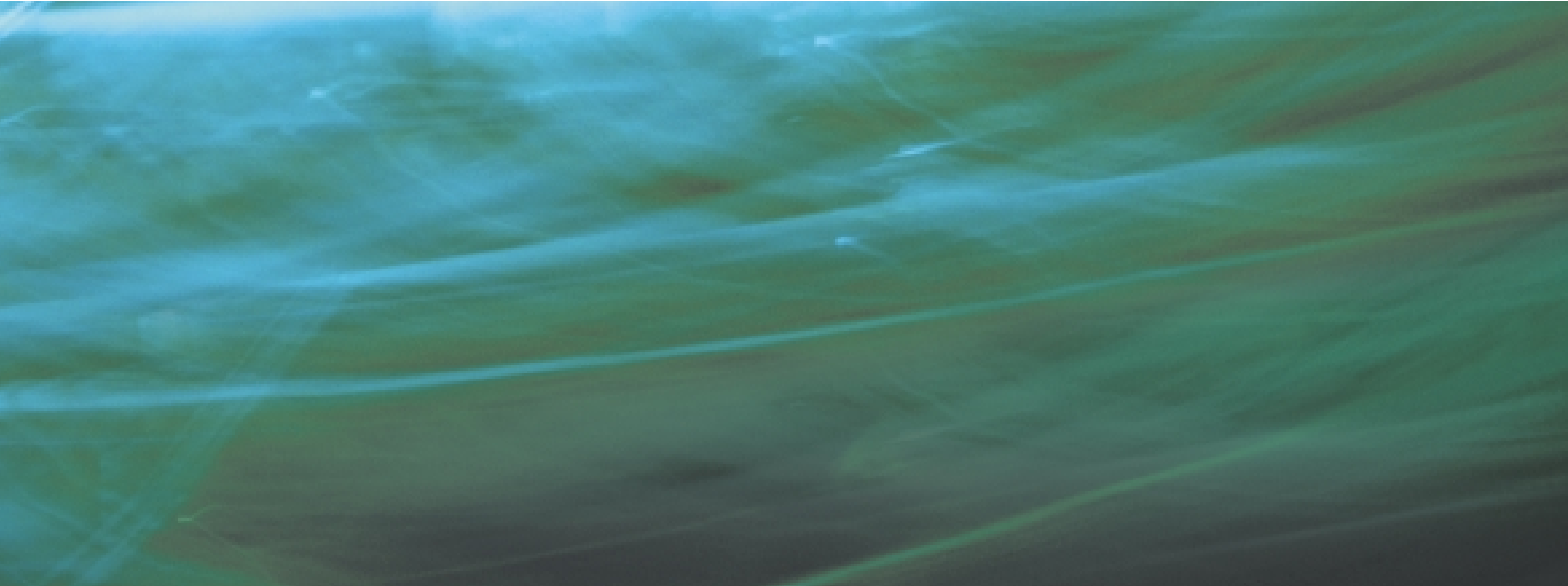


M O M E N T U M

2000 ANNUAL REPORT



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Inside Back Cover: Consolidated Financial Statements on CD-ROM

During 2000 we continued building on our momentum, by capitalising on our core strengths and fostering a culture of entrepreneurship and client focus. Progress was made on all fronts, with the year's accomplishments serving as a platform for greater strides in 2001. As major trends and global influences continue to shape the future, we remain focussed and enthusiastic about our own transformation.

TAIB at a Glance

	2000 Revenues	Key Products/Services	Market Position	2001 Focus
Asset Management	\$14.9 million	<ul style="list-style-type: none"> Family of ten mutual funds Portfolio management—discretionary and non-discretionary Fixed-income securities Market-neutral equity investments Structured cash management products 	<ul style="list-style-type: none"> Total value of TAIB mutual funds increased by over 60% in 2000 Funds cover a wide spectrum of investor requirements and a diversified geographical mix of markets 	<ul style="list-style-type: none"> Launch new funds Tap opportunities in diversified markets Strengthen distribution network through direct marketing and increased use of alliances Introduce state-of-the-art client servicing capabilities
Private Equity	\$16.7 million	<ul style="list-style-type: none"> Structured private equity investments M&A advisory services in the IT sector 	<ul style="list-style-type: none"> Investment in technology companies with a proven track record Strong deal flow in software services 	<ul style="list-style-type: none"> Profit from opportunities in the IT sector by leveraging cross-border synergies Take advantage of lower equity valuations in the IT sector to make acquisitions of profit-making companies
Real Estate	\$4.1 million	<ul style="list-style-type: none"> Investments in retail and residential properties, located mainly on the east coast of the U.S. Investments in industrial and commercial properties in the U.K., predominantly in and around London 	<ul style="list-style-type: none"> Active management of shopping centres and apartment complexes in U.S. Established track record of profitable investments and exits in U.K. 	<ul style="list-style-type: none"> Establish a new product stream for U.K. properties Make acquisitions that fit within TAIB's investment criteria Exit from properties mature for sale
Brokerage and Securities	\$3.5 million	<ul style="list-style-type: none"> Web-based direct access and broker-assisted trading services to U.S. stock markets Broker-assisted trading for GCC stock markets, including Bahrain and Kuwait, as well as Egypt 	<ul style="list-style-type: none"> USDirect is the region's first and only direct access trading service for NASDAQ, NYSE and American Stock Exchange Brokerage fees among the most competitive in the region Research reports are recognised for insightful and professional coverage 	<ul style="list-style-type: none"> Launch <i>IND/ADirect</i> to provide direct access trading to the National Stock Exchange of India Widen distribution network by forming alliances with other financial institutions in the GCC

Financial Highlights

(US\$'000s)	2000	1999	1998	1997	1996
Earnings					
Net interest and similar income	4,152	9,472	7,985	9,092	8,137
Fees and other income	35,085	32,231	23,895	22,128	15,336
Net income before provisions	21,798	25,004	17,410	18,351	11,925
Net income	15,475	14,026	10,117	7,270	10,403
Dividend	7,134	5,063*	5,484	5,062	5,062
Financial Position					
Total assets	544,927	512,562	402,822	371,950	333,569
Investments and marketable securities	417,830	365,715	232,615	207,594	135,196
Loans and advances	21,875	27,264	40,706	55,153	62,496
Customer deposits	103,688	124,382	125,927	110,432	84,424
Total deposits	254,512	328,554	274,802	246,791	214,544
Shareholders' equity ^o	147,281	125,354	117,745	113,765	113,009
Ratios					
Earnings:					
Return on Average Equity (%)	11.4	11.5	8.7	6.4	9.4
Return on Average Assets (%)	2.9	3.1	2.6	2.1	3.2
Earnings per Share (cents)	15	17	12	9	12
Cost:					
Expenses to Total Operating Income (%)	44	40	45	41	49
Capital:					
Total Liabilities to Shareholders' Equity (times)	2.7	3.1	2.4	2.3	1.9
BIS risk-adjusted Capital Adequacy Ratio (%)	36.6	43.8	38.7	34.5	43.7
* In addition, bonus shares were issued in the ratio of 1 share for every 20 shares					
^o Shareholders' equity figures restated in accordance with IAS 10 (revised)					

Statement of the Chairmen

Dear Shareholders,

We are pleased to report that TAIB posted a net profit of US\$15.5 million for the year 2000.

This record result, despite a year of unprecedented market volatility, demonstrates our long-standing commitment to deliver consistent growth with managed risk.

STRONG PERFORMANCE, POSITIVE DEVELOPMENTS

The initiatives and successes detailed on the following pages and on the enclosed CD-ROM reflect both the growth and creation of improved value—an underlying dynamic in line with our strategic objectives.

Some notable developments that helped to further strengthen our financial and market position include:

- An increase in our share capital beyond the US\$100 million mark, through a successful Rights Issue
- An upgrade of our credit rating by Capital Intelligence Ltd.
- A 61% growth in the aggregate value of all TAIB mutual funds
- The successful launch of *USDirect* through *taibdirect.com*, providing online direct access trading to major U.S. stock exchanges, by our subsidiary TAIB Securities W.L.L.

2000 HIGHLIGHTS

Brokerage & Securities Dramatically improved services by introducing online direct access trading

Asset Management Successfully launched five new funds, with plans for more in 2001

FUELLING GROWTH, BUILDING MOMENTUM

Going forward, we believe the inherent effects of digital convergence and globalisation will continue to provide enormous opportunity for TAIB. We remain committed to being an investor in companies that develop and support evolving technologies, and to being an organisation that utilises them to better engage and serve our clients. We're poised to move decisively to expand our growth horizons and add further value through these key initiatives:

Broaden our reach by expanding distribution

We'll focus on serving new customer segments, primarily by forming strategic alliances with regional institutions. Additionally, we'll utilise telecom and web-enabled systems to implement a multi-channel distribution and delivery network, enhancing client acquisition and service.

Satisfy client demand through innovative solutions

We'll use our expertise and insight to create new products and services, including new investment

opportunities that will allow our clients to tap into high growth sectors in unique markets. Plans also include expanding our online brokerage services to provide clients with direct access to a wider range of markets.

Bolster productivity with technology

We'll leverage the dramatic progress we've made in using technology to gain greater efficiencies and improved levels of client service. Streamlining network processes and deepening relationships with our clients, through improved and expedited execution, remains a priority—as does increasing our intellectual capital. We are confident that new technologies will enable our 200 committed employees around the world to continue thinking in new ways, exploring new methods and becoming more resourceful.

IN APPRECIATION

We would like to take this opportunity to thank the Government of Bahrain for their enduring confidence; the Minister of Finance and Governor of the Bahrain Monetary Agency for their continued support; our

shareholders for reaffirming their commitment; the Board of Directors and Advisory Boards for their insightful guidance and counsel; our clients for providing us with the opportunity to help them accomplish their investment objectives; and finally, our management and staff for all of their efforts towards making it a triumphant year.



**Sheikh Abdulrahman
Al Jeraisy**
Chairman



Iqbal G. Mamdani
*Vice Chairman and
Chief Executive Officer*

Private Equity Continued to leverage our expertise in the IT sector and increase deal flow capacity

Real Estate Realised attractive returns and pursued further acquisitions

Board of Directors



Abdulrahman Al Jeraisy¹

Chairman

Member of the Board of Saudi Arabian Monetary Agency (SAMA)

Member of the Supreme Council for Riyadh Development Authority

Member of the Board of Directors of U.S.-Saudi Arabian Business Council

Chairman of Riyadh Chamber of Commerce and Industry

Chairman of Riyadh Industrial City Council

Chairman of Jeraisy Group, Riyadh



Iqbal G. Mamdani¹

Vice Chairman and CEO

Chairman of TAIB YatirimBank, Istanbul

Chairman of TAIB Kazak Bank, Almaty

Chairman of TAIB Securities W.L.L., Bahrain

Chairman of TAIB Securities Ltd., London

Chairman of TAIB Securities Inc., New York

Chairman of Trans-Arabian Development Co. E.C., Bahrain

Director of TAIB Capital Corporation Ltd., Bangalore

Director of Diamond Trust Bank Ltd., Kenya, Uganda, Tanzania



Ahmed Mohamed Baroom¹

Director

Vice Chairman & CEO of Saudi Falcon Cement Co. Ltd., Jeddah

Chairman of Saudi Steel Reinforcements Ltd., Jeddah

Chairman of Saudi Express Transport Co., Jeddah

Chairman of Modern Scaffolding Est., Jeddah

Chairman of United National Export Company Ltd., Jeddah



Abdulaziz R. AlRashed²

Director

Chairman/Managing Partner of Rashed A. AlRashed & Sons, Al Khobar

Director of AIBank AISaudi AlFransi, Riyadh

Director of AlRashed Trading & Contracting Co., Riyadh

Chairman of AlShifa Medical Syringe Manufacturing Co. Ltd., Dammam

Director of AlKhaleej Computers & Electronic Systems, Al Khobar

Advisory Boards

International

Edward G. Nelson
Nicholas P. Clegg³

Gulf

Najeeb Al-Saleh
(Kuwait)
Nooruddin A. Nooruddin
(Bahrain)

Hong Kong

Hari N. Harilela
C.T. Chan

Switzerland

Camille Froidevaux
Jerome Joliat

United Kingdom

Dr. Abdool Magid A.K. Vakil
Salim Lalani

United States

William G. Gridley, Jr.
Cecil M. Philips
Jun Mizuno



Yavuz Çanevi^{2,3}

Director

Former Governor, Central Bank of Turkey, Istanbul

Member of IFC Business Advisory Council, Washington, D.C.

Chairman of Turk Ekonomi Bankasi A.Ş., Istanbul

Honorary Chairman of YASED (Foreign Investors' Association of Turkey), Istanbul

Deputy Chairman of Istanbul Stock Exchange

Director of Credit Agricole Indosuez Turk Bank A.Ş., Istanbul

Director of Turkish Industrial Development Bank, Istanbul



Ebrahim Sharif Alsayed

Director

Managing Director of TAIB Securities W.L.L., Bahrain

Director of TAIB Capital Corporation Ltd., Bangalore

Director of TAIB Securities Inc., New York

Director of TAM Real Estate Florida Inc., Orlando



Pradip P. Shah^{2,3}

Director

Chairman of IndAsia Fund Advisors Pvt. Ltd.

Chairman of Indian Merchants' Chamber (Capital Markets Committee)

Director of Reserve Bank of India—Western Region Board

Director of Prudential ICICI Asset Management Company Ltd.

Director of Pfizer Ltd.

Director of BASF India Ltd.

Director of Tata Infomedia Ltd.

Director of Indocam Himalayan Fund NV

Director of Wartsila India Ltd.

Director of Matsushita Lakhnapal Battery India Ltd.

Director of Zip Global Network Ltd., Mauritius



Mohammed Al Attas

Director

Owner of Al Zaytoon Trading & Contracting Est., Jeddah

Senior Management

Iqbal G. Mamdani

Chief Executive Officer

Founder of TAIB Bank. CEO since inception. Formerly Vice President and Gulf Regional Manager for American Express Bank. B.A. from International Christian University, Mitaka, Japan and M.A. from University of California at Berkeley.

Ebrahim Sharif Alsayed

Executive Vice President, Investment Banking

Has been with the Bank for twenty years. Studied Mechanical Engineering at the University of Texas, Austin.

Babu Sahadev

Senior Vice President, Asset Management

Has been with the Bank for ten years. Formerly with American Express Bank and Citibank in Dubai, UAE. B.Sc. from M.S. University, Baroda, India.

Narayan A. Menon

Senior Vice President, Risk Management

Has been with the Bank for five years. Formerly Deputy General Manager, International Division, State Bank of India. Graduate of the University of Madras, India, and MBA from IMEDE International, Lausanne, Switzerland.

¹ Member of Executive Committee

² Member of Audit Committee

³ Member of Risk Management Committee

The year 2000 was one of solid accomplishment for TAIB. We gained momentum from key initiatives set forth in recent years as well as the year at hand.

Our record financial results and continued evidence of our sound business strategy have positioned us for growth in important ways.



Management Discussion Financial Review

In 2000, TAIB surpassed previous earnings records for the third consecutive year, posting a net profit of US\$15.5 million, up 10% from 1999—demonstrating our ability to deliver consistent profits despite extreme market volatility.

The return on average equity was 11.4% in 2000, as compared to 11.5% in 1999. Despite the slight decline, we feel that our performance has been noteworthy in light of the significant expansion in our capital base resulting from the year's Rights Issue and Bonus Issue of shares.

The return on average assets was 2.9% in 2000, as compared to 3.1% in 1999. Our dividend payments are

continuing to grow steadily, and we have recommended a record cash dividend of 7% to shareholders for 2000.

Our conservative approach to risk management helped us to withstand the year's adverse economic climate, specifically: 1) our diversified asset allocation strategy; 2) our investments in equity market-neutral products with relatively low correlation; and 3) our emphasis on fee-based income. Concurrently, by focussing on asset quality, we invested minimally in dot-com companies despite their perceived growth potential.

CAPITAL INCREASE

The increase in paid-in share capital to over US\$100 million,

achieved through a Bonus Issue of 1 share for every 20 shares held, and subsequently, a fully-subscribed Rights Issue of 1 share for every 7 shares held, was a significant development in 2000. Despite a 20% increase in share capital, the Bank's earnings per share stood at 15 cents at the end of 2000, a marginal decline from 17 cents per share in 1999. We fully expect to improve the value of TAIB shares.

Net Interest and Similar Income

Interest-earning assets and interest-bearing liabilities, in addition to changes in the fair value of guaranteed term notes, comprise net interest and similar income. The Bank's net interest and similar income was US\$4.2 million in 2000, as compared to US\$9.5 million in 1999. The decrease is

A Rights Issue of shares increased

TAIB's paid-in share capital to over US\$100 million

Management Discussion

Financial Review

primarily due to the 24% reduction in interest-earning assets resulting from increased investments in the asset management portfolio. Concurrently, income from interest-bearing liabilities remained unchanged from 1999 levels, while yields from the fixed income securities portfolio decreased due to the high U.S. interest rates prevailing for much of the year.

Fees and Commission

The Bank's income from fees and commission rose 30% to US\$12.7 million from US\$9.8 million in 1999 as a result of our increased focus on fee-based income streams—mainly investment banking, asset management and brokerage activities. The ratio of fees and other income as a percentage of total income was 89% in 2000, as compared to 77% recorded in 1999.

Income from the Sale of Long-Term Investments

The Bank's income from the sale of private equity and real estate investments more than tripled to US\$10.1 million, compared to US\$3.3 million in 1999. This increase includes income of US\$8.2 million from a series of milestones associated with a private equity exit transaction that was initiated in 1999 and thus contributed to our income in 2000 as well.

Securities Trading Income

Extended periods of volatility in the world's major equity markets had a substantial impact in this income category. Nonetheless, this activity did generate a profit of US\$3.3 million, down US\$8.5 million from the previous year.

Operating Expenses

The addition of specialists, particularly in the business divisions and in IT support, contributed to a 4% rise in operating expenses to US\$17.4 million in 2000. Consequently, total expenses as a percentage of total revenue increased to 44% from 40% in 1999. In keeping with our business objectives, we hope to return to the 40% figure in 2001.

BALANCE SHEET

Total Assets

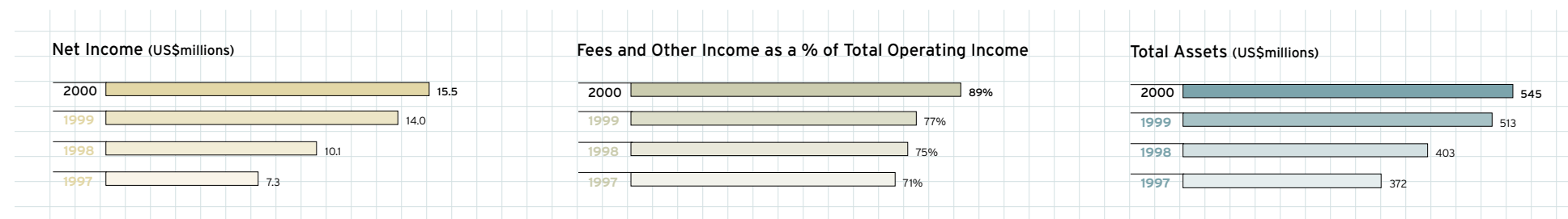
The Bank's total assets as at 31 December 2000 were US\$544.9 million, an increase of 6.3% over the previous year-end, primarily due to additional investments in capital-guaranteed notes issued by major AA-rated European banks. The Bank's cautious approach is reflected in the geographical distribution of assets: North America and Europe accounted for 88%, the Middle East 7%, and Asia 5%.

Our total net exposure to emerging markets namely Turkey, India and Kazakhstan, amounts to 11% of the Bank's total assets on a consolidated basis. The asset-exposures for each country are as follows: Turkey 6%, India 4% and Kazakhstan 1%.

Loans and Advances

The Bank's aggregate loans and advances were reduced by US\$5.4 million to US\$28.8 million in 2000, as we continued to wind down the loan portfolio. Net loans and advances decreased to 5.3% of total assets as at 31 December 2000, compared to 6.7% at the previous year-end. The Bank, continuing its policy of prudent provisioning, provided a further US\$5.4 million during 2000. As at 31 December 2000, 65% of the aggregate loans and advances were secured by cash or other collateral. The following table illustrates the declining portfolio of loans and advances over the last four years:

	2000	1999	1998	1997
Net Loans and Advances (US\$millions)	28.8	34.2	47.4	64.4
Ratio of Net Loans and Advances to Total Assets	5.3%	6.7%	11.8%	17.3%



Management Discussion Financial Review

Long-Term Investments

Long-term investments as at year-end grew 5% over the previous year to US\$215.6 million, comprising 40% of total assets. Marketable securities constituted 65% of the Bank's long-term investments, of which 68% were AAA-rated securities of North American issuers guaranteed by the U.S. government, or of specialised agencies sponsored by the U.S. government. The fair value of the long-term investments was US\$211.5 million as at year-end, just 2% below their cost, as can be seen from Note 8 on the Consolidated Financial Statements (see accompanying CD-ROM). The valuation difference is primarily due to the impact of high interest rates on the Bank's portfolio of mortgage-backed securities. Approximately 65% of the Bank's total long-term investments are quoted investments with a book value of US\$139.5 million. The unquoted investments consist of the Bank's corporate investments and amount to US\$37.7 million, one-third of which is in structured instruments carrying assured returns, and are due for redemption in 2001.

Liquidity

The Bank continues to maintain a high level of liquidity. As at year-end, 67% of the Bank's total assets were due to mature within one year while 44% of liabilities were due to mature within the same period.

	2000	1999	1998	1997
Assets maturing within one year	67%	58%	58%	49%
Liabilities maturing within one year	44%	48%	41%	40%

In addition to repo funding, the Bank raised long-term debt of US\$118.5 million with maturities of up to three years, matching with the life of the capital-guaranteed investment.

IAS 39

We do not expect any significant adverse impact on the Bank's financial statements resulting from the application of the new International Accounting Standard 39, commonly referred to as IAS 39, adopted by the Bank on January 1, 2001.

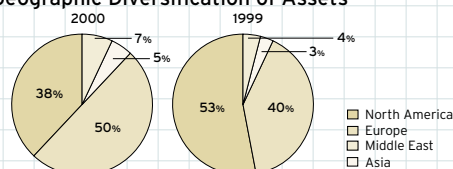
Credit Rating

During the year, the Bank's rating was upgraded by Capital Intelligence Ltd from BB+ to the "Investment Grade" rating of BBB- (triple B minus) for the long-term. This rating connotes, among other things, 'good credit quality' and 'a satisfactory capacity for timely fulfillment of financial obligations.' The Bank retained its short-term rating of A3, and the outlook for the Bank was designated as 'stable.'

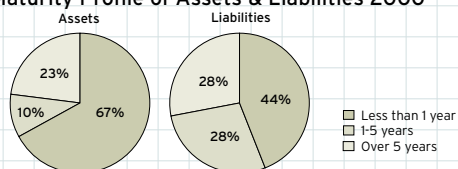
Capital Strength

As at year-end, the Bank's capital base stood 17% higher than at the previous year-end. Total shareholders' funds amounted to 27% of total assets. As an indication of the Bank's strong capital base and conservative approach, capital adequacy (computed in accordance with Bahrain Monetary Agency (BMA) guidelines) was 32%, substantially higher than BMA's stipulation of 12% and the Bank for International Settlements (BIS) guidelines of 8%. Further, low leverage remained one of the Bank's continuing strengths, with leverage as at 31 December 2000 standing at 2.7, as compared to 3.1 at the end of the previous year.

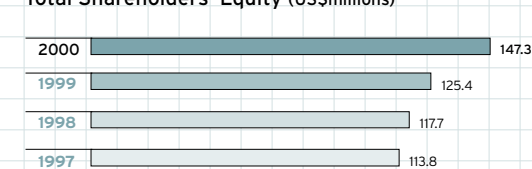
Geographic Diversification of Assets



Maturity Profile of Assets & Liabilities 2000



Total Shareholders' Equity (US\$millions)



Management Discussion

Review of Operations

In 2000, increased competition, globalisation and changes in the technological landscape resulted in a profound economic transformation affecting financial institutions across the globe. TAIB was well-positioned to respond to the opportunities created by these changes. Building on our core strengths, a focussed business strategy, and momentum from recent years, we took advantage of new opportunities to strengthen our business divisions and position them for future growth.

INVESTMENT BANKING

TAIB's investment banking activities mainly relate to

private equity investments in corporate enterprises and real estate investments. Our private equity investment teams in Bahrain, New York, Bangalore and Mumbai, network to identify and evaluate investments. As a matter of policy, TAIB only invests in companies with a proven profitable track record and sustainable revenue streams. Our Real Estate Division worked to acquire commercial and residential properties in the southeastern U.S., and collaborated with our strategic partners in the U.K. to purchase industrial and commercial properties in the South-East of England.

Private Equity

TAIB's established presence and track record in the information technology sector has resulted in a consistent deal flow over the past three years. In 2000, we continued to leverage our expertise in this sector and invested in six structured private equity transactions, that met our stringent criteria. These investments were in IT and media companies operating in India, Europe and the U.S.

A notable development was the creation of the subsidiary TAIB Invest Incorporated, to hold a diversified portfolio of technology-related companies. This special-purpose



Management Discussion

Review of Operations

PORTFOLIO INVESTMENTS THROUGH TAIB INVEST INC.
Amicas, Inc., USA
Galaxy Entertainment Corp. Ltd., India
Innosoft Technologies Ltd., India
Insyst Technologies (MEA) BVI Ltd.
Logix Microsystems Ltd., India
New River Investor Communications, Inc., USA
Newsmax.com, USA
Sriven Multitech Ltd., India
Synergy Log-in Systems Ltd., India

Portfolio of Private Equity Investments	
Investment in:	Description of Company
Vanguard Group Holdings Ltd. (Mindteck Group)	Provides IT services and specialises in embedded software, real-time applications and digital commerce solutions
Intoil E.C. (Bahrain)	Operates oil and gas fields in North America and the United Arab Emirates
Brand Franchise Holdings E.C.	Owens the master franchise for Fuddruckers food chain outlets in the Middle East, Africa and Asian Sub-continent
Pace Pakistan Ltd.	Owens and operates a major supermarket in Lahore, Pakistan
Glenway Ventures Ltd.	Engages in the manufacture and distribution (domestic and exports) of cookware; based in Turkey

vehicle, which is consolidated as at 31 December 2000, will provide the Bank with additional exit opportunities from investments at an appropriate time, and attract funding if necessary, from investors who prefer to make a single investment in a portfolio of technology-related companies.

Real Estate

The Bank's investments in the real estate sector totalled US\$38.4 million at the end of 2000, as compared to US\$38.3 million at the end of 1999. Our clients had invested a total of US\$63.8 million as at year-end, as against US\$56.3 million at the previous year-end.

TAIB invested in six private equity transactions in

IT and media companies operating in India, Europe and the U.S.

Management Discussion

Review of Operations

Portfolio of Real Estate Investments, U.S.A.

Investment held through	Description of Property	
<i>Shopping Centres</i>		
Delray Properties Investments, Inc.	111,382 sq. ft.	Juno Beach, Florida
SOSQ Properties Investments, Inc.	144,536 sq. ft.	Brooksville, Florida
Pempi Property Investments, Inc.	44,359 sq. ft.	Kissimmee, Florida
Socha Property Investments, Inc.	228,970 sq. ft.	Orlando, Florida
OMP Property Investments, Inc.	105,252 sq. ft.	Gainesville, Florida
Kirk Property Investments, Inc.	98,902 sq. ft.	Orlando, Florida
Metwest Property Investments, Inc.	107,015 sq. ft.	Orlando, Florida
Vista Property Investments, Inc.	100,902 sq. ft.	Lake Buena Vista, Florida
WG Property Investments, Inc.	479,603 sq. ft.	Macon, Georgia
CPF Property Investments, Inc.	191,946 sq. ft.	Clermont, Florida
<i>Apartment Complexes</i>		
TAM 1 Residential Holdings, Inc.	Five multi-family complexes spanning 93 acres with 1,180 dwelling units	Florida and Pennsylvania
Spring House Property Investments, Inc.	300 dwelling units	Tamarac, Florida

Portfolio of Real Estate Investments, U.K.

Investment held through	Description of Property	
Bartaria Enterprises Ltd.	146,062 sq. ft.	20 industrial warehouse units, Uckfield, East Sussex
Bayonet Holdings Ltd.	37,198 sq. ft.	3 office buildings, St. Augustine's Yard, Bristol
Colonet Enterprises Ltd.	79,828 sq. ft.	Industrial and office property, Bridge Road, Southall
Nosata Enterprises Ltd.	76,752 sq. ft.	Shopping mall, Blackwood, Gwent, South Wales
Parestio Enterprises Ltd.	121,839 sq. ft.	Single-storey warehouse/industrial buildings, Harrow, Middlesex
Sismeni Enterprises Ltd.	79,496 sq. ft.	Industrial warehouse property, Woodford, London
Skaleratna Investments Ltd.	30,692 sq. ft.	Office and retail property, Chancery Lane, London
Skelton Ltd.	148,105 sq. ft.	Single and two-storey industrial units, Amersham, Buckinghamshire

The Bank's share of the estimated market value of its real estate investments, as determined by independent appraisers, amounted to US\$47.2 million as at the end of 2000, up from US\$42.8 million as at the end of 1999.

Additions to our real estate portfolio included a 30,000 square foot prime office building in London, and a 300-unit apartment complex in Tamarac, Florida. We also refinanced three properties during the course of the year and sold three others, held jointly with our partners, realising attractive returns.



Management Discussion

Review of Operations

ASSET MANAGEMENT

TAIB's Asset Management Division encompasses three major lines of business: fixed-income securities, asset-liability management and fund management.

In fixed-income securities, the Bank invests in Collateralised Mortgage Obligations (CMOs) and other mortgage-backed instruments guaranteed by the U.S. Government or institutions sponsored by the U.S. Government. By investing cautiously in a mix of instruments, the Bank ensures that there are adequate interest/principal payment flows from such investments, as well

as a high degree of safety with respect to the Bank's balance sheet. As at the end of 2000, the Bank had investments totalling US\$95.2 million in this category, down from US\$112.2 million as at the end of 1999. With equity valuations declining and high interest rates prevailing for much of the year, our asset-liability management activity focussed on developing investment products, capped for downside risks, without compromising the overall objective of optimising returns.

A major development in 2000 was the launch of five new funds, thereby doubling the number of funds under TAIB's

management. The wide range of market and geographical options offered to investors, coupled with the outstanding performance record of earlier funds, contributed to our success in attracting investors during the year.

Our top performer in 2000 was the TAIB American Explorer Fund (AEF), a hedge fund that focusses on investments in the U.S. technology sector. The AEF recorded a 6% growth in Net Asset Value (NAV) in 2000, a significant achievement given that a large majority of technology funds posted substantial losses and negative NAV growth for the year. Because of its successful

TAIB's American Explorer Fund, which focusses on U.S. IT stocks,

was ranked No. 1 in its class for year-end performance by S&P's Micropal

Management Discussion

Review of Operations

performance, it was ranked the number one fund in its class for year-end performance by S&P's Micropal. Another top performer, the TAIB Bio-Med Fund, recorded a six-month NAV growth of 20.3%, translating into a 40% annualised return.

Another noteworthy introduction was a structured cash management product developed in conjunction with our Turkish subsidiary that also performed well, amply rewarding the Bank and our clients.

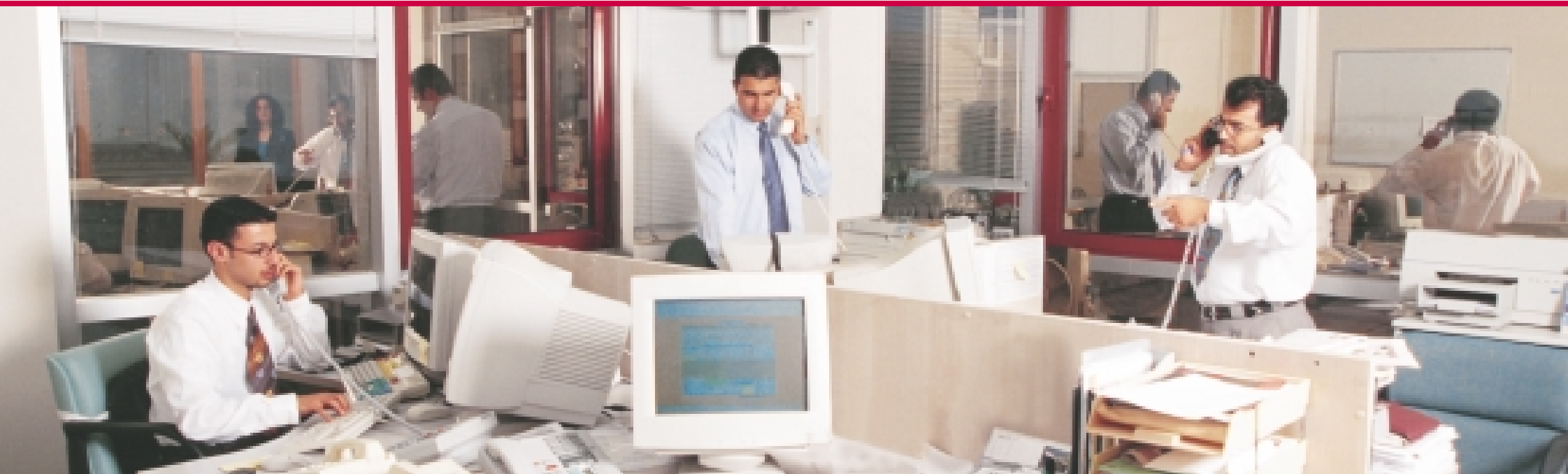
As we look ahead, we plan to increase activities in all areas of our Asset Management Division. We anticipate however,

that investors will continue to favour low-risk alternatives. Therefore, in addition to our funds, we have developed innovative products with an emphasis on market-neutral investment strategies—some with guarantees of principal.

FUNDS UNDER MANAGEMENT

As at 31 December 2000, total funds under management in discretionary and non-discretionary accounts increased by 21% over the previous year, having tripled over the preceding three years. TAIB's mutual funds recorded an impressive 61% growth in 2000.

TAIB Family of Funds	
Fund	Investment Focus
TAIB Everest Fund	Equity—India
TAIB Currency Fund	Currency
TAIB Golden Horn Fund	Equity/Fixed Income—Turkey
TAIB American Explorer Fund	Equity/Hedge Fund—U.S. Information Technology
TAIB Income Fund	Fixed Income
TAIB Crescent Global Fund	Equity—Dow Jones Islamic Market Index
TAIB Thames Fund	FTSE Index Options
TAIB Rocky Mountain Fund	Fund of Funds
TAIB Bio-Med Fund	Equity—Healthcare & Biotech
TAIB Technology Growth Fund	Equity/Growth—U.S. Information Technology



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BROKERAGE & SECURITIES

In 2000, we launched *taibdirect.com*, our brokerage website developed to provide clients with online direct access trading services to worldwide markets. *USDirect*, the first country-specific offering, allows investors to trade U.S. securities in real-time, with or without a broker. Moreover, this application offers users after-hours trading, an advantage that was previously available only to institutional investors. Encouraged by the success of *USDirect*, we have built the necessary technical infrastructure to launch *INDIADirect*, a similar service providing direct access trading to the National Stock Exchange of India.

Our market research publications and recommendations on the stock markets in the GCC, India, Turkey and U.S., as well as our daily and weekly stock bulletins on these exchanges, continue to be viewed by investors as a dependable source of timely information. We expect this to contribute to the growth of our brokerage activities in the upcoming year.

PRIVATE BANKING

TAIB's focus on client relationships in our approach to private banking explains our historically low rates of client attrition. During 2000, our private banking client base grew by over 10%, with new customers geographically dispersed throughout the markets of our focus.

We will step up efforts to further widen our distribution network by forging strategic alliances in all GCC countries. Also, we will establish a telemarketing team to target a wider range of mid-market investors, to supplement our existing private banking efforts.

INFORMATION TECHNOLOGY

TAIB has long recognised the important role that technology plays in adding value to our client relationships. Recent developments in technology, particularly the digital convergence between the technologies that process and transmit information, have provided us with a valuable opportunity to re-engineer both our methods of processing

*In 2001, TAIB Securities (India) Limited is expected to launch INDIADirect,
an online direct access trading service for the National Stock Exchange of India.*

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business information, and our service delivery systems. A major emphasis in 2000 included automating end-to-end transaction processing, as well as enabling interfaces with several other "live" systems, both within and outside the TAIB network. We expect this to result in greater internal efficiency and, more significantly, to enhance our level of client service.

Simultaneously, we have been upgrading our internal and external information dissemination systems. Our website, *taib.com*, is attracting more visitors and is updated daily with a wide range of relevant information, including

market updates, corporate and economic research reports, corporate press releases, as well as product information. Our intranet, which serves as a springboard for interaction between departments and offices, and for the exchange of opinions and ideas, is proving to be an effective catalyst in our efforts to integrate internal communication across the TAIB network. It is also making the best use of our human assets by allowing management and employees to update and use information through online interfaces personalised to their roles, responsibilities and information needs.

HUMAN RESOURCES

Commensurate with a gradual increase in our work force, we have instituted a number of measures aimed at attracting and retaining human capital and talent within the organisation. These measures include employee stock options, an employee benefit plan with matching contributions, and an incentive reward system, all of which are in addition to the standard government benefits.

OUR ROLE IN THE COMMUNITY

TAIB is committed to playing an active role in the communities in which we operate. During the course of 2000, we



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supported a number of important causes, including the Bahrain Down Syndrome Society, and the public library project in memory of Bahrain's late Amir, Shaikh Isa bin Salman Al Khalifa. We also promoted academic links by sponsoring summer school scholarships for young university students under a Bahrain-Turkey exchange program.

OUR SUBSIDIARY NETWORK

India

TAIB Capital Corporation Limited (TCCL), our subsidiary in Bangalore, is an active player in the Indian information technology, telecommunications, media and entertainment

sectors, and focusses on advisory services, private placements and co-lead management of public issues.

The company has also been active in identifying opportunities for private equity transactions and has assisted TAIB in promoting investments in more than 20 Indian IT and software-related companies. In 2000, we increased and strengthened our investment in TCCL by raising our shareholding from 51% to 74%.

Since its acquisition in 1999, TAIB Securities (India) Limited (TSIL), our Indian brokerage subsidiary, has built a portfolio of over 25 institutional clients, leading to

substantial growth in brokerage volumes during the year, despite declining stock markets. During 2000, TSIL also obtained the necessary registrations for offering brokerage services in equity derivatives and is currently working on attracting international hedge funds into India. TSIL is expected to launch *INDIA*Direct, an online direct access trading service for Indian equities on *taibdirect.com* in 2001.

Turkey

Despite the extreme volatilities and uncertainties that prevailed in Turkey's currency and money markets through

Relevant information, research reports, and market updates

on taib.com have helped the site become a destination point

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the year, TAIB YatirimBank (TYB), our Turkish subsidiary, was able to competently manage high liquidity and currency risks, and sustain a profitable operation. Currently in its 14th year of existence, TYB continues its focus on fixed-income securities, asset management, brokerage services, and structured cash management products.

The TAIB Golden Horn Fund (GHF), focussing on Turkish equities, significantly outperformed the market index and succeeded in limiting a decline in the NAV amidst the sharp drops in equity valuations in Turkey.

Kazakhstan

TAIB Kazak Bank (TKB), one of the sixteen foreign-owned banks licenced to operate in Kazakhstan, has successfully and profitably completed its first full year since being granted its licence for universal banking. With Kazakhstan's developing capital markets, TKB focusses on fixed-income securities and institutional banking, and is in the process of building a client base for its commercial banking operations. It currently has over 100 institutional clients from a wide range of sectors, including oil, trading and IT. TKB publishes, on *taib.com*, weekly research reports on the

Kazak economy, offering valuable insights into this progressively dynamic republic.

As a result of the discovery of substantial oil reserves, Kazakhstan is expected to be the centre of increasing international attention in the coming years. We anticipate that this, as well as the well-regulated Kazak banking system, will contribute significantly to TKB's growth in the near future.



Management Discussion

Risk Management

The Bank's risk management procedures are incorporated into each business process to ensure that overall, each exposure conforms to the risk-reward profile of the Bank, as laid out by the Board of Directors. More specifically, the risk management process involves developing and implementing policies addressing every aspect of risk management, interpreting them through the issuance of operational guidelines, limits, and restrictions governing each exposure, and finally, by managing them to ensure adherence to these policies.

OUR APPROACH TO RISK

At the core of TAIB's risk management philosophy is a conservative approach, which manifests itself in the following ways:

- The Bank's risk continues to be overseen at the highest corporate level by the Risk Management Committee of the Board of Directors;
- Maintaining low financial leverage — as demonstrated by our low debt-to-equity ratio of 2.7, and a capital adequacy ratio of 32%, exceeding the regulatory requirement of 12%;
- Asset allocation strategy — we seek to diversify portfolios and avoid a concentration in any one area, be it geographical, currency, asset class, management style or investment type;

- Accent on asset quality — we endeavour to minimise, cap or hedge risks wherever possible, in order to retain only those risks in which we have core management competencies;
- The continual assessment of our ability to successfully function within volatile environments.

Within the above framework, the main methodologies for managing the various types of risks to which the Bank is exposed, are outlined as follows:

Credit Risk

This is mitigated by dealing with well-known names in banking and finance as counterparties, including those with respect to off balance sheet products. As further explained in Note 21 to the Consolidated Financial Statements (*see accompanying CD-ROM*), there are no significant concentrations of credit risks in the Bank's portfolio.

Fair Value Risk

a) Investment Banking

We believe that a prerequisite of successful risk management is the ability to identify, measure and control risks at the earliest stages of the investment process. In regard to investment banking transactions,

risk is sought to be minimised by the following steps at the pre-acquisition stage:

- In-depth and detailed examination of risks, known and potential, by in-house valuation and due diligence teams, corroborated where considered necessary by independent third party due diligence reports on technical, financial and legal matters, as well as on valuation;
- Review by the Bank's Global Investment Committee (GIC);
- Review and approval by the Executive Committee of the Board, where appropriate;
- Review and approval by the Board of Directors.

Post-investment monitoring of acquisitions takes place at three levels — the business division, the risk management team, and the GIC. These reviews aim at ensuring that investments continue to meet the criteria set prior to the acquisition. Moreover, the reviews serve to clearly define the Bank's exit strategies once investments approach maturity.

b) Asset Management

Prior to committing funds to any investment, there is a rigorous Fund Manager selection process that involves a detailed study of the prospect and his/her track record,

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Risk Management

the characteristics of the fund, including its risk-return profile, and its correlation and compatibility with the Bank's existing portfolio. Particular emphasis is placed upon the independent corroboration of facts wherever possible. Where appropriate, the security of guarantees is sought, such as capital protection. Ongoing post-investment monitoring takes the form of regular fund performance updates, a continual dialogue with the Fund Managers, and periodic review meetings with GIC members. These review meetings are instrumental in the Bank's decision to continue with or redeem the investment.

In regard to internally managed portfolios where TAIB itself or its subsidiaries are Fund Managers, a number of risk-limiting measures are in place to strictly monitor:

- Conformance to the approved trading strategy;
- Marking positions to market on a continuous basis; and
- Adherence to all the limits governing portfolios, including total investment ceiling limits, stop-loss limits, limits on sectoral and individual concentrations of positions within the portfolio, etc.

Notably, with respect to the management of market risk on proprietary desks, we are developing "volatility management" capabilities—the ability to respond quickly to severe market movements.

Liquidity Risk & Interest Rate Risk

Liquidity risk is managed by specifying threshold minimum balances of cash and near-cash assets, whereby the thresholds are linked to the levels of the Bank's liabilities to the customers and banks. The Asset Liability Committee (ALCO) oversees the liquidity management process within the Bank, and conducts weekly reviews of funding, cash flow, maturity mismatches, and interest rate risk factors. The Bank uses its repo lines for liquidity purposes.

Operational Risk

The Bank's diverse approach to operational risk includes internal controls, internal audit, and a high degree of automation of mid-and back-office functions. Internal controls consist of embedding controls within each process and ensuring that front office personnel never handle back-office functions. Every business critical task is designed to require several people to complete the entire process cycle. During 2000, the Bank strengthened its Internal Audit Team which conducts constant transaction level reviews across the TAIB network and reports its findings to the Audit Committee of the Board. There was no loss caused to the Bank in 2000 due to a failure of any of its systems or due to fraud.

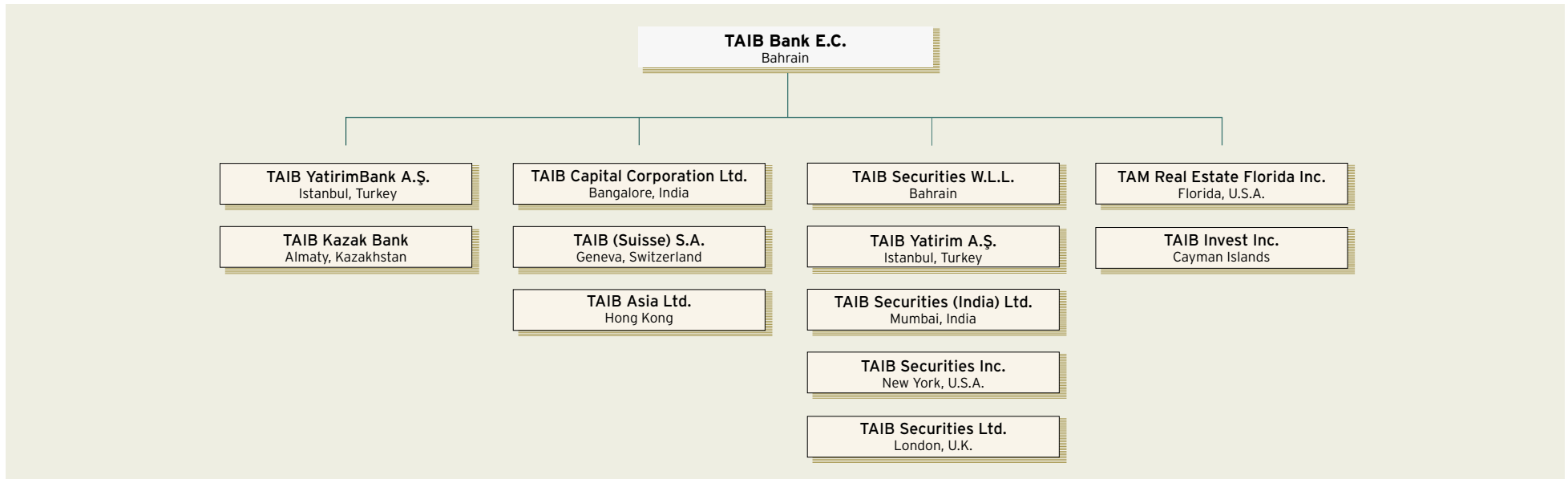
Legal & Compliance Risk

Our legal and compliance risk management was strengthened in 2000 by the addition of a full-time in-house legal counsel. All regulatory and statutory requirements of the Bank and its subsidiaries are monitored for compliance, and all documentation that binds or commits the Bank in any manner is reviewed before issuance.

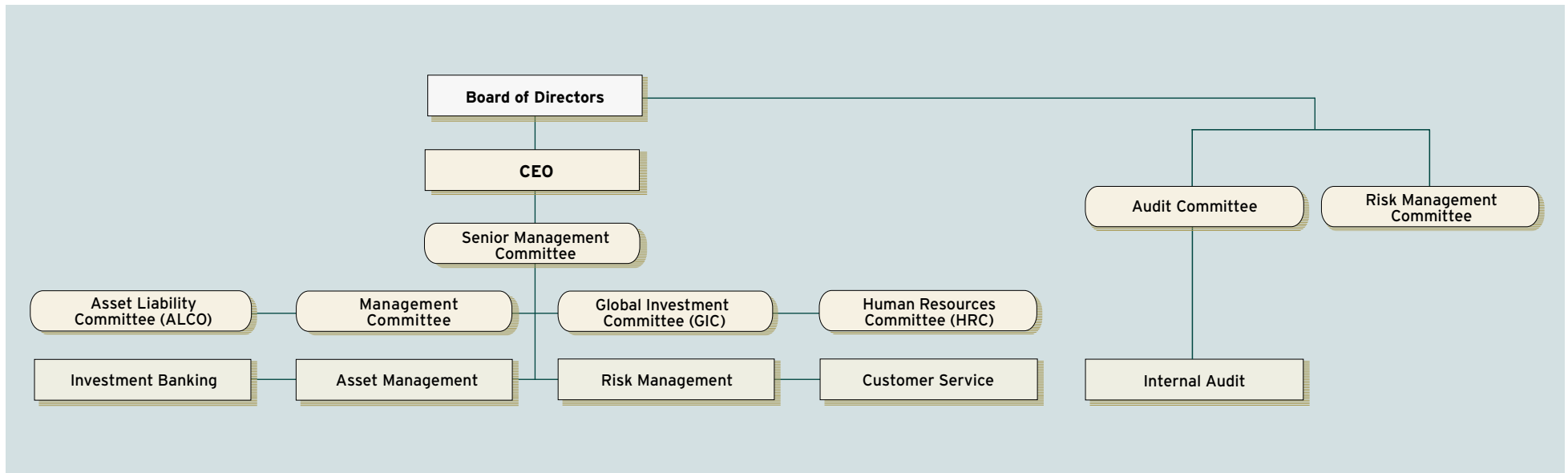
CAPITAL ADEQUACY	
(per BMA guidelines)	(US\$'000s)
Total Capital Base Net of Adjustments (Tier 1)	137,166
Credit Risk Weighted Assets	222,475
Market Risk Weighted Assets	205,438
Total Risk Weighted Assets	427,913
Capital Adequacy Ratio	32.1%

In summary, the year 2000 presented many unusual risks beginning with the uncertainty of Y2K, followed by the exceptional volatility across global equity markets. This past year has, therefore, borne testimony to the effectiveness of our risk management process for our clients and for ourselves, and has demonstrated the benefits of a diversified investment portfolio.

TAIB Group Organisation Chart



TAIB Organisational Structure and Committees



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Dayanand Shetty
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Susan I. Clark
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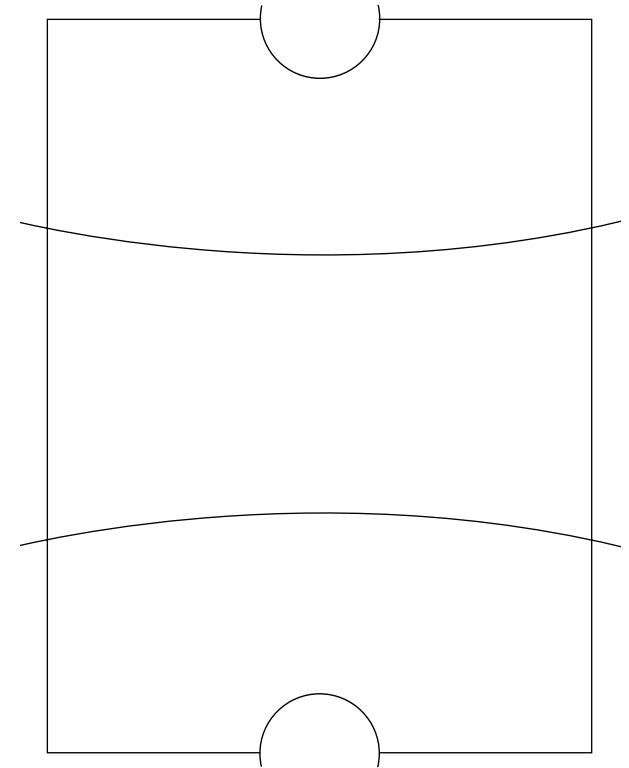
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Umit Oflas
Representative

TAIB Bank E.C.
2000 Consolidated Financial Statements



The information set forth in this report should be read in conjunction with TAIB Bank E.C.'s Consolidated Financial Statements and the accompanying notes for the year ended 31 December 2000, included on the above CD-ROM.

www.taib.com