

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

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

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

Riga, 2007

AIF Parex Eastern European Bond Fund
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AIF Parex Eastern European Bond Fund
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General information

Name of the fund:	Parex Eastern European Bond Fund	
Type of fund:	Open-end investment fund	
Registration date of the fund:	28 February 2003	
Number of the fund:	06.03.04.098/2	
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 Vīgulis – 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 & Young Baltic Kronvalda bulv. 3, Rīga Latvia, LV – 1010</p>

AIF Parex Eastern European Bond Fund
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Investment company report

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

In 2006, the Fund's net assets increased by 25% or USD 2.5 million, reaching USD 12,738,886 (LVL 6,818,596) as at year-end. The value per Fund's share grew by 74 cents over the year to USD 12.20 but in terms of Latvian lats it decreased by 31 santims to LVL 6.93. The Fund's performance as at year-end reached 6.84% in the base currency but was negative at -4.29% in terms of LVL.

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 corporate bonds (by 7 percentage points), which as at year-end constituted 95.80% of the total Fund's assets. The proportion of investments in government and municipal bonds was reduced to the minimum – 0.09%. The Fund's average duration at the end of 2006 was 2.4 years and the average yield to maturity reached 8.13% (as compared to 6.72% at the end of 2005).

For the major part, the Fund's assets are in the base currency, i.e. denominated in US dollars (76.7%). Other assets are invested in euros (14.9%), however, the open currency position in euros was minimised to 4.4% in the end of 2006 by using derivative financial instruments. In 2006 the Fund made investments in Russian roubles, such investments accounting for 8.7% of the Fund's assets as at year-end. In terms of geographical placement, the major part of assets is still invested in Russia (44.0%), Kazakhstan (18.5%), Ukraine (16.6%) and Latvia (10.4%).

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 efficiency in 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.

F. Roberts Idelsons
President / Chairman of the Board
Fund Manager

Riga,
24 April 2007

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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 Bond Fund (hereinafter – the Fund).

The financial statements set out on pages 8 to 21 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 Bond 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.

Robert Zelinski
President/ Chairman of the Board

Riga,
24 April 2007



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CUSTODIAN BANK REPORT

For holders of
OIF "Parex Eastern European Bond 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 February 13th, 2003., Parex Bank JSC, (further in the text - Custodian) carries out functions of custodian bank for the OIF "Parex Eastern European Bond 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 Eastern European Bond 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.



Valerijs Kargins
President/ Head of the Board



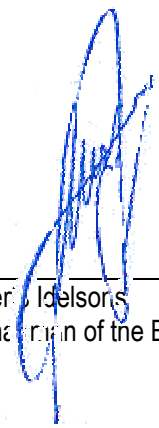
Riga, March 19, 2007

Robertis Iedisons
President/ Chairman of the Board

Riga, March 2007

AIF Parex Eastern European Bond Fund
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Statement of assets and liabilities
(LVL)

Notes	<u>31/12/2006</u>	<u>31/12/2005</u>
Assets		
4	329,880	232,430
	Financial assets held for trading	
5	6,532,108	5,818,385
6	-	11,025
	Total assets	
	6,861,988	6,061,840
Liabilities		
	Financial liabilities held for trading	
6	(33,619)	-
7	(9,773)	(8,002)
	Total liabilities	
	(43,392)	(8,002)
	Net assets	
	6,818,596	6,053,838

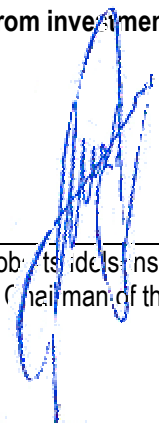


 Robert Idelsons
 President/ Chairman of the Board

Riga,
24 April 2007

AIF Parex Eastern European Bond Fund
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Statement of income and expense
(LVL)

Notes	2006	2005
Income		
8 Interest income	453,122	321,191
Total income	453,122	321,191
Expense		
9 Remuneration to investment company	(88,157)	(72,789)
Remuneration to custodian bank	(10,595)	(8,946)
Other fund management expense	(590)	-
Total expense	(99,342)	(81,735)
Increase in investment		
10 Realised (loss)/gain on sale of investments	(33,398)	15,551
11 Unrealised increase in investment value	298	18,630
Total (decrease)/ increase in investment	(33,100)	34,181
Foreign currency revaluation (loss)/ gain	(589,002)	581,714
(Decrease)/ increase in net assets from investment	(268,322)	855,351

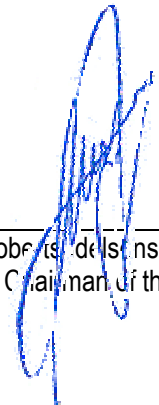


 Roberts Videls
 President/ Chairman of the Board

Riga,
24 April 2007

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

	<u>2006</u>	<u>2005</u>
Net assets as at the beginning of the period	6,053,838	4,481,144
(Decrease)/ increase in net assets from investment activities	(268,322)	855,351
Transactions with investment certificates:		
<i>Inflow from sale of investment certificates</i>	3,901,461	3,741,368
<i>Outflow of redemption of investment certificates</i>	<u>(2,868,381)</u>	<u>(3,024,025)</u>
Increase in net assets from transactions with investment certificates	1,033,080	717,343
Increase in net assets for the period	<u>764,758</u>	<u>1,572,694</u>
Net assets as at the end of the period	<u>6,818,596</u>	<u>6,053,838</u>
Issued investment certificates as at the beginning of the period	<u>837,048</u>	<u>743,645</u>
Issued investment certificates as at the end of the period	<u>984,722</u>	<u>837,048</u>
Net asset value per investment certificate as at the beginning of the period	<u>7.23</u>	<u>6.03</u>
Net asset value per investment fund's share as at the end of the period	<u>6.92</u>	<u>7.23</u>



 Roberts Daniels
 President/ Chairman of the Board

Riga,
24 April 2007

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Statement of cash flows
(LVL)

	2006	2005
Investment management income	445,625	322,145
Investment management expense	(97,095)	(91,511)
(Acquisition) of financial assets	(4,361,385)	(3,865,127)
Disposal of financial assets	3,126,235	2,685,516
Foreign currency conversion result	(17,435)	61,228
(Decrease) in cash from operating activities	(904,055)	(887,749)
Inflow from sale of investment certificates	3,901,461	3,741,368
Outflow of redemption of investment certificates	(2,868,381)	(3,024,025)
Increase in cash from financing activities	1,033,080	717,343
Increase/ (decrease) in cash	129,025	(170,406)
Cash as at the beginning of the period	232,430	370,794
Result of revaluation of cash denominated in foreign currencies	(31,575)	32,042
Cash as at the end of the period	329,880	232,430

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

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

1. General information

Name of the fund:	Parex Eastern European Bond Fund
Type of the fund:	Open-end investment fund
Registered office:	Basteja bulvāris, Rīga, LV 1050, Latvia
Fund's business activity:	Investments in debt securities issued or guaranteed by governments, municipalities, central banks and credit institutions of Eastern European countries, as well as debt securities of corporate entities, with the investment portfolio being balanced in terms of investments in different currencies and countries
Name of the investment company:	IPAS Parex Asset Management, Basteja bulvāris, Rīga, LV 1050, Latvia

2. Summary of significant accounting policies

Basis of preparation

The financial statements of AIF Parex Eastern European Bond 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.

Foreign currency translation

The Fund's functional currency is US dollars 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:

Currency	31/12/2006	31/12/2005
USD	0.536	0.593
EUR	0.702804	0.702804

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.

AIF Parex Eastern European Bond Fund
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(LVL)

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.

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 and currency swap instruments 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.

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 fund's functional currency. For risk mitigation purposes the Company performs:

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- 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 and 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	329,880	232,430	4.84%
Total demand deposits and deposits with credit institutions	329,880	232,430	4.84%

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

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
Credit institution bonds	3,311,076	3,056,315	7.89%	48.55%
<i>Non-OECD credit institution bonds (excluding Latvia)</i>	3,054,662	2,751,886	8.15%	44.79%
<i>Latvian credit institution bonds</i>	256,414	304,42-	4.85%	3.76%
Corporate bonds	3,093,792	2,290,722	8.40%	45.38%
<i>Non-OECD corporate bonds (excluding Latvia)</i>	2,730,484	1,975,767	8.45%	40.05%
<i>OECD corporate bonds</i>	195,809	314,955	6.27%	2.87%
<i>Latvian corporate bonds</i>	167,499	-	10.04%	2.46%
Financial institution bonds	121,411	24,052	8.15%	1.78%
<i>Non-OECD government bonds (excluding Latvia)</i>	121,411	24,052	8.15%	1.78%
Government bonds	5,829	207,004	5.06%	0.09%
<i>OECD government bonds</i>	5,829	-	5.06%	0.09%
<i>Non-OECD government bonds (excluding Latvia)</i>	-	207,004	-	-
Municipality bonds	-	240,292	-	-
<i>Non-OECD municipality bonds (excluding Latvia)</i>	-	240,292	-	-
Total debt securities and other fixed income securities	6,532,108	5,818,385	8.13%	95.80%

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 1,011,164 (2005: LVL 151,011).

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(LVL)

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
Financial instruments traded on regulated markets		5,698,359	5,520,944	80.97%
Latvian issuers:		251,088	256,414	3.76%
BALTIKUMS (LV0000800324)	1,500	105,421	106,827	1.57%
LHZB mortgage bonds (LV0000800217)	1,500	82,611	84,706	1.24%
PAREX BANKA (XS0253533318)	90	63,056	64,881	0.95%
Russian issuers:		2,397,063	2,340,302	34.32%
ABSOLUT CAP (ABSOLUT BANK) (XS0249283143)	200	113,500	109,341	1.60%
ZENIT CAPITAL (BANK ZENIT) (XS0273326685)	300	165,881	162,579	2.38%
CITIGROUP (RUSSIAN STANDARD BANK) (XS0190199264)	50	59,869	54,697	0.80%
CITIGRP GLOB (SEVERSTAL) (XS0186918255)	220	135,429	125,735	1.84%
COMMERZBANK AG (NOMOS) (XS0184810223)	1	59,563	55,410	0.81%
DRESDNER BK(SIBACADEMBANK) (XS0219905238)	100	115,411	110,839	1.63%
DRESDNER (RUSSIAN STANDARD BANK) (XS0201757530)	100	109,436	109,306	1.60%
EURASIA CAP (HCFB LLC) (XS0221878720)	200	117,741	111,690	1.64%
EVRAZ SECURITIES SA (XS0197109043)	2	120,648	122,231	1.79%
GAZ-FINANS (RU000A0GNLKO)	7000	145,441	146,690	2.15%
KAZAN ORGSINTEZ (XS0271050501)	200	112,679	109,655	1.61%
MEGAFON SA (OJSC MEGAFON) (XS0207360115)	100	52,300	55,849	0.82%
MOBILE TELESYSTEMS FIN (MOBILE TELESISTEMS) (XS0178419049)	150	94,292	86,091	1.26%
MOSKOVSKOE IPOTECHNOE AG (RU000A0GN9M2)	6,000	126,198	123,016	1.80%
N-INVEST (NIKOIL) (XS0188330004)	100	60,485	55,061	0.81%
SIBACADEMFINANCE PLC (SIBACADEMBANK) (XS0254342347)	200	111,734	110,122	1.62%
SITRONICS FINANCE (XS0245939672)	250	135,577	136,851	2.01%
TMK CAPITAL (OAO TMK) (XS0269513213)	4	223,501	226,216	3.32%
TRADE HOUSE KOPEIKA OAO (RU000A0GNYS6)	5000	104,433	101,327	1.49%
UDMURTNEFTEPRODUCT (RU000A0GEGP8)	3000	63,109	61,528	0.90%
URALVAGONZAVOD-FINANS (RU000A0GGF09)	5000	106,961	104,093	1.53%
VOLGATELECOM (RU000A0GKSA2)	3000	62,875	61,975	0.91%
Kazakhstani issuers:		1,338,508	1,259,087	18.46%
KAZAKHGOLD GROUP LTD (XS0273371632)	400	223,520	219,936	3.23%
NURBANK (XS0218237088)	350	206,338	191,894	2.81%
ALB FINANCE BV (ALLIANCE BANK) (XS0234283264)	300	180,784	162,931	2.39%
ATF BANK (XS0217138139)	200	129,192	110,925	1.63%
CENTERCREDIT INTERNATIONAL (BANK CENTERCREDIT) (XS0243010443)	200	116,210	110,072	1.61%
ASTANA FINANCE (XS0244275797)	200	114,598	109,277	1.60%
NURFINANCE BV (NURBANK) (XS0269698246)	150	83,008	81,272	1.19%
TEMIR CAPITAL (TEMIR BANK) (XS0248327834)	100	55,248	55,718	0.82%
ATF BANK (XS0205381717)	10	63,048	55,048	0.81%
ATF BANK (XS0191061794)	10	54,744	54,315	0.80%
ALB FINANCE BV (ALLIANCE BANK) (XS0268818118)	100	54,210	54,178	0.79%
ATF BANK (XS0233829463)	100	57,608	53,521	0.78%
Ukrainian issuers:		1,183,809	1,129,861	16.58%
HYPO-UND (UKRSIBBANK) (XS0222883349)	300	185,102	172,485	2.53%
UKRSOTS FINANCE BV (IKRSOTSBANK) (XS0219489340)	300	179,080	166,497	2.44%
UKRCHEM CAPITAL (STIROL) (XS0225482719)	300	176,322	158,976	2.33%
DRESDNER (EXIM UKRAINE) (XS0201281192)	250	141,638	139,981	2.05%
DRESDNER (UKRSIBBANK) (XS0189425423)	200	116,372	110,876	1.63%
EMERGING MARKETS STRUCTURED (ALFA BANK) (XS0279930449)	200	106,600	109,137	1.60%
DRESDNER(COMM BNK NADRA) (XS0234215696)	200	118,695	108,763	1.60%
HSBC (UKRSIBBANK) (XS0278743710)	200	106,200	107,408	1.58%
COLVIS FINANCE (YUZMASH) (XS0185088266)	100	53,800	55,738	0.82%
US issuers:		193,154	195,809	2.87%
CENTRAL EUR DISTR CORP (XS0224445576)	250	193,154	195,809	2.87%
Croatian issuers:		180,533	181,594	2.66%

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Financial instrument	Amount	Acquisition value	Carrying amount as at 31/12/2006	% of total assets as at 31/12/2006
AGROKOR D.D (XS0275181096)	5	180,533	181,594	2.66%
Bulgarian issuers:		148,384	152,048	2.23%
FIRST INVESTMENT FIN BV (FIRST INVESTMENT BANK) (XS0211479745)	200	148,384	152,048	2.23%
Polish issuers:		5,820	5,829	0.09%
POLAND (US731011AM43)	10	5,820	5,829	0.09%
Other financial instruments		1,052,601	1,011,164	14.83%
Latvian issuers:		166,823	167,499	2.46%
TELEKOM BALTIJA (LV0000601185)	150	105,421	105,637	1.55%
APEX (LV0000601201)	100	61,402	61,862	0.91%
Russian issuers:		695,142	663,331	9.72%
CLOVERIE (INTER RAO) (XS0246907173)	50	294,795	273,759	4.01%
EMERGING MKTS STRUCTURED (AMTEL) (XS0223667857)	2	118,192	113,230	1.66%
MOSCOW RIVER (IRKUT) (XS0249752741)	200	116,600	111,671	1.64%
URALVNESH TORGBANK (XS0268770160)	2	111,000	110,593	1.62%
DRESDNER BANK AG (RBC INVESTMENT) (XS0256816496)	1	54,555	54,078	0.79%
Azerbaijani issuers:		163,196	168,200	2.47%
MKT Istehsalat-Kommersiya MMC (LV0000601102)	300	163,196	168,200	2.47%
Estonian issuers:		27,440	12,134	0.18%
OBBER-HAUS Real Estate Advisors (EE3300074061)	40	27,440	12,134	0.18%
Total debt securities and other fixed income securities		6,750,960	6,532,108	95.80%

6. 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 Assets Liabilities	Notional amount	Fair value Assets Liabilities	
Currency swap instruments	692,101	- (33,619)	678,178	10,367	- (0.49)%
Forward foreign exchange instruments	-	-	43,059	658	-
Total derivatives	692,101	- (33,619)	721,237	11,025	- (0.49)%

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

7. Accrued expense

	31/12/2006	31/12/2005
Accrued commission fees payable to investment company	8,187	7,144
Accrued commission fees payable to custodian bank	996	858
Accrued fees payable for professional services	590	-
Total accrued expense	9,773	8,002

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8. Interest income

	2006	2005
Interest income from debt securities and other fixed income securities	442,404	314,917
Interest income from demand deposits with credit institutions	10,718	6,274
Total interest income	453,122	321,191

9. Remuneration to investment company

	2006	2005
Fixed fee payable for fund management	88,157	72,727
Fund management fee depending on increase in value	-	62
Total remuneration to investment company	88,157	72,789

10. Realised increase/(decrease) in investment value

	2006	2005
Income from sale of investments	3,109,792	2,518,430
Acquisition value of investments sold	(3,115,240)	(2,462,514)
(Increase) in value of investments sold, recognised in the previous periods	(27,950)	(40,365)
Total realised gain on sale of investments	(33,398)	15,551

11. Unrealised increase in investment value

	2006	2005
From debt securities and other fixed income securities	298	18,630
Total unrealised increase in investment value	298	18,630

12. 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 securities						
Debt securities and other fixed income securities	5,818,385	4,361,385	(3,126,235)	(495,823)	(25,604)	6,532,108
Derivatives	11,025	-	-	(44,644)	-	(33,619)
Total assets	5,829,410	4,361,385	(3,126,235)	(540,467)	(25,604)	6,498,489

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13. Assets and liabilities by currency profile

	LVL	USD	EUR	RUR	Total
Assets					
Demand deposits with credit institutions	-	184,195	145,685	-	329,880
Financial assets held for trading					
Debt securities and other fixed income securities	-	5,052,687	880,793	598,628	6,532,108
Total assets	-	5,236,882	1,026,478	598,628	6,861,988
Liabilities					
Financial liabilities held for trading					
Derivatives	-	692,101	(725,720)	-	(33,619)
Accrued expense	(590)	(9,183)	-	-	(9,773)
Total liabilities	(590)	682,918	(725,720)	-	(43,392)
Net assets	(590)	5,919,800	300,758	598,628	6,818,596
<i>Net long position</i>	<i>(0.01%)</i>	<i>86.82%</i>	<i>4.41%</i>	<i>8.78%</i>	<i>100.0%</i>

14. Assets by geographical placement

	Latvia	OECD countries	Other non-OECD countries	Total
Assets				
Demand deposits with credit institutions	329,880	-	-	329,880
Financial assets held for trading				
Debt securities and other fixed income securities	423,913	201,638	5,906,557	6,532,108
Total assets	753,793	201,638	5,906,557	6,861,988
Liabilities				
Financial liabilities held for trading				
Derivatives	(33,619)	-	-	(33,619)
Accrued expense	(9,773)	-	-	(9,773)
Total liabilities	(43,392)	-	-	(43,392)
Net assets	710,401	201,638	5,906,557	6,818,596

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15. Liquidity

	On demand	Within 1 month	1-6 months	6-12 months	1-5 years	More than 5 years	Total
Assets							
Demand deposits with credit institutions	329,880	-	-	-	-	-	329,880
Financial assets held for trading							
Debt securities and other fixed income securities	-	-	330,358	345,263	5,045,467	811,020	6,532,108
Total assets	329,880	-	330,358	345,263	5,045,467	811,020	6,861,988
Liabilities							
Financial liabilities held for trading							
Derivatives	-	(33,619)	-	-	-	-	(33,619)
Accrued expense	-	(9,183)	(590)	-	-	-	(9,773)
Total liabilities	-	(42,802)	(590)	-	-	-	(43,392)
Net assets	329,880	(42,802)	329,768	345,263	5,045,467	811,020	6,818,596

16. 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
Assets				
Demand deposits with credit institutions	-	-	329,880	329,880
Financial assets held for trading				
Debt securities and other fixed income securities	621,360	5,910,748	-	6,532,108
Total assets	621,360	5,910,748	329,880	6,861,988
Liabilities				
Financial liabilities held for trading				
Derivatives	-	-	(33,619)	(33,619)
Accrued expense	-	-	(9,773)	(9,773)
Total liabilities	-	-	(43,392)	(43,392)
Net assets	621,360	5,910,748	286,488	6,818,596

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17. Repricing maturity of assets and liabilities

	Demand	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
Assets								
Demand deposits with credit institutions	329,880	-	-	-	-	-	-	329,880
Financial assets held for trading								
Debt securities and other fixed income securities	-	-	627,738	323,980	345,263	4,648,449	586,678	6,532,108
Total assets	329,880	-	627,738	323,980	345,263	4,648,449	586,678	6,861,988
Liabilities								
Financial liabilities held for trading								
Derivatives	-	(33,619)	-	-	-	-	-	(33,619)
Accrued expense	-	(9,183)	-	(590)	-	-	-	(9,773)
Total liabilities	-	(42,802)	-	(590)	-	-	-	(43,392)
Net assets	329,880	(42,802)	627,738	323,390	345,263	4,648,449	586,678	6,818,596

18. 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 31/12/2006
Investment certificates held by related parties	8,638	1,702	0.29%
Investment certificates held by other persons	976,084	835,346	99.1%
Investment certificates issued as at the period-end	984,722	837,048	100.0%

19. 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). In the reporting year, the Fund had an investment in bonds issued by AS Parex banka. The carrying value of this investment as at 31 December 2006 was LVL 64,881 (2005: LVL 273,530).

The remuneration paid to the investment company during the reporting year is disclosed in the statement of income and expense (see also Note 8).

During the reporting year, related parties acquired 4,063 investment certificates and sold back 45 investment certificates (2005: 1,702 certificates acquired and 415 certificates sold back). Due to the changes in the Council of IPAS Parex Asset Management, the new Council Members holding 2,918 investment certificates became related parties to the Fund.

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

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20. 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.

21. Fair values of financial assets and liabilities

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

22. Dynamics of net asset value

	31/12/2006	31/12/2005	31/12/2004
Net assets (LVL)	6,818,596	6,053,838	4,481,144
Number of investment certificates	984,722	837,048	743,645
Value of investment fund's shares (LVL)	6.92	7.23	6.03
Performance on investment fund's shares*	(4.29)%	19.90%	1.68%
Net assets (USD)**	12,738,886	10,208,640	8,688,526
Number of investment certificates	984,722	837,048	743,645
Value of investment fund's shares (USD)	12.94	12.20	11.68
Performance on investment fund's shares*	6.06%	4.45%	8.68%

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

** The value of net assets in US dollars 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 Bond Fund

Report on the Financial Statements

We have audited 2006 financial statements of opened-end investment fund Parex Eastern European Bond Fund (hereinafter – the Fund), which are set out on pages 8 through 21 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.

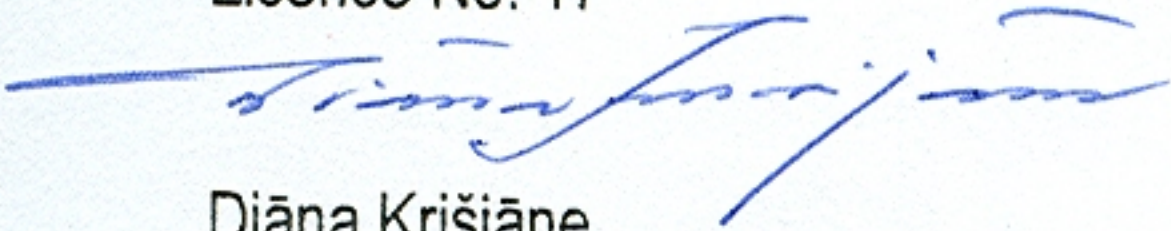
Opinion

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
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Diāna Krišjāne
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Latvian Sworn Auditor
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