

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

**ANNUAL REPORT FOR THE PERIOD
28 FEBRUARY 2003 (INCORPORATION DATE)
THROUGH 31 DECEMBER 2003**

AIF Austrumeiropas Obligāciju fonds
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AIF Austrumeiropas Obligāciju fonds
Investment fund

Name of the fund:	AIF Austrumeiropas Obligāciju fonds	
Type of the 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:	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</p> <p>Deputy Chairman of the Council – Juris Punculis</p> <p>Council member – Jurijs Cunajevs</p> <p>Council member – Andris Miķelsons</p> <p>Council member – Raimondas Kutra</p> <p>Board of investment company:</p> <p>Chairman of the Board (President) – Sergejs Medvedevs</p> <p>Deputy Chairperson of the Board (Vice-president) – Aija Kļāševa</p> <p>Board member – Guntars Vītols (resigned 22/12/2003)</p> <p>Board member – Roberts Idelsons (appointed 22/12/2003)</p> <p>Management of Fund:</p> <p>Sergejs Medvedevs</p> <p>Aija Kļāševa</p> <p>Guntars Vītols - resigned 22/12/2003</p> <p>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 Obligāciju fonds
Investment company's report

The objective of the open-end investment fund Austrumeiropas Obligāciju 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 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 portfolio inherent to investments only in one currency or country securities.

As at 31 December 2003, the net assets of the Fund totalled to USD 3,206,492, whereas the value per investment certificate amounted to USD 10.99. Notwithstanding the fact that the Fund commenced its operations only on 25 March 2003, the Fund's performance since then is 12.86% per annum. These figures prove that the key tasks set for the year - to attract investors and establish an investment portfolio, have 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 (64.95%) and government bonds (23.97%). Part of the assets has been invested in other currencies (28.27%), mainly EUR and LVL, which during the reporting year generated the major yield due to increase in the exchange rates. The diversification of investments is ensured through varying geographical placement of assets, with major investments covering Russia (32.69%), the European Union (29.51%), Latvia (8.67%), and Estonia (5.19%). As at the year end, the average maturity of investment portfolio was 4.6 years, whereas the average yield to maturity – 6.04% 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 euro, thus gaining additional yield on euro appreciation against other currencies.

In the reporting year, the fees payable by the Fund for management services amounted to 1.37% 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 Obligāciju 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 Obligāciju fonds (hereinafter – Fund).

The financial statements set out on pages 8 to 17 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 28 February 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

Rīga, 20 April 2004



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THE MESSAGE OF CUSTODIAN BANK

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

#2-0/2.3.1.5/615

With this Parexss 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 February 13th, 2003., Parexss Bank JSC, (further in the text - Custodian) carries out functions of custodian bank for the OIF "Parex Austrumeiropas Obligāciju fonds" (further in the text – Fund) founded by IJSC "Parexss 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 Obligāciju 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 Austrumeiropu Obligāciju fonds
Statement of assets and liabilities
(LVL)

Notes	<u>31/12/2003</u>	
Assets		
3	Demand deposits with credit institutions	62,634
4	Debt securities and other fixed income securities	1,710,363
		1,772,997
Liabilities		
5	Accrued expense	(14,891)
6	Other liabilities	(27,591)
		(42,482)
	Net assets	1,730,515



 Sergejs Medvedevs
 President/ Chairman of the Board

Riga, 20 April 2004

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

Notes	28/02/2003 – 31/12/2003
Income	
7	Interest income
	<u>53,805</u>
	Total income
	<u>53,805</u>
Expense	
	Remuneration to investment company
	(30,132)
	Remuneration to custodian bank
	<u>(1,856)</u>
	Total expense
	<u>(31,988)</u>
Increase in investment	
	Income from sale of investments
	246,554
	Acquisition value of investments sold
	<u>(243,244)</u>
	Realised gain on sales of investments
	3,310
	Unrealised increase in investment value
	<u>29,924</u>
11	Total increase in investment
	<u>33,234</u>
11	Foreign currency revaluation (loss)
	<u>(54,023)</u>
	Increase in net assets from investment
	<u><u>1,028</u></u>



 Sergejs Medvedevs
 President/ Chairman of the Board

Riga, 20 April 2004

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

	28/02/2003 – 31/12/2003
Net assets as at the beginning of the period	-
Increase in net assets	1,028
Transactions with investment certificates:	
<i>Inflow from sale of investment certificates</i>	1,906,615
<i>Outflow of redemption of investment certificates</i>	(177,128)
Increase in net assets from transactions with investment certificates	1,729,487
Increase in net assets for the period	1,730,515
Net assets as at the end of the period	1,730,515
Issued investment certificates as at the beginning of the period	-
Issued investment certificates as at the end of the period	291,856
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	5.93

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

AIF Austrumeiropas Obligāciju fonds
Statement of investment portfolio
(LVL)

Notes	<u>31/12/2003</u>
4 Debt securities and other fixed income securities	<u>1,710,363</u>
Total investment portfolio	<u><u>1,710,363</u></u>

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

AIF Austrumeiropas Obligāciju 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 28 February (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.

Fair values of financial assets and liabilities

AIF Austrumeiropas Obligāciju fonds
Notes
(LVL)

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 US dollar. 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.

3. Demand deposits and deposits with credit institutions

	31/12/2003	% of total assets
Demand deposits with credit institutions, a/s Parekss-banka	62,634	3.53%
Total demand deposits and deposits with credit institutions	62,634	3.53%

AIF Austrumeiropas Obligāciju fonds
Notes
(LVL)

4. Debt securities and other fixed income securities

	31/12/2003	Annual yield before the maturity	% of total assets
Government bonds:	424,980	4.80%	23.97%
<i>Latvian government bonds</i>	80,756	4.39%	4.55%
<i>OECD government bonds</i>	41,291	5.14%	2.33%
<i>Non-OECD government bonds (excluding Latvia)</i>	302,933	4.86%	17.09%
Municipality bonds:	133,922	5.81%	7.55%
<i>Non-OECD municipality bonds (excluding Latvia)</i>	133,922	5.81%	7.55%
Credit institution bonds:	376,027	6.83%	21.21%
<i>Latvian credit institution bonds</i>	10,327	5.85%	0.59%
<i>OECD credit institution bonds</i>	11,068	4.22%	0.62%
<i>Non-OECD credit institution bonds (excluding Latvia)</i>	354,632	6.94%	20.00%
Corporate bonds:	775,434	6.37%	43.74%
<i>OECD corporate bonds</i>	117,158	4.58%	6.61%
<i>Non-OECD corporate bonds (excluding Latvia)</i>	658,276	6.69%	37.13%
Total debt securities and other fixed income securities	1,710,363	6.04%	96.47%

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

5. Accrued expense

	31/12/2003
Accrued commission fees payable to investment company	14,591
Accrued commission fees payable to custodian bank	300
Total accrued expense	14,891

6. Other liabilities

As at 31 December 2003, other liabilities amounting to LVL 27,591 comprise the cash received on the last day of the reporting period, with no issued investment certificates.

AIF Austrumeiropas Obligāciju fonds
Notes
(LVL)

7. Interest income

	28/02/2003 – 31/12/2003
Interest income from debt securities and other fixed income securities	53,211
Interest income from demand deposits with credit institutions	594
Total interest income	53,805

8. Assets and liabilities by currency profile

	LVL	USD	EUR	Other	Total
Assets					
Demand deposits with credit institutions	-	62,634	-	-	62,634
Debt securities and other fixed income securities	84,038	1,180,274	417,262	28,789	1,710,363
Total assets	84,038	1,242,908	417,262	28,789	1,772,997
Liabilities					
Accrued expense	-	(14,891)	-	-	(14,891)
Other liabilities	-	(27,591)	-	-	(27,591)
Total liabilities	-	(42,482)	-	-	(42,482)
Net assets	84,038	1,200,426	417,262	28,789	1,730,515

9. Assets by geographical placement

	Latvia	OECD countries	Other non-OECD countries	Total
Assets				
Demand deposits with credit institutions	62,634	-	-	62,634
Debt securities and other fixed income securities	91,083	169,517	1,449,763	1,710,363
Total assets	153,717	169,517	1,449,763	1,772,997
Liabilities				
Accrued expense	(14,891)	-	-	(14,891)
Other liabilities	(27,591)	-	-	(27,591)
Total liabilities	(42,482)	-	-	(42,482)
Net assets	111,235	169,517	1,449,763	1,730,515

AIF Austrumeiropas Obligāciju fonds
Notes
(LVL)

10. Liquidity

	Within 1 month	1-3 months	3-6 months	6-12 months	More than 1 year	Total
Assets						
Demand deposits with credit institutions	62,634	-	-	-	-	62,634
Debt securities and other fixed income securities	-	-	-	75,613	1,634,750	1,710,363
Total assets	62,634	-	-	75,613	1,634,750	1,772,997
Liabilities						
Accrued expense	(14,891)	-	-	-	-	(14,891)
Other liabilities	(27,591)	-	-	-	-	(27,591)
Total liabilities	(42,482)	-	-	-	-	(42,482)
Net assets	20,152	-	-	75,613	1,634,750	1,730,515

As at 31 December 2003, the Fund's investments in debt securities included securities with maturity over 5 years for the total amount LVL 336,143.

11. 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	70,994	(8,360)	-	62,634
Debt securities and other fixed income securities	1,723,337	(46,208)	33,234	1,710,363
Derivatives	(497)	497	-	-
Total assets	1,793,834	(54,071)	33,234	1,772,997
Liabilities				
Accrued expense	(14,939)	48	-	(14,891)
Other liabilities	(27,591)	-	-	(27,591)
Total liabilities	(42,530)	48	-	(42,482)
Net assets	1,751,304	54,023	33,234	1,730,515

AIF Austrumeiropas Obligāciju fonds
Notes
(LVL)

12. 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.

13. Dynamics of net asset value

	31/12/2003	30/09/2003	30/06/2003	31/03/2003
Net assets	1,730,515	1,444,167	959,181	533,302
Number of investment fund's shares	291,856	243,971	161,210	90,863
Value of investment fund's shares	5.93	5.92	5.95	5.87
Performance on investment fund's shares	0.66%	-1.99%	5.54%	-
Value of investment fund's shares (USD)	10.99	10.56	10.47	10.06
Performance on investment fund's shares (USD)	16.90%	3.41%	17.12%	-

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

AUDITORS' REPORT

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

We have audited the accompanying financial statements of open-end investment fund "Austrumeiropas Obligāciju fonds" (hereinafter – the Fund) for the period from 28 February 2003 through 31 December 2003, set out on pages 8 through 17, 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 Obligāciju fonds" as at 31 December 2003 and of the results of its operations for the period from 28 February 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