

**OPEN-END INVESTMENT FUND Parex
“Parex Eastern European Fixed Income Funds”**

**Sub-fund
“Parex Eastern European Balanced Fund”**

**ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2009
(7th financial year)**

**PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION
TOGETHER WITH INDEPENDENT AUDITORS' REPORT**

Riga, 2010

AIF “ Parex Eastern European Balanced Fund”
Annual report for the year ended 31 December 2009
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AIF "Parex Eastern European Balanced Fund"
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Information on the investment fund

Name of fund:	Parex Eastern European Fixed Income Fund
Type of fund:	Open-end investment fund
Registration date of the fund:	20 July 2009
Number of the fund:	06.03.05.098/50
Name of the sub-fund:	Parex Eastern European Balanced Fund
Name of the investment management company:	"Parex Asset Management" IPAS
Registered office of the investment management company:	Republikas laukums 2a, Rīga, LV-1010, Latvia
Registration number of the investment management company:	40003577500
Licence number of the investment management company:	06.03.07.098/181
Name of the custodian bank:	"Parex banka" AS
Registered office of the custodian bank:	Republikas laukums 2a, Rīga, LV-1522, Latvia
Registration number of the custodian bank:	40003074590
Names and positions of Council Members and Board Members of the investment management company:	<p><i>Council of the investment management company::</i> Chairman of the Council – Nils Melngailis – iecelts 01.04.2009. Council Member – Solvita Deglava – appointed on 26.03.2010. Council Member – Anatolijs Fridmans – appointed on 01.04.2009. Council Member - James R.Breiding – appointed on 01.04.2009. Chairman of the Council – Mārtiņš Jaunarājs – resigned on 30.01.2009. Council Member – Glenn Frank Woo - resigned on 30.01.2009. Deputy Chairman of the Council – Roberts Stūģis – resigned on 26.03.2010. Council Member – Arvīds Sīpols – resigned on 01.04.2009. Council Member – Raits Černajs – resigned on 01.04.2009. Council Member – Deniss Grigorenko – resigned on 01.04.2009.</p> <p><i>Board of the investment management company:</i> Chairman of the Board/ President – Roberts Idelsons – appointed on 30.11.2005. Board Member – Elena Coleman – appointed on 30.03.2007. Board Member – Edgars Makarovs – appointed on 30.03.2007. Board Member – Zigurds Vaikulis – appointed on 30.03.2007. Board Member – Igors Petrovs - appointed on 22.05.2008. Board Member – Rems Kargins – resigned on 15.01.2009.</p>
The related rights and obligations of the management of the investment fund	All the duties of the Council and Boards members stated in the Statutes of the Law of Latvian Republic and the investment management companies are performed by the Council and Board members.

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Names and positions of Fund Managers:

Edgars Makarovs
Andris Kotāns – appointed on 27.10.2008
Kristiana Ķiete - appointed on 27.10.2008

The related rights and obligations of the management of the investment fund

All the duties of the Fund managers stated in the Statutes of the Law of Latvian Republic and the investment management companies are performed by the Fund managers.

Auditor:

PricewaterhouseCoopers SIA
Certified audit company licence No. 5
Kr. Valdemāra street 19
LV-1010, Riga

Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

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Investment management company report

The assets of the open-end investment fund's Parex Eastern European Fixed Income Funds sub-fund Parex Eastern European Balanced Fund (hereinafter - the Fund) are managed by the asset management company Parex Asset Management, registered office at Republikas laukums 2a, Riga, LV-1010, unified registration number 40003577500.

Holding licence No. 06.03.07.098/181 to operate as an asset management company was last re-registered on 5 December 2005.

The objective of the Fund is to achieve long-term capital gains through 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 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. During the reporting period Fund's policies have not changes.

2009 can be described as a year of recovery after the heavy blow of 2008 caused to the global economy and financial markets by the instability in the real estate market and among other bankruptcy of Lehman Brothers. Massive liquidity injections on behalf of central banks and fiscal stimulus received from government authorities ensured the stabilisation of the financial markets, which was followed by increasing willingness on market participants to invest into risky assets. As a result markets of developing countries, including Eastern European and CIS countries, have experienced significant rise compensating for losses suffered previously. For example Russian corporate Eurobond index JP Morgan RUBI in 2009 rose by 77% and is already exceeding pre-crisis levels by 20%. Eurobond markets of Ukraine and Kazakhstan did rise significantly during 2009 as well, showing increase of 72% and 40% respectively based on investment bank Trust indices TDI Ukraine and TDI Kazakhstan. Equity markets of the region are showing significant signs of recovery (for example, MSCI Emerging Markets Eastern Europe in 2009 rose by 79.3%), however, these markets have not reached their pre-crisis levels yet.

The same as the market, value of Parex Eastern European Balanced Fund investment certificates experienced noticeable growth, especially taking into account rather conservative position taken by the Company – comparably small exposure to equity instruments and avoidance of instruments with long maturity terms. Value of Fund's investment certificate over the year increased by 3 lats and 37 santims reaching LVL 9.38. As a result annual performance in euro and lats amounted to 56%. Despite the positive performance of Fund's shares, total assets of the Fund did not increase that significantly with increase of only 12.4% or LVL 972,823 and amounting to LVL 8,840,735 at the end of the year.


Assessing the structure of the Fund, it should be noted that at the end of the year proportion of equity investments in Fund's assets was increased to 10%, purchasing shares of Eastern European companies with relatively stable ability to generate cash flows operating in energy, telecommunications and food production sectors. The most important changes made in investment portfolio of the Fund and stressed throughout the year are increase in portion of investments in Ukraine (+9.7%) and Kazakhstan (+57.9%) and decline in Azerbaijan (-9.2%) and Latvia (-9.4%). These changes are explained mainly by settling of macroeconomic and political situation in first two countries and maturity of several securities held in second two countries. From perspective of sectors, exposure to oil and gas sector has increased (+7.5%) which is mainly explained by ability of the Fund to purchase financial instruments of companies operating in this sector at considerably good prices due to market turmoil, thus compensating for decline in investments into financial sector.

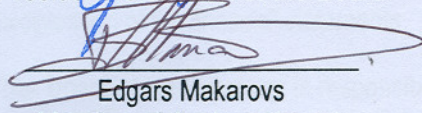
In the reporting year, the management fee was paid from the Fund's assets in the amount of EUR 205,521 or 1.74% of the average asset value for the year, which does not exceed the maximum expense limit fixed in the Prospectus, i.e. 3.00%.

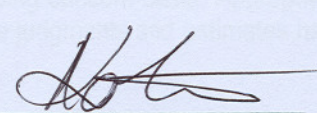
Destiny of Eastern European bond and equity markets in 2010 will be primarily determined by global factors – if and by how much the favourable monetary policy will be reversed, as well as if and how will the world governments choose to fight the increasing fiscal deficits and external debts. The Company believes that monetary policy in 2010 will be favourable to the market, while negative surprises may be derived from the political factors. Among Eastern European bond markets the best perspectives among countries are viewed in Kazakhstan and Ukraine, where economical and political environments are expected to develop in positive direction. At the price levels reached, the significance of fundamental assessment of the credit ability of the issuer and choice of the instrument has increased,


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Investment management company report

with additional attention to these paid in Fund management. Moreover, the levels of bond return reached are pushing toward selection of more equity instruments, thus the Company foresees further increase in exposure to equity instruments in 2010. Choice of instruments has pervasive impact on the operations of the Fund in equity markets as well, thus it is planned not to include a wide range of companies into the Fund rather several carefully selected instruments.



Roberts Idelsons
President/ Chairman of the Board

Edgars Makarovs
Member of the investment
committee

Andris Kotāns
Member of the investment
committee

Kristiāna Ķiete
Member of the investment
committee

Riga, 28 April 2010

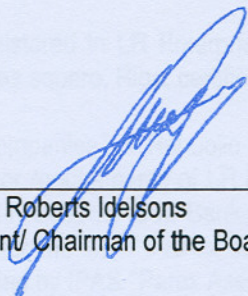
AIF "Parex Eastern European Balanced Fund"
Annual report for the year ended 31 December 2009
Statement of responsibility of the Board of the investment management company

The Board of the investment management 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 10 to 32 are prepared in accordance with the source documents and present fairly the financial position of the Fund as at 31 December 2008 and 31 December 2009 and the results of its operations for the years then ended.

The financial statements are prepared in accordance with International Financial Reporting Standards as adopted in the European Union, as set out in the Regulations of the Financial and Capital Market Commission (FCMC) on Annual Reports of Investment Funds, 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, and other laws and regulations of the Republic of Latvia



Roberts Idelsons
President/ Chairman of the Board

Riga, 28 April 2010

CUSTODIAN BANK REPORT

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

2.25.7.-01/05

With this Parex Bank JSC, which is registered in LR Enterprise register on May 14, 1992 with No. 40003074590 and located at 2a Republikas square, 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 May 11, 2009., Parex Bank JSC, (further in the text - Custodian) carries out functions of custodian bank for the OIF "Parex Eastern European Fixed Income Funds" (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 Fixed Income Funds" 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.



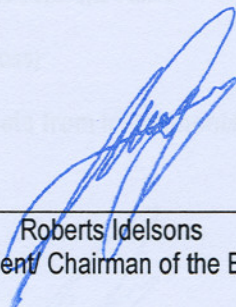
Nils Melngailis
Chairman of the Board, p.p.

Riga, February 16, 2010



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Annual report for the year ended 31 December 2009
Statement of financial position
(LVL)

Note		31.12.2009.	31.12.2008.
	Assets		
3	Demand deposits with credit institutions	606,002	1,065,207
	Financial assets held for trading		
4	Debt securities and other fixed income securities	7,586,766	6,950,484
5	Shares and other non-fixed income securities	884,091	271,921
	Total assets	9,076,859	8,287,612
	Liabilities		
	Financial liabilities held for trading		
6	Derivatives	(222,754)	(377,428)
	Balances due for redemption of investment certificates	-	(29,284)
7	Accrued liabilities	(13,370)	(12,988)
	Total liabilities	(236,124)	(419,700)
	Net assets	8,840,735	7,867,912

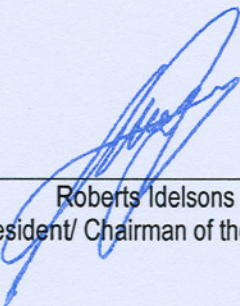


 Roberts Idelsons
 President/ Chairman of the Board

Riga, 28 April 2010

AIF "Parex Eastern European Balanced Fund"
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Statement of comprehensive income
(LVL)

Note		2009	2008
	Income		
8	Interest income	960,570	1,672,568
	Dividend income	7,807	15,065
	Total income	968,377	1,687,633
	Expenses		
	Remuneration to investment management company	(127,981)	(270,403)
	Remuneration to custodian bank	(15,384)	(32,433)
	Other fund management expenses	(1,788)	(3,780)
	Total expenses	(145,153)	(306,616)
	Increase / (decrease) in investment value		
9	Foreign currency trading result	-	52,194
10	Realised increase / (decrease) in investment value	1,668,907	(1,569,980)
11	Unrealised increase / (decrease) in investment value	1,130,076	(5,523,603)
	Total increase / (decrease) in investment value	2,798,983	(7,041,389)
	Foreign currency revaluation gain / (loss)	19,823	(440,497)
	Increase / (decrease) in net assets from investments	3,642,030	(6,100,869)



 Roberts Idelsons
 President/ Chairman of the Board

Riga, 28 April 2010

AIF "Parex Eastern European Balanced Fund"
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Statement of changes in net assets
(LVL)

	2009	2008
Net assets as at the beginning of the year	7,867,912	26,622,530
Increase / (decrease) in net assets from investment activities	3,642,030	(6,100,869)
Transactions with investment certificates:		
<i>Inflow from sale of investment certificates</i>	4,054,986	6,207,392
<i>Outflow on redemption of investment certificates</i>	(6,724,193)	(18,861,141)
Decrease in net assets from transactions with investment certificates	(2,669,207)	(12,653,749)
Increase / (decrease) in net assets for the year	972,823	(18,754,618)
Net assets as at the end of the reporting year	8,840,735	7,867,912
Issued investment certificates as at the beginning of the reporting year	1,308,422	2,747,241
Issued investment certificates as at the end of the reporting year	942,109	1,308,422
Net asset value per investment certificate as at the beginning of the reporting year	6.01	9.69
Net asset value per investment fund's share as at the end of the reporting year	9.38	6.01

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

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Statement of cash flows
(LVL)

	2009	2008
Interest income	869,335	1,462,502
Dividend income	7,807	15,065
Investment management expenses	(144,771)	(327,282)
Acquisition of financial assets	(8,129,458)	(7,114,285)
Disposal of financial assets	9,825,151	17,211,519
Foreign currency conversion result	(183,742)	(248,352)
Increase in cash from operating activities	2,244,322	10,999,167
Inflow from sale of investment certificates	4,054,986	6,207,392
Outflow of redemption of investment certificates	(6,753,477)	(18,831,857)
Decrease in cash from investing activities	(2,698,491)	(12,624,465)
Decrease in cash during the reporting year	(454,169)	(1,625,298)
Cash as at the beginning of the reporting year	1,065,207	2,662,307
Result of revaluation of cash denominated in foreign currencies	(5,036)	28,198
Cash as at the end of the reporting year	606,002	1,065,207

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

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(LVL)

1. General information

Name of the fund:	Parex Eastern European Fixed Income Funds
Type of the fund:	Open-end investment fund with sub-funds
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. Funds sub-fund's investment portfolios are diversified between investments in equity and debt securities, as well as in different currencies and countries, thus providing the greatest contribution to security and protection against fluctuations in the value of fund assets, which are main characteristic of investment in one class, currency, or government securities only.
Name of the sub-fund:	Parex Eastern European Balanced Fund
Sub-fund's business activity:	The functional currency of the Fund is euro (EUR), and the maximal amount of investments in equity shares constitutes 50% of the Sub-fund's assets.
Name of the investment management company:	IPAS "Parex Asset Management", Republikas laukums 2a, Riga, LV-1010, 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 International Financial Reporting Standards as adopted in the European Union, as set out in the Regulations of the Financial and Capital Market Commission (hereinafter - FCMC) on Annual Reports of Investment Funds.

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 2009 through 31 December 2009.

Critical accounting estimates and judgements

The preparation of the financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires investment management company's management to exercise its judgement in the process of applying the Fund's accounting policies. IFRS requires that in preparing the financial statements, the management makes estimates and assumptions that affect the reported amounts of assets and liabilities and required disclosure at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

Income and expense recognition

Interest income and expense items are recognised on an accruals basis.

Dividend income is recognised when these are received.

Interest income and expense are recognized in the statement of comprehensive income by taking into account the effective interest rate of assets/liabilities. Interest income and expense include amortization of discount or premium or other differences between the accounting amount of an initial interest bearing instrument and its amount at the moment of its redemption, calculated by the effective interest rate method. In the case of impaired interest income bearing asset, calculation of interest is continued by applying the effective interest rate method.

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(LVL)

Remuneration to investment management company of the Fund and the custodian bank are calculated monthly at a fixed rate of the Fund's assets and are recognized in the statement of comprehensive income on an accruals basis.

Foreign currency translation

The Fund's functional currency is the euro 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, which is the presentation currency of the Fund.

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 comprehensive income 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 financial position of the Fund can be specified as follows:

<u>Valūta</u>	<u>31.12.2009</u>	<u>31.12.2008.</u>
USD	0.489	0.495
CZK	0.0266	0.0266
CAD	0.469	0.408
EEK	0.0449	0.0449
DKK	0.0944	0.0943
RUB	0.0164	0.0171

Since 1 January 2005, the Bank of Latvia has stated a fixed currency exchange rate for the Latvian lat against the 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.

Financial instruments

Financial instruments are classified in the following categories: financial assets at fair value through profit or loss and held to maturity. The classification depends on the purpose of financial instrument acquisition. The management determines classification of financial instruments at their original recognition.

Financial assets and liabilities at fair value through profit or loss

Financial instruments at fair value through profit or loss include assets held for trading. Fund does not have any financial assets that are designated as at fair value through profit and loss.

Financial instruments held to maturity

Financial instruments held to maturity are with fixed or determinable payments and fixed maturity that the Plan has the positive intention and ability to hold to maturity. Assets held to maturity comprise debt securities with fixed income and term deposits with banks.

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 comprehensive income as increase/ (decrease) in investment.

AIF “Parex Eastern European Balanced Fund”
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Securities are revaluated on the basis of Bloomberg's financial information on the bid prices of 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 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 contracts are carried in the statement of financial position at their fair value. The fair value of these instruments is recognised in the statement of financial position 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 contracts are recognised in the statement of comprehensive income as foreign currency revaluation result.

Fair values of financial assets and liabilities

The 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 carrying amounts, 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.

On 1 December 2009 Saeima has approved changes to the law “On the personal income tax”, stating that starting with 1 January 2010 capital gains are subject to 15% tax charge. For investment funds capital gain is a difference between selling price and purchase price of investment certificates. In accordance with transition norms of the law “On the personal income tax”, in order to calculate income from sale of investment certificates purchased before endorsement of the law (before 01.01.2010) one has to apportion difference between selling and purchase value to the number of months investment held and multiply this by number of months investment held from 01.01.2010 until the settlement date. Changes in the law are applicable only to private persons being residents of the Republic of Latvia.

Adoption of new or revised standards and interpretations

Certain new IFRSs became effective from 1 January 2009. Listed below are those new or amended standards or interpretations which are relevant to the Fund's operations and the nature of their impact on the Fund's accounting policies.

IAS 1, Presentation of Financial Statements, revised in September 2007. The main change in IAS 1 is the replacement of the income statement by a statement of comprehensive income. Alternatively, entities are allowed to present two statements: a separate income statement and a statement of comprehensive income. The Fund has elected to present a single statement of comprehensive income. The revised IAS 1 also introduces a requirement to present a statement of financial position (balance sheet) at the beginning of the earliest comparative period whenever the entity restates comparatives due to reclassifications, changes in accounting policies, or corrections of errors. The revised IAS 1 had an impact on the presentation of the Fund's financial statements but had no impact on the recognition or measurement of specific transactions and balances.

Improving Disclosures about Financial Instruments - Amendment to IFRS 7, Financial Instruments: Disclosures, issued in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. The entity is required to disclose an analysis of financial instruments using a three-level fair value measurement hierarchy. The amendment requires disclosure of remaining contractual maturities of financial derivatives if the contractual maturities are essential for an understanding of the timing of the cash flows. An entity will further have to disclose a maturity analysis of financial assets it holds for managing liquidity risk, if that information is necessary to enable users of its financial

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(LVL)

statements to evaluate the nature and extent of liquidity risk. The enhanced disclosures are included in these financial statements.

Certain new IFRSs became effective from 1 January 2009. Listed below are those new or amended standards or interpretations which are not relevant to the Fund's operations and policies.

- IAS 23, Borrowing Costs, revised in March 2007.
- Puttable Financial Instruments and Obligations Arising on Liquidation—IAS 32 and IAS 1 Amendment.
- Vesting Conditions and Cancellations—Amendment to IFRS 2, Share-based Payment.
- IFRS 8, Operating Segments.
- IFRIC 13, Customer Loyalty Programmes.
- IFRIC 14, 'IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction'.
- Embedded Derivatives - Amendments to IFRIC 9 and IAS 39, issued in March 2009.
- IFRIC 15, Agreements for the Construction of Real Estate.
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation.
- Improvements to International Financial Reporting Standards (issued in May 2008). The amendments did not have an impact on the policies of the Fund.

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on or after 1 July 2009 or later periods and which are not early adopted by the Fund.

- IAS 27, Consolidated and Separate Financial Statements (revised January 2008; effective for annual periods beginning on or after 1 July 2009).
- Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate—IFRS 1 and IAS 27 Amendment, issued in May 2008.
- Eligible Hedged Items—Amendment to IAS 39, Financial Instruments: Recognition and Measurement (effective with retrospective application for annual periods beginning on or after 1 July 2009).
- IFRS 1, First-time Adoption of International Financial Reporting Standards (following an amendment in December 2008, effective for the first IFRS financial statements for a period beginning on or after 1 July 2009).
- IFRIC 12, 'Service concession arrangements' (effective for annual periods beginning on or after 1 January 2008. Effective for annual periods beginning on or after 30 March 2009 for companies that prepare financial statements based on the IFRS as adopted by the EU.).
- IFRIC 17, Distributions of Non-Cash Assets to Owners (effective for annual periods beginning on or after 1 July 2009).
- IFRIC 18, Transfers of Assets from Customers (effective for annual periods beginning on or after 1 July 2009).
- Group Cash-settled Share-based Payment Transactions - Amendments to IFRS 2, Share-based Payment (effective for annual periods beginning on or after 1 January 2010).
- Improvements to International Financial Reporting Standards (issued in April 2009; amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009; amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010).

Certain new standards and interpretations have been published that become effective for the accounting periods beginning on or after 1 January 2010 or later periods and which have not been endorsed by the EU:

- IFRS 3, Business Combinations (revised January 2008; effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009).
- Amendment to IAS 24, Related Party Disclosures (issued in November 2009 and effective for annual periods beginning on or after 1 January 2011).
- Classification of Rights Issues - Amendment to IAS 32 (issued 8 October 2009; effective for annual periods beginning on or after 1 February 2010).
- Additional Exemptions for First-time Adopters - Amendments to IFRS 1, First-time Adoption of IFRS (effective for annual periods beginning on or after 1 January 2010).
- IFRS 9, Financial Instruments Part 1: Classification and Measurement. IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.
- Amendment to IFRIC 14, 'Payments of a minimum funding requirement' (effective for annual periods beginning on or after 1 January 2011).
- IFRIC 19, Extinguishing financial liabilities with equity instruments (effective for annual periods beginning on or after 1 July 2010).
- The International Financial Reporting Standard for Small and Medium-sized Entities (issued in July 2009) is a self-contained standard, tailored to the needs and capabilities of smaller businesses.

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3. Demand deposits with credit institutions

	31.12.2009.	31.12.2008.	% of Fund's net assets as at 31.12.2009.
Demand deposits with credit institutions, AS Parex banka	606,002	1,065,207	6.85%
Total demand deposits with credit institutions	606,002	1,065,207	6.85%

The Fund receives interest on demand deposits at fixed rates.

4. Debt securities and other fixed income securities

	31.12.2009.	31.12.2008.	Annual yield to maturity 31.12.2009.	% of Fund's net as at 31.12.2009.
Credit institution bonds::	4,120,331	4,069,048	13.92%	46.60%
<i>Non-OECD credit institution bonds (excluding Latvia)</i>	3,345,999	3,104,027	14.76%	37.84%
<i>Latvian credit institution bonds</i>	774,332	810,732	13.35%	8.76%
<i>OECD credit institution bonds</i>	-	154,289	-	0.00%
Corporate bonds:	3,102,874	2,669,239	17.17%	35.10%
<i>Non-OECD corporate bonds (excluding Latvia)</i>	2,436,693	2,036,768	14.22%	27.56%
<i>OECD corporate bonds</i>	409,178	94,942	77.02%	4.63%
<i>Latvian corporate bonds</i>	257,003	537,529	43.35%	2.91%
Government bonds:	363,561	212,197	18.64%	4.11%
<i>Non-OECD government bonds (excluding Latvia)</i>	363,561	212,197	18.64%	4.11%
Total debt securities and other fixed income securities	7,586,766	6,950,484	14.03%	85.81%

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

All fixed income securities are listed, except for securities with the book value of LVL 430,935 (2008: LVL 779,132).

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

Financial instrument	Currency	Amount	Acquisition value	Carrying amount as at 31.12.2009.	% of Fund's net assets as at 31.12.2009.
Financial instruments traded on regulated markets			8,033,645	7,155,831	80.94%
Latvian issuers::			1,481,400	985,494	11.15%
CAPITAL DEPARTMENT STORE (LV0000800761)	EUR	8,000	562,243	281,621	3.19%
PAREX BANKA (XS0253533318)	EUR	3,000	208,435	202,115	2.29%
BALTIKUMS (LV0000800407)	EUR	250	158,159	159,358	1.80%
PAREX BANKA (LV0000800696)	EUR	1,500	76,970	95,268	1.08%
LATVIJAS HIPOTEKU UN ZEMES BANKA (LV0000800340)	EUR	1,500	105,421	104,798	1.19%
PRIVATBANK (LV0000800381)	EUR	1,000	70,713	69,384	0.78%
GE MONEY BANK (LV0000800373)	EUR	1,000	60,724	63,903	0.72%
ELKO GRUPA (LV0000800589)	EUR	429,100	238,735	9,047	0.10%
Russian issuers:			2,516,856	2,596,393	29.37%
NOMURA EUROPE FINANCE (XS0263303512)	EUR	6	398,372	363,561	4.11%
SEVERSTAL (XS0376189857)	USD	600	249,544	309,286	3.50%
LOCKO-BANK (XS0289054750)	USD	600	319,200	304,566	3.45%
PROMSVYAZBANK (XS0375091757)	USD	500	267,941	264,951	3.00%
RASPADSKAYA (XS0301347372)	USD	500	222,712	247,964	2.80%

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Financial instrument	Currency	Amount	Acquisition value	Carrying amount as at 31.12.2009.	% of Fund's net assets as at 31.12.2009.
INTERNATIONAL INDUSTRIAL BANK (XS0309114311)	EUR	350	246,016	245,708	2.78%
RUSSIAN STANDARD BANK (XS0308286078)	USD	500	237,511	240,585	2.72%
VTB BANK (XS0244105283)	EUR	300	209,146	218,326	2.47%
NOVOROSSIYSK COMMERCIAL SEA PORT (XS0300986337)	USD	350	157,966	172,652	1.95%
NIZHNEKAMSKNEFTEKHIM (XS0463418052)	USD	300	132,542	152,055	1.72%
VTB BANK (XS0372322460)	EUR	100	75,903	76,735	0.87%
INCOM LADA (RU000A0JPAS5)	RUR	2,212	3	4	0.00%
Ukrainian issuers:			1,302,461	1,355,184	15.32%
ALFA BANK UKRAINE (XS0441089926)	USD	750	320,973	326,986	3.70%
AZOVSTAL IRON & STEEL WORKS (XS0244470570)	USD	650	263,094	297,483	3.36%
UKRSOTSBANK (XS0286235774)	USD	1,000	237,596	246,760	2.79%
MHP (USL6366MAA10)	USD	500	225,249	223,972	2.53%
PRIVATBANK (XS0285182266)	USD	350	125,708	134,421	1.52%
NAFTOGAZ UKRAINE (XS0459207121)	USD	300	129,841	125,562	1.42%
Kazakh issuers:			1,601,762	1,329,122	15.03%
BANK CENTERCREDIT (XS0243010443)	USD	750	366,574	367,323	4.15%
KAZMUNAIGAS EXPLORATION PRODUCTION (XS0441261921)	USD	500	245,060	305,049	3.45%
KAZAKHGOLD GROUP (XS0273371632)	USD	500	249,621	247,327	2.80%
ATF BANK (XS0233829463)	USD	500	244,325	247,075	2.79%
BANK TURANALEM (XS0269267000)	EUR	700	496,182	162,348	1.84%
Hungarian issuers:			292,613	291,395	3.30%
MOL HUNGARIAN OIL&GAS (XS0231264275)	EUR	500	292,613	291,395	3.30%
Georgian issuers:			252,306	242,177	2.74%
BANK OF GEORGIA (XS0283756624)	USD	500	252,306	242,177	2.74%
Azerbaijani issuers:			231,453	238,283	2.70%
TECHNIKABANK (LV0000800746)	USD	5,000	231,453	238,283	2.70%
Polish issuers:			354,794	117,783	1.33%
ZLOMREX (XS0283393998)	EUR	500	354,794	117,783	1.33%
Other financial instruments			716,635	430,935	4.87%
Latvian issuers:			297,918	45,841	0.52%
ACME CORPORATION (LV0000800787)	EUR	328	34,476	34,245	0.39%
UA SERVISS (LV0000800753)	EUR	550	263,442	11,596	0.13%
Ukrainian issuers:			285,800	291,262	3.29%
GALNAFTOGAZ (XS0324996783)	USD	725	285,800	291,262	3.29%
Bulgarian issuers:			87,851	64,077	0.72%
STROYRENT EOOD (EE4300093820)	EUR	125	87,851	64,077	0.72%
Estonian issuers:			45,066	29,755	0.34%
BALTIC INVESTMENT GROUP BANK (EE3300081801)	EEK	100	45,066	29,755	0.34%
Total debt securities and other fixed income securities			8,750,280	7,586,766	85.81%

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5. Shares and other non-fixed income securities

	31.12.2009.	31.12.2008.	% of Fund's net assets as at 31.12.2009
Equity shares	884,091	271,921	10.00%
Non-OECD equity shares (excluding Latvia)	667,906	107,333	7.55%
OECD equity shares	165,323	128,972	1.87%
Latvian equity shares	50,862	35,616	0.58%
Total shares and other non-fixed income securities	884,091	271,921	10.00%

All shares and other non-fixed income securities are classified as held-for-trading securities. All shares are listed, except for shares with the book value of LVL 122 (2008. – LVL 122)

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

Financial instrument	Currency	Amount	Acquisition value	Carrying amount as at 31.12.2009.	% of Fund's net assets as at 31.12.2009.
<u>Financial instruments traded on regulated markets</u>			1,317,608	883,969	10.00%
Latvian issuers:			145,285	50,862	0.58%
OLAINES KĪMISKI - FARMACEITISKĀ RŪPNĪCA	LVL	56,504	145,278	50,854	0.58%
GRINDEKS	LVL	2	7	8	0.00%
Russian issuers:			228,344	236,676	2.67%
MOBILE TELESYSTEMS	USD	5,000	111,615	118,827	1.34%
HOLDING MRSK	USD	2,000,000	111,749	104,646	1.18%
BALTIKA BREWERY	USD	1,000	4,980	13,203	0.15%
Kazakh issuers:			206,166	213,264	2.41%
KAZMUNAIGAS EXPLORATION PRODUCTION	USD	9,000	102,805	109,849	1.24%
URANIUM ONE	CAD	75,000	103,361	103,415	1.17%
Czech issuers:			164,005	164,917	1.88%
CESKE ENERGETICKE ZAVODY	CZK	7,200	164,005	164,917	1.88%
Ukrainian issuers:			221,461	92,635	1.05%
MHP	USD	15,000	90,333	63,815	0.72%
CENTRENERGO	USD	50,000	131,128	28,820	0.33%
Georgian issuers:			321,221	78,729	0.89%
BANK OF GEORGIA	USD	20,000	321,221	78,729	0.89%
Estonian issuers:			-	25,869	0.29%
TALLINNA KAUBAMAJA	EEK	10,201	-	25,869	0.29%
Lithuanian issuers:			30,398	18,792	0.21%
PIENO ZVAIGZDES	LTL	32,322	30,398	18,792	0.21%
Bulgarian issuers:			375	1,819	0.02%
CHIMIMPORT AD	BGN	1,666	-	1,615	0.02%
TRACE GROUP HOLD	BGN	9	375	204	0.00%
Danish issuers:			353	406	0.00%
GROUP 4 SECURICOR	DKK	200	353	406	0.00%
<u>Other financial instruments</u>			116	122	0.00%
Lithuanian issuers:			116	122	0.00%
ZEMAITIJOS PIENAS PVA	LTL	600	116	122	0.00%
Total shares			1,317,724	884,091	10.00%

At the end of the reporting year, the Fund had no investment certificates of investment funds or similar securities

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6. Derivatives

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

	31.12.2009.			31.12.2008.			% of Fund's net assets as at 31.12.2009
	Fair value			Fair value			
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities	
Foreign exchange transactions							
Currency swap instruments	4,935,630	-	(212,186)	2,672,797	-	(291,465)	(2.40)%
Forward foreign exchange instruments	2,355,241	-	(10,568)	1,010,067	-	(85,963)	(0.12)%
Total derivatives	7,290,871	-	(222,754)	3,682,864	-	(377,428)	(2.52)%

All the contracts are concluded with AS Parex banka.

7. Accrued liabilities

	31.12.2009	31.12.2008.
Accrued commission fees payable to investment management company	11,109	10,473
Accrued commission fees payable to custodian bank	1,296	1,285
Accrued fees payable for professional services	965	1,230
Total accrued liabilities	13,370	12,988

8. Interest income

	2009	2008
Interest income from debt securities and other fixed income securities	913,049	1,639,167
Interest income from demand deposits with credit institutions	47,521	33,401
Total interest income	960,570	1,672,568

9. Foreign currency trading result represents the results of currency forward and currency swap transactions which were made during the reporting year in order to generate profit.

10. Realised increase / (decrease) in investment value

	2009	2008
Income from sale of investments	9,680,551	17,306,892
Acquisition value of investments sold	(10,945,673)	(18,436,997)
Increase / (decrease) in value of investments sold, recognised in the prior reporting periods	2,934,029	(439,875)
Total increase / (decrease) realised in investment value	1,668,907	(1,569,980)

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11. Unrealised increase / (decrease) in investment value

	2009	2008
From shares and other non-fixed income securities	68,495	(660,535)
From debt securities and other fixed income securities	1,061,581	(4,863,068)
Total unrealised increase / (decrease) in investment value	1,130,076	(5,523,603)

12. Change in investments during the reporting year

	31.12.2008.	Increase during the reporting year	Decrease during the reporting year	Foreign currency revaluation result	Fair value revaluation result	31.12.2009
Financial assets held for trading						
Debt securities and other fixed income securities	6,950,484	7,061,093	(10,104,090)	35,533	3,643,746	7,586,766
Shares and other non-fixed income securities	271,921	1,068,365	(542,874)	18,393	68,286	884,091
Derivatives, net	(377,428)	-	-	154,674	-	(222,754)
Total assets	6,844,977	8,129,458	(10,646,964)	208,600	3,712,032	8,248,103

13. 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.

14. Fair values of financial assets and liabilities

According to the Company's estimates, the carrying amounts of deposits with credit institutions, held-for-trading fixed income securities, equity shares, deposits, and derivatives approximate to their fair values. The fair value is determined according to the market quotation method, based on available quotes of stock exchanges and brokers.

The table below shows the fair value of the Fund's assets and liabilities as at 31 December 2009:

	Carrying amount	Quoted market prices	Valuation technique - observable market inputs
Assets			
Demand deposits with credit institutions	606,002	-	606,002
Financial assets held for trading			
Debt securities and other fixed income securities	7,586,766	6,647,732	939,034
Shares and other non-fixed income securities	884,091	884,091	
Total assets	9,076,859	7,531,823	1,545,036
Liabilities			
Financial liabilities held for trading			
Derivatives	(222,754)	-	(222,754)
Accrued liabilities	(13,370)	--	(13,370)
Total liabilities	(236,124)	-	(236,124)
Net assets	8,840,735	7,531,823	1,308,912

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The table below shows the fair value of the Fund's assets and liabilities as at 31 December 2008:

	Carrying amount	Quoted market prices	Valuation technique - observable market inputs
Assets			
Demand deposits with credit institutions	1,065,207	-	1,065,207
Financial assets held for trading			
Debt securities and other fixed income securities	6,950,484	2,399,401	4,551,083
Shares and other non-fixed income securities	271,921	271,921	-
Total assets	8,287,612	2,671,322	5,616,290
Liabilities			
Financial liabilities held for trading			
Derivatives	(377,428)	-	(377,428)
Balances due for redemption of investment certificates	(29,284)	-	(29,284)
Accrued liabilities	(12,988)	-	(12,988)
Total liabilities	(419,700)	-	(419,700)
Net assets	7,867,912	2,671,322	5,196,590

15. Risk management

Risks are inherent in the investment process. The risk management process includes risk identification, risk measurement, and directly risk management. The Fund is exposed to market risk (i.e. currency risk, interest rate risk, and price risk), credit risk, liquidity risk and other risks (including operational risk). 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.

Risk management structure

Risk identification and measurement are the responsibility of an independent unit – the Risk Management Division which prepares and presents information about risks to the Fund Manager who decides specifically whether it would be necessary to minimise risks. The risk measurement process employs several models based on historical data and adjusted to consider for the current economic situation. Specific models are used to forecast changes in risk factors in ordinary and extraordinary market situations.

To mitigate the investment risks, the Fund Manager follows the risk diversification and hedging principles. The Fund Manager 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 Fund's investment strategy and stating limits, performs an analysis of the Fund's investments by maturity, geographic and currency profile, as well as assesses the risks inherent to each of the above factors. The Fund Manager 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.

Market risk

Market risk is a risk that the Fund's value will reduce as a result of changes in any of the following market factors: securities prices, exchange rates, interest rates, etc.

Interest rate risk

The price risk related to fixed income securities (bonds) is to a great extent dependent on fluctuations of market interest rates and changes in the issuer's credit quality. Market interest rate fluctuations affect the attractiveness of securities, as, in fact, it is an alternative source of interest income. With market interest rates growing, the prices of fixed income securities are dropping, and vice versa. Meanwhile, the increase (decrease) in market interest rates produces a positive (negative) effect on coupon rates of fixed income securities bearing interest at floating rates (when the coupon is fixed as a base rate, like Euribor or Libor, plus a margin). After the revaluation (i.e. when a new interest rate is adopted), the coupon rate of such securities increases (decreases), which results in a respective increase (decrease) in interest income.

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The tables below show a potential effect of changes in market interest rates in certain currencies on the Fund's value. Interest income changes are calculated on an annual basis. The actual changes of the Fund's value may differ from the below calculations and such a difference might be significant.

Changes in fixed income securities' prices and interest income (year 2009, LVL)				
Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
EUR	50	2,240	(36,123)	(33,882)
USD	50	-	(41,400)	(41,400)
Total		2,240	(77,522)	(75,282)

Changes in fixed income securities' prices and interest income (year 2008, LVL)				
Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
EUR	100	3,795	(22,993)	(19,198)
USD	100	-	(50,080)	(50,080)
Total		3,795	(73,073)	(69,278)

Changes in fixed income securities' prices and interest income (year 2009, % of assets)				
Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
EUR	50	0.03%	-0.41%	-0.38%
USD	50	0.00%	-0.47%	-0.47%
Total		0.03%	-0.88%	-0.85%

Changes in fixed income securities' prices and interest income (year 2008, % of assets)				
Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
EUR	100	0.05%	-0.29%	-0.24%
USD	100	0.00%	-0.64%	-0.64%
Total		0.05%	-0.93%	-0.88%

Changes in fixed income securities' prices and interest income (year 2009, LVL)				
Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
EUR	-50	(2,240)	36,123	33,882
USD	-50	-	41,400	41,400
Total		(2,240)	77,522	75,282

Changes in fixed income securities' prices and interest income (year 2008, LVL)				
Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
EUR	-100	(3,795)	22,993	19,198
USD	-50	-	25,040	25,040
Total		(3,795)	48,033	44,238

Changes in fixed income securities' prices and interest income (year 2009, % of assets)				
Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
EUR	-50	-0.03%	0.41%	0.38%
USD	-50	0.00%	0.47%	0.47%
Total		-0.03%	0.88%	0.85%

Changes in fixed income securities' prices and interest income (year 2008, % of assets)				
Currency	Changes in base rates, bp	Changes in interest income	Changes in market value	Total effect of base rate changes
EUR	-100	-0.05%	0.29%	0.24%
USD	-50	0.00%	0.32%	0.32%
Total		-0.05%	0.61%	0.56%

Equity price risk

Changes in equity prices depend on the following two groups of factors: changes in stock indexes of a respective country (for instance, DAX (German stock index)) and the financial position of the issuer (prospects of earnings profit), where the first factor is usually referred to as systematic risk and the second – as specific risk. Systematic risk is managed on the basis of forecasts of the overall economic development in specific geographic regions and industries. Specific risk management is performed by conducting a detailed analysis of the issuer's financial position and profitability, as well as other factors affecting the equity price, based on the published issuer's reports and mass media information. Equity price deviations and correlations are also a matter of particular focus, making it possible to calculate the total risk exposure for all shares of the portfolio on the basis of only equity price history. At the end of the reporting year, the proportion of the share portfolio in the Fund's assets was insignificant, and its effect on the Fund's performance was minimal.

Currency risk

Currency risk arises when the nominal value of Fund's securities or other instruments differs from the Fund's currency (euros). Exchange rate fluctuations may result in a gain or loss, depending on the trend of the fluctuations and the Fund's currency position. The Fund's exposure to currency risk is managed effectively by entering into currency forward and swap transactions, which results in closing of the existing positions and minimisation of potential risk losses.

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Effect on the currency exchange rate changes of the Fund's value are represented in the table below. Changes in exchange rates are appropriate to the one standard deviation rate calculated of 2009 data basis.

Currency	Density in Fund (% of assets)	Currency exchange to EUR	Effect on Fund value
EUR	93.8%	0.00%	0.00%
LVL	0.6%	2.29%	0.01%
USD	1.8%	12.12%	0.22%
EEK	0.6%	0.89%	0.01%
LTL	0.2%	0.54%	0.00%
CAD	1.2%	11.46%	0.13%
CZK	1.9%	11.18%	0.21%
Total	100.0%		0.58%

In 2008 largest currency represented in Fund was euro (more than 96% of Fund's net assets). Thus currency risk was not significant to the Fund, as its functional currency is euro as well.

The table below shows the Fund's assets and liabilities by currency profile as at 31 December 2009.

	LVL	USD	EUR	Other	Total
Assets					
Demand deposits with credit institutions	-	34,147	571,855	-	606,002
Financial assets held for trading					
Debt securities and other fixed income securities	-	4,985,739	2,571,268	29,759	7,586,766
Shares and other non-fixed income securities	50,862	517,889	-	315,340	884,091
Total assets	50,862	5,537,775	3,143,123	345,099	9,076,859
Liabilities					
Financial liabilities held for trading					
Derivatives	-	(5,392,917)	5,170,163	-	(222,754)
Accrued liabilities	-	-	(13,370)	-	(13,370)
Total liabilities	-	(5,392,917)	5,156,793	-	(236,124)
Net assets	50,862	144,858	8,299,916	345,099	8,840,735
<i>Net long position</i>	<i>0.58%</i>	<i>1.64%</i>	<i>93.88%</i>	<i>3.90%</i>	<i>100.00%</i>

As at 31 December 2009, other currencies are distributed as follows CZK – 164,917 lats, CAD – 103,415 lats, EEK – 55,624 lats, LTL – 18,914 lats, BGN – 1,819 lats, DKK – 406 lats and RUB – 4 lats.

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(LVL)

The table below shows the Fund's assets and liabilities by currency profile as at 31 December 2008.

	LVL	USD	EUR	Other	Total
Assets					
Demand deposits with credit institutions	-	18,062	1,047,145	-	1,065,207
Financial assets held for trading					
Debt securities and other fixed income securities	-	3,927,213	2,899,343	123,928	6,950,484
Shares and other non-fixed income securities	35,616	58,973	-	177,332	271,921
Total assets	35,616	4,004,248	3,946,488	301,260	8,287,612
Liabilities					
Financial liabilities held for trading					
Derivatives	-	(4,060,292)	3,682,864	-	(377,428)
Balances due for redemption of investment certificates	-	-	(29,284)	-	(29,284)
Accrued liabilities	-	-	(12,988)	-	(12,988)
Total liabilities	-	(4,060,292)	3,640,592	-	(419,700)
Net assets	35,616	(56,044)	7,587,080	301,260	7,867,912
<i>Net long/ (short) position</i>	<i>0.45%</i>	<i>(0.71)%</i>	<i>96.43%</i>	<i>3.83%</i>	<i>100.00%</i>

As at 31 December 2008, other currencies are distributed as follows CZK – 128,972 lats, RUB – 87,355 lats, EEK – 62,247 lats, LTL – 16,524 lats and BGN – 6,162 lats.

Credit risk

Credit risk is a risk that the Fund's value will decrease from counterparty's or issuer's non-performance or default. Only safe and reliable counterparties are selected for transactions involving the Fund's assets. The Fund Manager monitors the solvency position of the counterparties on a regular basis, analyses their credit rating and financial position, as well as mass media information.

Credit quality of the Fund's assets is managed on the basis of the credit ratings granted by international rating agencies Standard & Poor's, Moody's, and Fitch. In addition, a detailed analysis is performed on the issuer's financial statements, financial position and future prospects. The table below shows the issuers of securities and credit institutions in which the Fund has deposits by credit ratings.

The Fund's assets and liabilities are classified by credit ratings as follows:

- High investment rating: AAA (Standard & Poor's); Aaa (Moody's Investors Service); AAA (Fitch);
- Average investment rating: AA+ - A- (Standard & Poor's); Aa1 - A3 (Moody's Investors Service); AA+ - A- (Fitch);
- Low investment rating: BBB+ - BBB- (Standard & Poor's); Baa1 - Baa3 (Moody's Investors Service); BBB+ - BBB- (Fitch);
- Average rating: BB+ - BB- (Standard & Poor's); Ba1 - Ba3 (Moody's Investors Service); BB+ - BB- (Fitch);
- Low rating: B+ - B- (Standard & Poor's); B1 - B3 (Moody's Investors Service); B+ - B- (Fitch)
- Speculative rating: CCC+ - D (Standard & Poor's); Caa1 - C (Moody's Investors Service); CCC+ - D (Fitch).

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The table below shows the Fund's assets by credit ratings as at 31 December 2009.

	Low investment rating	Average rating	Low rating	Speculative rating	Not rated	Total
Assets						
Demand deposits with credit institutions	-	-	606,002	-	-	606,002
Debt securities and other fixed income securities	911,088	464,047	3,813,498	732,679	1,665,454	7,586,766
Shares and other non-fixed income securities	-	-	-	-	884,091	884,091
Total assets	911,088	464,047	4,419,500	732,679	2,549,545	9,076,859

The table below shows the Fund's assets by credit ratings as at 31 December 2008.

	Low investment rating	Average rating	Low rating	Speculative rating	Not rated	Total
Assets						
Demand deposits with credit institutions	-	-	-	1,065,207	-	1,065,207
Debt securities and other fixed income securities	51,221	2,052,988	2,052,444	568,958	2,224,873	6,950,484
Shares and other non-fixed income securities	-	-	-	-	271,921	271,921
Total assets	51,221	2,052,988	2,052,444	1,634,165	2,496,794	8,287,612

The issuer's industry and geographic position are additional credit risk factors, which can affect the price of the issuer's securities or the issuer's solvency. Therefore, it is vital to identify concentration risk, i.e. to which extent the Fund's value depends on changes in specific regions or industries. Credit risk concentration by geographic profile (based on the country most affecting the issuer's solvency) and industry profile is presented in the table below.

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The table below shows the Fund's assets and liabilities by geographic profile as at 31 December 2009.

	Latvia	OECD countries	Other non- OECD countries	Total
Assets				
Demand deposits with credit institutions	606,002	-	-	606,002
Financial assets held for trading				
Debt securities and other fixed income securities	1,031,335	409,178	6,146,253	7,586,766
Shares and other non-fixed income securities	50,862	165,323	667,906	884,091
Total assets	1,688,199	574,501	6,814,159	9,076,859
Liabilities				
Financial liabilities held for trading				
Derivatives	(222,754)	-	-	(222,754)
Accrued liabilities	(13,370)	-	-	(13,370)
Total liabilities	(236,124)	-	-	(236,124)
Net assets	1,452,075	574,501	6,814,159	8,840,735

The table below shows the Fund's assets and liabilities by geographic profile as at 31 December 2008

	Latvia	OECD countries	Other non- OECD countries	Total
Assets				
Demand deposits with credit institutions	1,065,207	-	-	1,065,207
Financial assets held for trading				
Debt securities and other fixed income securities	1,348,261	249,231	5,352,992	6,950,484
Shares and other non-fixed income securities	35,616	128,972	107,333	271,921
Total assets	2,449,084	378,203	5,460,325	8,287,612
Liabilities				
Financial liabilities held for trading				
Derivatives	(377,428)	-	-	(377,428)
Balances due for redemption of investment certificates	(29,284)	-	-	(29,284)
Accrued liabilities	(12,988)	-	-	(12,988)
Total liabilities	(419,700)	-	-	(419,700)
Net assets	2,029,384	378,203	5,460,325	7,867,912

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The table below shows the Fund's assets and liabilities by country profile.

Country	Carrying amount as at 31.12.2009.	Carrying amount as at 31.12.2008.	% of Fund's net assets as at 31.12.2009.
Russia	2,833,069	2,470,011	32.04%
Ukraine	1,739,081	782,419	19.67%
Kazakhstan	1,542,386	749,374	17.45%
Latvia	1,452,075	2,029,384	16.42%
Georgia	320,906	249,120	3.63%
Hungary	291,395	-	3.30%
Azerbaijan	238,283	937,155	2.70%
Czech Republic	164,917	128,972	1.87%
Poland	117,783	249,231	1.33%
Bulgaria	65,896	82,429	0.75%
Estonia	55,624	62,247	0.63%
Lithuania	18,914	127,570	0.21%
Denmark	406	-	0.00%
Total	8,840,735	7,867,912	100.00%

The table below shows the Fund's securities portfolio by industry profile.

Sector	Carrying amount as at 31.12.2009.	Carrying amount as at 31.12.2008.	% of Fund's net assets as at 31.12.2009.
Commercial banks	4,199,060	4,112,607	47.50%
Energy resources	1,183,234	569,715	13.38%
Raw materials	1,123,934	1,015,256	12.71%
Financial services	363,561	212,197	4.11%
Retail trade	326,182	68,199	3.69%
Food, beverages, tobacco	319,904	218,752	3.62%
Public utilities	298,383	144,386	3.38%
Technical supply, it's maintenance	202,115	277,920	2.29%
Transportation	172,652	69,843	1.95%
Telecommunications	118,827	-	1.34%
Hard goods	65,896	87,136	0.75%
Pharmacy	50,862	35,616	0.58%
Real estate	34,245	256,597	0.39%
Hard goods and clothes	11,596	66,826	0.13%
Professional services	406	-	0.00%
Consumer services	-	87,355	0.00%
Total	8,470,857	7,222,405	95.82%

Liquidity risk

Liquidity risk is a risk that the Fund will have difficulties in meeting its financial obligations. The Fund Manager strives to maintain such an asset structure which would ensure a possibility of selling securities in due time and with no significant losses. The maturity profile of the Fund's assets and liabilities is provided below.

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Table below shows the Fund's assets and liabilities by maturity profile as at 31 December 2009.

	Within 1 month	1 - 3 months	3 – 6 months	6 - 12 months	1-5 years	More than 5 years	Total
Assets							
Demand deposits with credit institutions	606,002	-	-	-	-	-	606,002
Financial assets held for trading							
Debt securities and other fixed income securities	29,755	1,152,972	335,853	758,975	4,212,820	1,096,391	7,586,766
Shares and other non-fixed income securities	884,091	-	-	-	-	-	884,091
Derivatives	7,290,871	-	-	-	-	-	7,290,871
Total assets	8,810,719	1,152,972	335,853	758,975	4,212,820	1,096,391	16,367,730
Liabilities							
Financial liabilities held for trading							
Derivatives	(7,513,625)	-	-	-	-	-	(7,513,625)
Accrued liabilities	(12,405)	(965)	-	-	-	-	(13,370)
Total liabilities	(7,526,030)	(965)	-	-	-	-	(7,526,995)
Net assets	1,284,689	1,152,007	335,853	758,975	4,212,820	1,096,391	8,840,735
<i>Net position % from net assets</i>	14.52%	13.04%	3.80%	8.58%	47.66%	12.40%	100.00%

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Table below shows the Fund's assets and liabilities by maturity profile as at 31 December 2008.

	Within 1 month	1 - 3 months	3 – 6 months	6 - 12 months	1-5 years	More than 5 years	Total
Assets							
Demand deposits with credit institutions	1,065,207	-	-	-	-	-	1,065,207
Financial assets held for trading							
Debt securities and other fixed income securities	-	301,627	1,181,265	428,359	4,549,668	489,565	6,950,484
Shares and other non-fixed income securities	271,921	-	-	-	-	-	271,921
Derivatives	3,682,864	-	-	-	-	-	3,682,864
Total assets	5,019,992	301,627	1,181,265	428,359	4,549,668	489,565	11,970,476
Liabilities							
Financial liabilities held for trading							
Derivatives	(4,060,292)	-	-	-	-	-	(4,060,292)
Balances due for redemption of investment certificates	(29,284)	-	-	-	-	-	(29,284)
Accrued liabilities	(12,373)	-	(615)	-	-	-	(12,988)
Total liabilities	(4,101,949)	-	(615)	-	-	-	(4,102,564)
Net assets	918,043	301,627	1,180,650	428,359	4,549,668	489,565	7,867,912
<i>Net position % from net assets</i>	<i>11.67%</i>	<i>3.83%</i>	<i>15.01%</i>	<i>5.44%</i>	<i>57.83%</i>	<i>6.22%</i>	<i>100.00%</i>

16. 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:

	31.12.2009	31.12.2008.	% of total certificates as at 31.12.2009
Investment certificates held by related parties	13,678	72,630	1.45%
Investment certificates held by other persons	928,431	1,235,792	98.55%
Investment certificates issued as at the year end	942,109	1,308,422	100.00%

17. Related party disclosures

The majority of the Fund's investments are acquired with the mediation of the custodian bank AS Parex banka. AS Parex banka receives remuneration as the custodian bank, as disclosed in the statement of comprehensive income. In addition, the Fund's cash resources (see also Note 3) are held and derivative contracts (see also Note 6) are concluded with AS Parex banka.

The remuneration paid to the investment management company during the reporting year is disclosed in the statement of comprehensive income (see also Note 7).

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During the reporting year, related parties acquired 72 investment certificates (2008: 482 certificates) and sold back 59,024 investment certificates (2008: certificates 8,538).

During the reporting year, the Fund had an investment in bonds issued by AS Parex banka. As at 31 December 2009, the carrying value of this investment was LVL 297,383 (2008: LVL 264,326). In the reporting year, the Fund had no investments in an investment fund managed by a related investment management company (2008: LVL nil).

18. Dynamics of net asset value

	31.12.2009	31.12.2008.	31.12.2007.
Net assets (LVL)	8,840,735	7,867,912	26,622,530
Number of investment certificates	942,109	1,308,422	2,747,241
Value of investment fund's shares (LVL)	9.38	6.01	9.69
Performance on investment fund's shares*	56.05%	(37.87)%	3.44%
<hr/>			
	31.12.2009	31.12.2008.	31.12.2007.
Net assets (EUR)**	12,595,430	11,226,710	37,753,058
Number of investment certificates	942,109	1,308,422	2,747,241
Value of investment fund's shares (EUR)	13.37	8.58	13.74
Performance on investment fund's shares*	55.83%	(37.47)%	3.23%

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

** The net asset value in euros is determined, based on exchange rates fixed at financial markets at the end of each day.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of AIF Parex Eastern European Balanced Fund

Report on the Financial Statements

We have audited the accompanying financial statements on pages 10 to 32 of AIF Parex Eastern European Balanced Fund which comprise the statement of financial position as of 31 December 2009 and the statement of comprehensive income, statement of changes in net assets and 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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the European Union. 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.

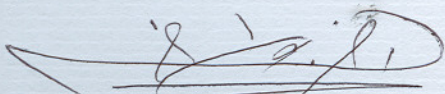
Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of AIF Parex Eastern European Balanced Fund as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union.

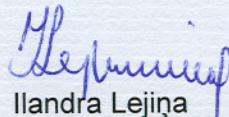
Report on Other Legal and Regulatory Requirements

We have read the Management Report set out on pages 5 to 6 and did not identify material inconsistencies between the financial information contained in the Management Report and that contained in the financial statements for 2009.

PricewaterhouseCoopers SIA
Certified audit company
Licence No. 5



Ahmed Abu Sharkh
Chairman of the Board



Ilandra Lejiņa
Certified auditor in charge
Certificate No. 168

Riga, Latvia
30 April 2010

* This version of our report is a translation from the original, which was prepared in Latvian. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.