,445	1.73%
Investment certificates of investment funds	1,196,820	699,304	8.81%
OECD investment funds	964,730	499,626	7.10%
Non-OECD (Lithuanian) investment funds	232,090	199,678	1.71%
<b>Total shares and other non-fixed income securities</b>	<b>3,744,658</b>	<b>2,230,034</b>	<b>27.56%</b>

All shares and other non-fixed income securities are classified as held-for-trading securities. All shares are listed, except shares with the book value of LVL 122 (2005: LVL 122).

The table below presents shares by the issuer's country of residence:

Financial instrument	Amount	Acquisition value	Carrying amount as at 31/12/2006	% of total assets as at 31/12/2006
<b>Financial instruments traded on regulated markets</b>		<b>1,785,287</b>	<b>2,547,715</b>	<b>18.75%</b>
<b>Latvian issuers:</b>		<b>166,910</b>	<b>234,756</b>	<b>1.73%</b>
Latvian Shipping Company ( <i>Latvijas kūrniecība</i> )	137,195	108,595	146,799	1.08%
Olaine Chemical and Pharmaceutical Plant ( <i>Olaines ķīmiski - farmaceutiskā rūpnīca</i> )	21,504	41,718	52,685	0.39%
GRINDEKS	4,899	16,597	35,272	0.26%
<b>Russian issuers:</b>		<b>321,208</b>	<b>672,557</b>	<b>4.95%</b>
MOBILE TELESYSTEMS	4,400	82,900	118,816	0.87%
SBERBANK	50	7,373	91,120	0.67%
NORILSK NIKEL	1,000	31,849	81,740	0.61%
GAZPROM	13,000	60,528	79,576	0.59%
Severo-Zapadnij Telekom PFD	100,000	35,593	65,392	0.48%
EVRAZ GROUP SA	3,700	35,398	49,580	0.36%
LEBEDYANSKIJ PRESERV.EXPERIM.PLAN	1,100	21,623	47,168	0.35%
VERKHNAYA SALDA METAL	250	11,672	39,262	0.29%
SIBIRTELECOM	450,000	13,503	26,532	0.20%
POLUS ZOLOTO	1,000	0	25,996	0.19%
VOLGATELECOM	7,700	14,035	24,970	0.18%
BALTIKA	1,000	6,734	22,405	0.16%
<b>Estonian issuers:</b>		<b>338,359</b>	<b>519,681</b>	<b>3.82%</b>
MERKO EHITUS AS	11,000	121,163	151,390	1.11%
TALLINK GRUPP	40,000	121,743	142,189	1.05%
TALLINNA KAUBAMAJA AS	18,000	36,606	116,090	0.85%
BALTIKA	3,500	9,657	54,242	0.40%
TALLINK GRUPP	8,000	19,815	28,607	0.21%
Harju Elekter	9,500	29,375	27,163	0.20%
<b>Polish issuers:</b>		<b>329,185</b>	<b>396,057</b>	<b>2.92%</b>
PROKOM SOFTWARE	5,000	122,661	123,068	0.91%
Telekomunikacija Polska SA	15,000	48,188	67,527	0.50%
KGHM POLSKA	4,000	23,673	65,587	0.48%
PGNIG OIL & GAS	100,000	74,645	64,782	0.48%
GRUPA LOTOS SA	2,459	20,549	22,189	0.16%
DEBICA	1,448	20,512	20,272	0.15%
POLSKA GRUPA FARMACEUTYCZNA	1,300	12,358	18,532	0.14%
SoftBank SA	1,541	6,599	14,100	0.10%

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Financial instrument	Amount	Acquisition value	Carrying amount as at 31/12/2006	% of total assets as at 31/12/2006
<b>Lithuanian issuers:</b>		<b>304,772</b>	<b>335,317</b>	<b>2.47%</b>
APRANGA	25,285	40,969	68,087	0.50%
INVALDA	22,495	55,244	56,536	0.42%
AB Mazeikiu nafta	26,840	57,898	55,575	0.41%
Bankas Snoras	3,700	38,384	47,137	0.35%
Pieno žvaigždės	40,000	38,257	43,819	0.32%
Penevezio Statybos Trestas	10,800	24,999	33,268	0.24%
SNAIGE	7,900	28,820	19,178	0.14%
Vilniaus Baldu Kombinat	1,820	13,220	6,609	0.05%
UTENOS TRIKOTAZAS	4,000	6,981	5,108	0.04%
<b>Czech issuers:</b>		<b>164,547</b>	<b>201,062</b>	<b>1.47%</b>
CEZ CP	6,000	108,805	146,084	1.07%
Komerční Banka	700	55,742	54,978	0.40%
<b>Hungarian issuers:</b>		<b>92,701</b>	<b>103,205</b>	<b>0.76%</b>
OTP BANK	1,500	64,504	73,968	0.54%
MAGYAR TELEKOM	10,000	28,197	29,237	0.22%
<b>Austrian issuers:</b>		<b>43,405</b>	<b>61,049</b>	<b>0.45%</b>
Erste Bank der Oester Spark	1,500	43,405	61,049	0.45%
<b>Bulgarian issuers:</b>		<b>24,200</b>	<b>24,031</b>	<b>0.18%</b>
INDUSTRIAL HOLDING BULGARIA	10,000	22,145	21,755	0.16%
CHIMIMPORT AD	833	2,055	2,276	0.02%
<b>Other financial instruments</b>		<b>116</b>	<b>122</b>	<b>0.00%</b>
<b>Lithuanian issuers:</b>		<b>116</b>	<b>122</b>	<b>0.00%</b>
Zemaitijos Pieno Investicija AB	200	116	122	0.00%
<b>Total shares and other non-fixed income securities</b>		<b>1,785,403</b>	<b>2,547,837</b>	<b>18.75%</b>

The table below shows investment certificates of investment funds and similar securities by the issuer's country of residence:

Financial instrument	Amount	Acquisition value	Carrying amount as at 31/12/2006	% of total assets as at 31/12/2006
<b>Financial instruments traded on regulated markets</b>		<b>691,658</b>	<b>895,428</b>	<b>6.59%</b>
<b>Investment certificates of Lithuanian investment funds:</b>		<b>150,499</b>	<b>232,090</b>	<b>1.71%</b>
Parex investiciju valdymas- Baltijas Jūras Akciju fonds	6,656	150,499	232,090	1.71%
<b>Investment certificates of Luxembourgian investment funds:</b>		<b>541,159</b>	<b>663,338</b>	<b>4.88%</b>
WIOF Greece-Cyprus Opportunities Fund	132,114	316,262	373,398	2.74%
AVIVA FDS-EU CONVERGE EQT-P1	74,344	224,897	289,940	2.14%
<b>Other financial instruments</b>		<b>192,018</b>	<b>301,392</b>	<b>2.22%</b>
<b>Investment certificates of Swedish investment funds:</b>		<b>192,018</b>	<b>301,392</b>	<b>2.22%</b>
East Capital Balcan Fund	165,695	192,018	301,392	2.22%
<b>Total investment certificates and similar securities</b>		<b>883,676</b>	<b>1,196,820</b>	<b>8.81%</b>

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

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**7. Derivatives**

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

	31/12/2006			31/12/2005			% of total assets as at 31/12/2006
	Notional amount	Fair value		Notional amount	Fair value		
		Assets	Liabilities		Assets	Liabilities	
Currency swap instruments	4,675,323	132,436	-	3,568,876	1,337	(67,664)	0.97%
Forward foreign exchange instruments	-	-	-	559,073	937	(1,423)	-
<b>Total derivatives</b>	<b>4,675,323</b>	<b>132,436</b>	<b>-</b>	<b>4,127,949</b>	<b>2,274</b>	<b>(69,087)</b>	<b>0.97%</b>

All the contracts are concluded with AS "Parex banka".

**8. Accrued expense**

	31/12/2006	31/12/2005
Accrued commission fees payable to investment company	15,758	32,502
Accrued commission fees payable to custodian bank	1,898	1,520
Accrued fees payable for professional services	1,180	-
<b>Total accrued expense</b>	<b>18,836</b>	<b>34,022</b>

**9. Interest income**

	2006	2005
Interest income from debt securities and other fixed income securities	542,818	303,184
Interest income from demand deposits with credit institutions	15,160	8,431
<b>Total interest income</b>	<b>557,978</b>	<b>311,615</b>

**10. Remuneration to investment company**

	2006	2005
Fixed fee payable for fund management	178,381	102,162
Fund management fee depending on increase in value	-	20,160
<b>Total remuneration to investment company</b>	<b>178,381</b>	<b>122,322</b>

**11. Realised increase in investment value**

	2006	2005
Income from sale of investments	5,899,135	2,733,685
Acquisition value of investments sold	(5,635,694)	(2,758,338)
(Increase)/ decrease in value of investments sold, recognised in the previous periods	(185,483)	51,700
<b>Total realised increase in investment value</b>	<b>77,958</b>	<b>27,047</b>

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**12. Unrealised increase in investment value**

	2006	2005
From shares and other non-fixed income securities	769,598	446,690
From debt securities and other fixed income securities	(16,036)	33,182
<b>Total unrealised increase in investment value</b>	<b>753,562</b>	<b>479,872</b>

**13. Change in investment assets during the reporting year**

	31/12/2005	Increase during the reporting year	Decrease during the reporting year	Foreign currency revaluation result	Fair value restatement result	31/12/2006
Held for trading financial assets						
Debt securities and other fixed income securities	7,963,067	6,337,175	(5,009,208)	(340,699)	(95,979)	8,854,356
Shares and other non-fixed income securities	2,230,033	1,627,516	(968,433)	(68,951)	924,492	3,744,657
Derivatives, net	(66,813)	-	-	199,249	-	132,436
<b>Total assets</b>	<b>10,126,288</b>	<b>7,964,691</b>	<b>(5,977,641)</b>	<b>(210,401)</b>	<b>828,513</b>	<b>12,731,449</b>

**14. Assets and liabilities by currency profile**

	LVL	USD	EUR	Other	Total
<b>Assets</b>					
Demand deposits with credit institutions	252,476	138,932	453,406	32,077	876,891
Held for trading financial assets					
Debt securities and other fixed income securities	231,949	3,583,192	4,932,645	106,570	8,854,356
Shares and other non-fixed income securities	234,756	746,523	753,624	2,009,754	3,744,657
Derivatives, net	-	(4,542,887)	4,675,323	-	132,436
<b>Total assets</b>	<b>719,181</b>	<b>(74,240)</b>	<b>10,814,998</b>	<b>2,148,401</b>	<b>13,608,340</b>
<b>Liabilities</b>					
Deferred income and accrued expense	-	-	(18,836)	-	(18,836)
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>(18,836)</b>	<b>-</b>	<b>(18,836)</b>
<b>Net assets</b>	<b>719,181</b>	<b>(74,240)</b>	<b>10,796,162</b>	<b>2,148,401</b>	<b>13,589,504</b>
<i>Net long/ (short) position</i>	5.29%	(0.55%)	79.44%	15.81%	100.00%

As at 31 December 2006, other currencies are presented as follows: EEK – LVL 626,251 (2005: LVL 16,526), LTL – LVL 567,529 (2005: LVL 100,606), PLN – LVL 428,136 (2005: LVL 38,107), SEK – LVL 301,392 (2005: LVL 74,984), CZK – LVL 201,062 (2005: LVL 0), and BGN – LVL 24,031 (2005: LVL 0).

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**15. Assets by geographical placement**

	Latvia	OECD countries	Other non-OECD countries	Total
<b>Assets</b>				
Demand deposits with credit institutions	876,891	-	-	876,891
Held for trading financial assets				
Debt securities and other fixed income securities	1,587,190	1,460,736	5,806,430	8,854,356
Shares and other non-fixed income securities	234,756	1,726,103	1,783,798	3,744,657
Derivatives	132,436	-	-	132,436
<b>Total assets</b>	<b>2,831,273</b>	<b>3,186,839</b>	<b>7,590,228</b>	<b>13,608,340</b>
<b>Liabilities</b>				
Accrued expense	(18,836)	-	-	(18,836)
<b>Total liabilities</b>	<b>(18,836)</b>	<b>-</b>	<b>-</b>	<b>(18,836)</b>
<b>Net assets</b>	<b>2,812,437</b>	<b>3,186,839</b>	<b>7,590,228</b>	<b>13,589,504</b>

**16. Liquidity**

	Within 1 month	1-6 months	6-12 months	1-5 years	More than 5 years	Total
<b>Assets</b>						
Demand deposits with credit institutions	876,891	-	-	-	-	876,891
Debt securities and other fixed income securities	-	526,939	691,140	6,799,489	836,788	8,854,356
Shares and other non-fixed income securities	3,744,657	-	-	-	-	3,744,657
Derivatives, net	28,056	104,380	-	-	-	132,436
<b>Total assets</b>	<b>4,649,604</b>	<b>631,319</b>	<b>691,140</b>	<b>6,799,489</b>	<b>836,788</b>	<b>13,608,340</b>
<b>Liabilities</b>						
Accrued expense	(17,656)	(1,180)	-	-	-	(18,836)
<b>Total liabilities</b>	<b>(17,656)</b>	<b>(1,180)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(18,836)</b>
<b>Net assets</b>	<b>4,631,948</b>	<b>630,139</b>	<b>691,140</b>	<b>6,799,489</b>	<b>836,788</b>	<b>13,589,504</b>

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**17. Interest rate risk**

Financial assets and liabilities by type of exposure to interest rate risk can be disclosed as follows:

	Cash flow interest rate risk	Fair value interest rate risk	Non interest bearing	Total
Demand deposits with credit institutions	876,891	-	-	876,891
Financial assets held for trading				
Debt securities and other fixed income securities	1,202,656	7,651,700	-	8,854,356
Shares and other non-fixed income securities	-	-	3,744,657	3,744,657
Derivatives	-	-	132,436	132,436
<b>Total assets</b>	<b>2,079,547</b>	<b>7,651,700</b>	<b>3,877,093</b>	<b>13,608,340</b>
Liabilities				
Accrued expense	-	-	(18,836)	(18,836)
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>(18,836)</b>	<b>(18,836)</b>
<b>Net assets</b>	<b>2,079,547</b>	<b>7,651,700</b>	<b>3,858,257</b>	<b>13,589,504</b>

**18. Repricing maturity of assets and liabilities**

	Within 1 month	from 1 to 3 months	from 3 to 6 months	from 6 to 12 months	from 1 – 5 years	more than 5 years	Total
<b>Assets</b>							
Demand deposits with credit institutions	876,891	-	-	-	-	-	876,891
Financial assets held for trading							
Debt securities and other fixed income securities	437,300	455,405	775,725	691,140	5,703,402	791,384	8,854,356
Shares and other non-fixed income securities	3,744,657	-	-	-	-	-	3,744,657
Derivatives, assets	28,056	104,380	-	-	-	-	132,436
<b>Total assets</b>	<b>5,086,904</b>	<b>559,785</b>	<b>775,725</b>	<b>691,140</b>	<b>5,703,402</b>	<b>791,384</b>	<b>13,608,340</b>
Liabilities							
Accrued expense	(17,656)	-	(1,180)	-	-	-	(18,836)
<b>Total liabilities</b>	<b>(17,656)</b>	<b>-</b>	<b>(1,180)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(18,836)</b>
<b>Net assets</b>	<b>5,069,248</b>	<b>559,785</b>	<b>774,545</b>	<b>691,140</b>	<b>5,703,402</b>	<b>791,384</b>	<b>13,589,504</b>

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**19. Information on holders of investment certificates**

The below table specifies the proportion of investment certificates held by related parties out of total investment certificates issued:

	31/12/2006	31/12/2005	% of total certificates as at 31/12/2005
Investment certificates held by related parties	102,959	102,959	8.6%
Investment certificates held by other persons	1,347,852	1,098,811	91.4%
<b>Investment certificates issued as at the period-end</b>	<b>1,450,628</b>	<b>1,201,770</b>	<b>100.0%</b>

**20. Related party disclosures**

The majority of the Fund's investments were acquired with the mediation of custodian bank AS Parex banka. AS Parex banka receives remuneration as custodian bank, as disclosed in the statement of income and expense. In addition, the Fund's cash resources are held with AS Parex banka (see Note 4).

The remuneration paid to the investment company during the reporting year is disclosed in the statement of income and expense (see also Note 10).

During the reporting year, related parties acquired 98,464 investment certificates (2005: 98,464 certificates) and sold back 95 investment certificates (2005: 95 certificates). Due to the reorganisation of IAS Parex ieguldījumu pārvaldes sabiedrība, which resulted in the acquisition of AS Parex Asset Management, the new Board members became related parties to the Fund. They held 4,547 investment certificates of the Fund, whereas the Board members, who resigned due to the reorganisation, held 398 investment certificates. After the year-end, AS Parex banka sold back 92,506 investment certificates.

During the reporting year, the Fund had an investment in bonds issued by AS Parex banka. As at 31 December 2006, the carrying value of this investment was LVL 581,302 (2005: LVL 273,530). In the reporting year, the Fund had an investment in an investment fund managed by a related investment company. As at 31 December 2006, the carrying value of this investment was LVL 150,499 (2005: LVL 199,678).

Transactions with related parties were held based on market prices according to common principles.

**21. Pledged assets**

During the reporting year, no guarantees or collaterals have been issued by the Fund, neither has it pledged or otherwise caused any encumbrance or lien on its assets.

**22. Fair values of financial assets and liabilities**

The Management estimates that the book values of financial assets and liabilities approximates their market values.

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**(LVL)**

**23. Dynamics of net asset value**

	31/12/2006	31/12/2005	31/12/2004
<b>Net assets (LVL)</b>	<b>13,589,504</b>	<b>10,190,346</b>	<b>2,860,982</b>
Number of investment certificates	1,450,628	1,201,770	376,549
Value of investment fund's shares (LVL)	9.37	8.48	7.60
Performance on investment fund's shares*	10.49%	11.58%	12.71%
<b>Net assets (EUR)**</b>	<b>19,302,412</b>	<b>14,503,871</b>	<b>4,070,200</b>
Number of investment certificates	4,450,628	1,201,770	376,549
Value of investment fund's shares (EUR)	13.31	12.07	10.81
Performance on investment fund's shares*	10.27%	11.66%	8.18%

\* Performance is calculated supposing that a year consists of 365 days.

\*\* The value of net assets in Euro is determined, based on foreign currency exchange rates fixed at financial markets at the end of each day.



## INDEPENDENT AUDITORS' REPORT

To the holders of investment certificates  
of OIF Parex Eastern European Balanced Fund

### Report on the Financial Statements

We have audited 2006 financial statements of opened-end investment fund Parex Eastern European Balanced Fund (hereinafter – the Fund), which are set out on pages 8 through 24 of the accompanying 2006 Annual Report and which comprise the statements of assets and liabilities as at 31 December 2006, the statement of income and expenses, changes in net assets and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### Management's Responsibility for the Financial Statements

Investment management company's Parex Asset Management management is responsible for the preparation and fair presentation of these financial statements in accordance with the Regulations of the Financial and Capital Market Commission on Preparation of Financial Statements of Investment Funds. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Auditor's Responsibility

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. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

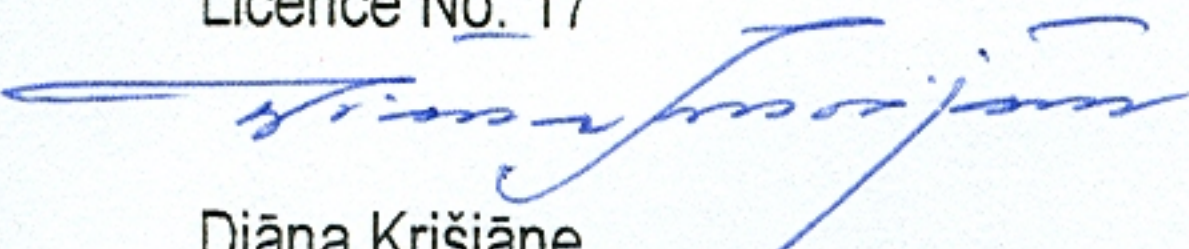
#### Opinion

In our opinion, the financial statements referred to above give a true and fair view of the financial position of the Fund as at 31 December 2006, and of the results of their operations and their cash flows for the year then ended in accordance with the Regulations of the Financial and Capital Market Commission on Preparation of Financial Statements of Investment Funds.

### Report on Compliance of the Management's Report

Furthermore, we have read the Management's Report for the year ended 31 December 2006 (included on page 4 of the accompanying 2006 Annual Report) and have not noted any material inconsistencies between the financial information included in it and the financial statements for the year ended 31 December 2006.

SIA Ernst & Young Baltic  
Licence No. 17



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