

Our logo. Familiar, yet new. ■ Familiar... because of our confidence in

the enduring strength of our financial position and market presence.

■ New... to reflect a more cohesive financial services organisation—

in rigorous pursuit of innovation, and continual expectations of leading

the way in the markets we serve.



FINANCIAL HIGHLIGHTS

(US\$'000s)	2001	2000	1999	1998	1997
EARNINGS					
Net interest and similar income	2,970	4,152	9,472	7,985	9,092
Fees and other income	30,074	35,085	32,231	23,895	22,128
Net income before provisions	16,276	21,798	25,004	17,410	18,351
Net income	10,216	15,475	14,026	10,117	7,270
Dividend	5,096	7,134	5,063*	5,484	5,062
FINANCIAL POSITION					
Total assets	540,068	544,927	512,562	402,822	371,950
Investments and marketable securities	388,435	414,458	365,715	232,615	207,594
Loans and advances	24,968	28,841	34,196	47,379	64,359
Customer deposits	110,181	103,688	124,382	125,927	110,432
Total deposits	262,745	254,512	328,554	274,802	246,791
Shareholders' equity ^o	145,153	147,281	125,354	117,745	113,765
RATIOS					
<i>Earnings:</i>					
Return on Average Equity (%)	7.0	11.4	11.5	8.7	6.4
Return on Average Assets (%)	1.88	2.93	3.1	2.6	2.1
Earnings per Share (cents)	10.0	15.5	16.5	12.0	8.6
<i>Cost:</i>					
Expenses to Total Operating Income	51%	44%	40%	45%	41%
<i>Capital:</i>					
Total Liabilities to Shareholders' Equity (times)	2.7	2.7	3.1	2.4	2.3
BIS risk-adjusted Capital Adequacy Ratio (%)	38.4	36.6	43.8	38.7	34.5

* 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)

CONTENTS



Statement of the Chairmen..... 4

Board of Directors, Senior Management
and Advisory Boards 6

Management Discussion

Financial Review..... 8

Review of Operations..... 12

Risk Management..... 20

Organisational Charts..... 23

Corporate Directory 24

Inside Back Cover: Consolidated Financial Statements
on CD-ROM

March 21, 2002

Dear Shareholders,

Despite a year marked by tremendous economic and political uncertainty, we are pleased to report a net profit of US\$10.2 million—reflecting our ability to deliver consistent profits through a conservative investment approach.

2001 HIGHLIGHTS

This past year was marked by several accomplishments. Specifically, we:

- Registered a US\$19.4 million income from trading securities, mostly from fixed income instruments—an increase of US\$16.1 million over that of the previous year.
- Structured new product offerings involving alternative investments and capital guarantees, resulting in a total of over US\$180 million within this category at year-end. Notably, the Chambord Fund—a fund of 25 underlying hedge funds—posted a return of 19.6% since its inception in April 2000.
- Increased our real estate investment activity in the U.S. and U.K. We completed 8 transactions in 2001—the highest for any year so far—totaling US\$90.5 million.
- Introduced Shariah-compliant investments comprising leasing and commodity transactions.
- Established the Women's Private Banking Group (WPBG)—a team of private bankers focussed on the specialised investment needs of women.

LOOKING INWARD

In 2001, we strengthened our financial position and market presence by engaging in initiatives that continue to maximise efficiencies, enhance the quality of investor services and heighten our competitive advantage.



TAIB Tower (scheduled for completion in December 2002)
Manama, Bahrain

STATEMENT OF THE CHAIRMEN

Maximising our regional expertise

We restructured our investment banking units to place our resources closer to where deals originate; namely the U.S., India, U.K. and Turkey—making our teams in New York, Mumbai, Bangalore, London, and Istanbul more effective in identifying, originating and structuring transactions. Similarly, our real estate investment activity is now directed from our Orlando and London offices, thereby facilitating quicker transaction cycles and providing more efficient and effective monitoring.

Becoming more agile

During the year, our senior management team was reorganised and our remuneration plan across all business units was restructured, enabling us to be more responsive to changes in the marketplace. TAIB's subsidiaries in the U.S., India, U.K., Turkey and Kazakhstan now have a renewed focus and a more functional internal reporting matrix, helping them to better leverage our strengths as a whole.

Valuing relationships over transactions

Supporting our priority of becoming a relationship-oriented business, we've placed a greater focus on developing relationships with our key customers—high net-worth individual investors and institutions. Our approach emphasises an enhanced level of service support and expertise. We are expanding our staff to add more depth and coverage to our distribution capabilities and implementing Customer Relationship Management (CRM) software to provide more individualised attention.

Leveraging brand equity

Our expanded product line and distribution network governed our decision to implement a universal logo, thereby reinforcing the TAIB brand within our markets, and helping us connect better with our clients. We also unified our online presence into one site—www.taibdirect.com. By streamlining the customer's online experience, the website will act as a one-stop site for investment services—offering TAIB's online products, valuable proprietary research, online account access and corporate information.

LOOKING AHEAD

We will continue to affirm the principles that have guided our achievements—in particular, a cautious and measured approach to value creation, a diversified asset allocation strategy, and a commitment to providing innovative financial services and products to our clients.

IN APPRECIATION

Our ongoing success has been made possible by the enduring support of the Government of the Kingdom of Bahrain, the Ministry of Finance and the Bahrain Monetary Agency, the leadership and guidance of the Board of Directors and the Advisory Boards, the confidence of our shareholders, the loyalty of our clients, and the commitment of our management and staff. Our gratitude and appreciation continues.



Sheikh Abdulrahman Al Jeraisy
Chairman



Iqbal G. Mamdani
Vice Chairman and Chief Executive Officer

BOARD OF DIRECTORS

Abdulrahman Al Jeraisy¹*Chairman*

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

Member of the Saudi team of the Arab Union of International Arbitration

Member of the Supreme Council for Riyadh Development Authority

Deputy Chairman of the Saudi Chambers of Commerce and Industry

Chairman of Riyadh Chamber of Commerce and Industry

Chairman of Riyadh Industrial City Council

Chairman of Jeraisy Group, Riyadh

Abdulaziz R. Alrashed²*Director*

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

Director of AlBank AlSaudi AlFransi, Riyadh

Partner of AlRashed Trading & Contracting Co., Riyadh

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

Director of AlKhaleej Computers & Electronic Systems, Al Khobar

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), Istanbul

Deputy Chairman of Istanbul Stock Exchange

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

Director of Turkish Industrial Development Bank, Istanbul

Iqbal G. Mamdani¹*Vice Chairman and CEO*

Chairman of TAIB YatirimBank A.Ş., Istanbul

Chairman of TAIB Kazak Bank, Almaty

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

Chairman of TAIB Securities Ltd., London

Chairman of TAIB Securities Inc., New York

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

Director of TAIB Capital Corporation Ltd., Bangalore

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

Pradip P. Shah^{2,3}*Director*

Chairman of IndAsia Fund Advisors Pvt. Ltd.

Chairman of Shah Foods Ltd.

Director of Pfizer Ltd.

Director of BASF India Ltd.

Director of Tata Infomedia Ltd.

Director of Indocam Himalayan Fund NV, Netherlands

Director of Wartsila India Ltd.

Director of Matsushita Lakhanpal Battery India Ltd.

Director of Zip Global Network Ltd., Mauritius

Director of EuroAsia Investment & Financial Advisers Ltd., U.K.

Director of Hardy Oil & Gas Ltd., U.K.

Mohammed Al Attas*Director*

Owner of Al Zaytoon Trading & Contracting Est., Jeddah

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

Ebrahim Sharif Alsayed*Director (until March 20, 2002)*

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

Director of TAIB Capital Corporation Ltd., Bangalore

Director of TAIB Securities Inc., New York

Director of TAM Investment Co., Orlando

Farouk Yousuf Khalil Almoayyed*Director (as of March 20, 2002)*

Chairman of Y.K. Almoayyed & Sons B.S.C. (C)

Chairman of Almoayyed Contracting Co.

Chairman of Almoayyed International Group

Chairman of Bahrain Duty Free Shop Complex

Chairman of Ashrafs W.L.L.

Deputy Chairman of National Bank of Bahrain

Vice-Chairman of Bahrain Hotels Co. (Gulf Hotel)

Director of Gulf Union Insurance and Reinsurance Co.

Chairman, Board Trustee of Ibn Khuldoon School, Bahrain

¹ Member of Board Executive Committee ² Member of Board Audit Committee ³ Member of Board Risk Management Committee

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, U.S.A.

Narayan A. Menon*Senior Vice President, Risk Management*

Has been with the Bank for six 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.

Dayanand Shetty*Senior Vice President, Corporate Services*

Has been with the Bank for nineteen years. Graduate in Accounting, and MBA in finance from American University, Washington D.C., U.S.A.

Susan I. Clark*Senior Vice President, Real Estate*

Has been with the Bank for twenty years. Graduate of the University of Aberdeen, Scotland and M.Sc. from the University of Strathclyde, Scotland.

Salah Saleh Sultan*Senior Vice President, Private Bank*

Has been with the Bank for nine years. Holds more than twenty years of banking experience both in local and international banks. Formerly with AlBaraka Islamic Investment Bank and Banque Nationale de Paris, Bahrain.

Ramesh S. Mahalingam*Senior Vice President, Asset Management*

Has been with the Bank for four years. Formerly held finance and accounting positions in FMCG industry (including Colgate Palmolive India Ltd.) and oil field industry (including Dowell Schlumberger, U.A.E.). Graduate of Calcutta University, India. Chartered Accountant.

ADVISORY BOARDS

International

Edward G. Nelson
Nicholas P. Clegg
Jun Mizuno

Gulf

Farouk Yousuf Khalil Almoayyed
Najeeb Al-Saleh
Abdulmajeed Alsultan

Hong Kong

Hari N. Harilela
C.T. Chan

Switzerland

Camille Froidevaux
Jerome Joliat

United Kingdom

Dr. Abdool Magid A.K. Vakil

WE ATTRIBUTE OUR CONSISTENCY IN GENERATING PROFITS TO OUR FUNDAMENTAL STRATEGY OF DIVERSIFYING INVESTMENTS ACROSS ASSET CLASSES SEEKING TO MATCH RISK AGAINST RETURNS.



**TAIB Tower
Diplomatic Area
Manama, Bahrain**



2001 was a challenging year for investment banking, with recessionary trends intensified by unprecedented geopolitical developments. While these factors had an adverse impact on the volatile capital markets, we maintained our cautious approach, and continued to focus on our investing strategy.

Viewed against this backdrop, TAIB's net income of US\$10.2 million and our recommendation of a cash dividend of 5%, must be seen as a reasonable achievement. Our 2001 earnings per share stood at 10 cents, return on average equity was 7%, and return on average assets was 1.9%. By comparison, earnings per share in 2000 were 15 cents, return on average equity was 11.4% and the return on average assets was 2.9%.

We attribute our consistency in generating profits to our fundamental strategy of diversifying investments across asset classes, combined with an approach that seeks to constantly match risk against returns. With the persistent fall in interest rates across most developed economies, our fixed income investments and real estate portfolio became our significant source of profits.

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 for the year was US\$2.97 million, as compared to US\$4.15 million in 2000. While this reflects that investment income, and not interest income, constitutes the primary source of an investment bank's earnings, the drop in net interest income is mainly due to a decrease in income from notes, while our interest-bearing liabilities remained largely unchanged through the year.

FEES AND COMMISSION

As our emphasis on fee-based activities continued throughout the year, the income from fees and commission was US\$4.59 million. This included fees earned from asset management activities, real estate acquisition transactions, and from the Group's brokerage operations. With corporate valuations continuing their steep decline from

the previous year, we minimised our private equity investments until the market showed signs of bottoming out—resulting in a drop in fee income from investment banking activities. This, along with the near absence of mutual funds' performance fees, caused the reduction from the US\$12.69 million level of the previous year. However, this year's fees and other income constituted 91% of the Bank's total operating income, up 2% from the year 2000 level of 89%.

INCOME FROM THE SALE OF OTHER INVESTMENTS

The Bank successfully exited from eight transactions during the year, totaling over US\$63 million. These comprised seven real estate investments and one private equity investment in the U.S., U.K. and GCC put together. Our income from the sale of these investments was US\$3.9 million in 2001, as compared to US\$10.1 million in 2000.

INCOME FROM TRADING SECURITIES

In 2001, the Bank's income from trading securities was US\$19.3 million—an increase of US\$16 million over the previous year's level of US\$3.3 million. Due to the extreme volatility in equity markets, we reduced some equity exposures—shifting focus into hedged portfolios and fixed-income securities. Most of the substantial increase in this income can be ascribed to our investments in such securities, as well as to the successive reductions in interest rates throughout the year.

OPERATING EXPENSES

During the year, the Bank instituted several cost control and reduction measures. While quantified results were not expected until 2002, benefits resulting from these initiatives accrued as early as this past year. Total operating expenses fell by 4% from US\$17.4 million down to US\$16.8 million, and other operating costs were brought down by a significant 14.7% from US\$8.6 million to US\$7.3 million. Staff costs increased marginally from US\$8.9 million to US\$9.4 million in 2001 due to the full-year impact of employee additions in 2000. Next year, we expect to lower the percentage of total operating expenses to less than 40% of the Bank's total operating income.

BALANCE SHEET

Total Assets

The Bank's Total Assets as at 31 December 2001 were US\$540.1 million—a decline of under 1% from the previous year-end, and a reflection of our cautious approach during a year marked by a severe economic slowdown. This careful approach is also reflected in the Bank's geographical distribution of assets: North America and Europe account for 85% of total assets (2000: 88%), and the Middle East and Asia account for the remaining 15% (2000: 12%). Our total net exposure to emerging markets, namely Turkey, India and Kazakhstan, amounts to 8% of the Bank's total assets on a consolidated basis. The asset exposures for each country are as follows: Turkey 4%, India 3%, and Kazakhstan 1%.

Loans and Advances

As in the past four years, the Bank continued the strategic process of winding down its loan portfolio through 2001, with Net Loans and Advances at year-end brought down to US\$25 million—a reduction of US\$3.8 million, or 13.4% from the previous year-end level. This has resulted in a decline of the ratio of net loans and advances to total assets, from 17.3% in 1997 to 4.6% as at 31 December 2001. The Bank made a provision of US\$1.7 million during the year as part of its prudent provisioning policy, and at year-end, 53% of its aggregate net loans and advances were secured by cash or other collateral. The following table illustrates the declining portfolio of loans and advances over the last five years:

	2001	2000	1999	1998	1997
Net Loans and Advances (US\$millions)	25.0	28.8	34.2	47.4	64.4
Ratio of Net Loans and Advances to Total Assets	4.6%	5.3%	6.7%	11.8%	17.3%

Other Investments

The Bank's other investments at year-end stood at US\$196.9 million, a reduction of 11% from the previous year's level of US\$221 million. These investments are stated at

fair value, with the exception of those that are held to maturity and hence, stated at amortized cost in accordance with the requirements of IAS 39. Of the US\$24 million reduction, a sum of US\$17.8 million pertains to maturities that fell within 2001, and US\$5.8 million is due to reduction in fair value of available-for-sale investments, recorded appropriately in the fair value reserve. Further, an additional provision of US\$2.3 million has been made towards the possible diminution in fair value of unlisted investments in the available-for-sale category. Held-to-maturity investments are comprised entirely of AAA-rated securities of North American issuers guaranteed by the U.S. Government or of specialised agencies sponsored by the U.S. Government.

Approximately 56% of the Bank's total investments in this category are quoted investments, with a book value of US\$110.5 million. The unquoted investments comprise US\$12.1 million in real estate investments and US\$48.3 million in structured corporate investments, of which 54% is in the IT software and related services sector, 13% is in the oil and gas industry, and the remaining 33% in all other sectors.

Liquidity

The Bank continues to maintain a high level of liquidity. As at 31 December 2001, assets maturing within one year constituted 62% of the total assets of the Bank, while 44% of liabilities were due to mature within the same period.

	2001	2000	1999	1998	1997
Assets maturing within one year	62%	67%	58%	58%	49%
Liabilities maturing within one year	44%	44%	48%	41%	40%

IAS 39

On 1 January 2001, TAIB adopted the new International Accounting Standard 39 (IAS 39)—Financial Instruments: Recognition and Measurement. The adoption of this new standard resulted in changes to some of the Bank's accounting policies relating to

FINANCIAL REVIEW

the recognition and measurement of trading securities, loans and advances, other investments, derivative financial instruments and provisions for impairment.

The financial impact of adopting IAS 39 is reported in the Statement of Changes in Shareholders' Equity. As at year-end, the Bank's fair value reserve was drawn down to US\$5.9 million, mainly as a result of the valuation of our fund investments.

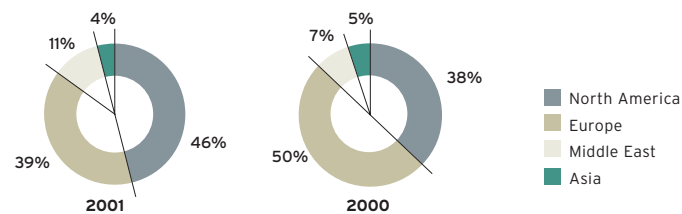
Credit Rating

During the year, the Bank's long-term foreign currency rating was retained by Capital Intelligence Ltd. at the "Investment Grade" rating of BBB- (triple B minus), thus acknowledging "good credit quality" and "a satisfactory capacity for timely fulfillment of financial obligations." The Bank's short-term rating stood unchanged at A3 as did its outlook, which remained 'Stable.'

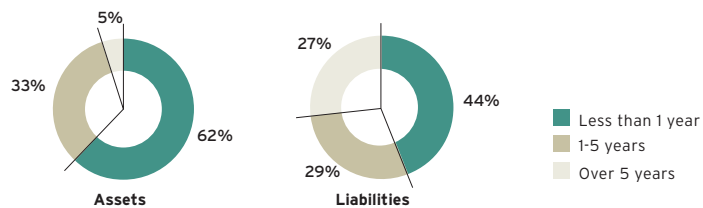
Capital Strength

As at year-end, the Bank's BIS-adjusted capital adequacy ratio was 38.4%, significantly higher than the Bahrain Monetary Agency's stipulation of 12%, and the previous year's level of 36.6%—a reflection of its strong capital base and conservative approach. Our leverage at 2.7 continued at the same level as that of the previous year.

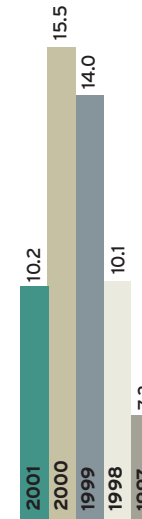
Geographic Diversification of Assets



Maturity Profile of Assets & Liabilities 2001



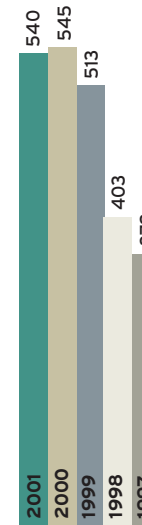
NET INCOME (US\$MILLIONS)



FEES AND OTHER INCOME AS A % OF TOTAL OPERATING INCOME



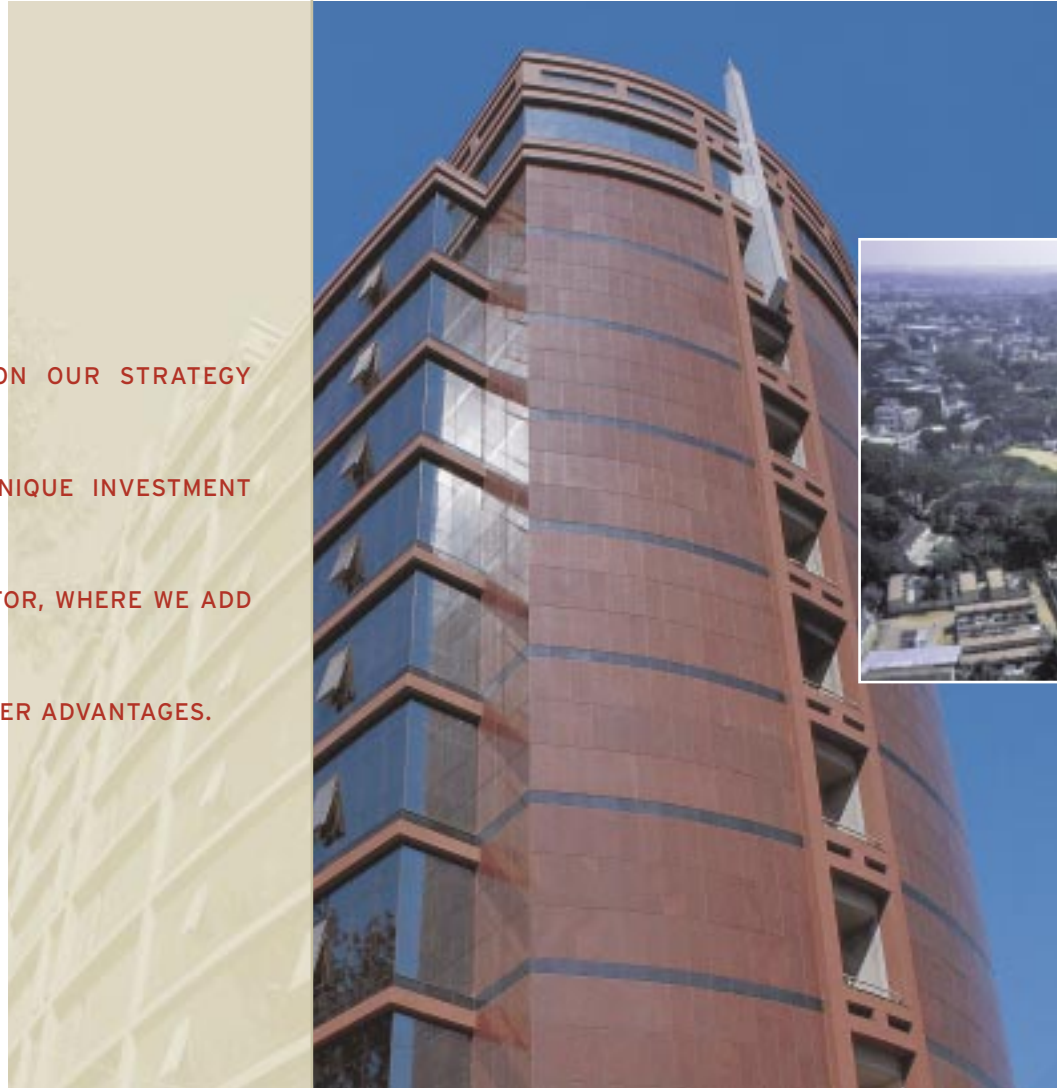
TOTAL ASSETS (US\$MILLIONS)



TOTAL SHAREHOLDERS' EQUITY (US\$MILLIONS)



WE HAVE REMAINED FOCUSED ON OUR STRATEGY
OF IDENTIFYING AND CREATING UNIQUE INVESTMENT
OPPORTUNITIES WITHIN THE IT SECTOR, WHERE WE ADD
VALUE BY LEVERAGING CROSS-BORDER ADVANTAGES.



**TAIB Capital Corporation Ltd.
M.G. Road
Bangalore, India**

REVIEW OF OPERATIONS

The global developments of 2001, combined with the volatility of the capital markets, became the backdrop for an increasingly competitive environment within the financial services industry. With declining interest rates and a downturn in the overall marketable securities and private equity markets, investment banks needed to develop new products and distribution channels, in addition to reducing operating costs. We were able to retain our competitive advantage, as TAIB's agenda successfully reflected a focus on developing innovative solutions to ensure future growth.

The Bank's major developments within each of our focus areas are discussed below, as well as our plans for the year ahead.

TECHNOLOGY INVESTMENT BANKING

TAIB has continued to structure investments and provide business advisory services for information technology and software companies. We have remained focussed on our strategy of identifying and creating unique investment banking opportunities within the IT sector, where we add value by leveraging cross-border advantages. Our success with structuring investments is attributed to a preference for mature software service providers, and a strict adherence to our investment criteria, including a profitable track record, a steady revenue stream, an established client base, a global scope and a sound business model.

During 2001 we strengthened our technology investment teams in India, U.S. and the U.K. Combined with the expertise and the industry connections we have built over the years, our teams generated a steady deal flow through the year.

PORTFOLIO INVESTMENTS THROUGH TAIB INVEST INC.	
Newsmax Media Inc., U.S.A.	New River Inc., U.S.A.
Amicas, Inc., U.S.A.	Synergy Log-in Systems Ltd., India
Telephoto Entertainment Ltd., India	Innosoft Technologies Ltd., India
Logix Microsystems Ltd., India	Sriven Multitech Ltd., India
Cyberwave Internet Ltd., India	KALS Information Systems Ltd., India

PORTFOLIO OF PRIVATE EQUITY INVESTMENTS	
<i>Investment in:</i>	<i>Description of company</i>
Vanguard Group Holdings Ltd. (Mindteck Group)	Provides IT services and specializes 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 Fuddrucker's food chain outlets in the Middle East, Africa and Asian Sub-continent
Pace Pakistan Limited	Owens and operates a major supermarket in Lahore, Pakistan
Glenway Ventures Limited	Engages in the manufacture and distribution (domestic and exports) of cookware; based in Turkey
CARYA Ventures Limited	Strategic Investment in Intelligroup Inc.–a U.S. software services company listed on the NASDAQ

As valuations continued to drop, investment decisions were timed to leverage market conditions. The total value of our corporate investments amounted to US\$60.7 million at the end of 2001 (2000: US\$56.5 million).

As the outlook for the IT sector improves in 2002, we have already cultivated an interesting deal flow that we intend to capitalise on during the year. In addition, we will leverage the synergies between our Technology Investment Banking Group (TIBG) teams within our markets, to conclude successful cross-border transactions between India, the U.S. and U.K. We also plan to exit from some of our corporate investments in the region, having made one profitable exit in 2001.

REAL ESTATE

The Bank's real estate portfolio comprises retail and residential properties in the southeastern U.S., and industrial, retail and commercial properties in the U.K. TAIB's proprietary investments as at 31 December 2001 totaled US\$40.1 million (2000: US\$38.4 million), with an estimated market value, as independently appraised, of US\$40.9 million (2000: US\$47.2 million). The co-investment by clients amounted to US\$59.8 million as at 31 December 2001 (2000: US\$63.8 million). The market value of all real estate assets under management amounted to US\$249 million as at the end of 2001 (2000: US\$284 million).

MANAGEMENT DISCUSSION

IN 2001, WE REDEFINED OUR ACQUISITION STRATEGY IN THE U.S. TO WORK WITH STRATEGIC ALLIANCE PARTNERS, TYPICALLY REAL ESTATE INVESTMENT COMPANIES, FOR THE IDENTIFICATION, CO-ACQUISITION AND POST-ACQUISITION MANAGEMENT OF PROPERTIES.



**TAIB Securities Inc.
Park Avenue
New York, U.S.A.**



REVIEW OF OPERATIONS

In 2001, we redefined our acquisition strategy in the U.S. to work with strategic alliance partners, typically real estate investment companies, for the identification, co-acquisition, and post-acquisition management of properties. Our new methodology has already proved effective with the acquisition and placement of a residential apartment complex in Houston, Texas.

PORTFOLIO OF REAL ESTATE INVESTMENTS	
UNITED STATES OF AMERICA	
<i>Investment held through:</i>	<i>Description of Property</i>
Delray Properties Investments Inc.	Shopping center, 111,382 sq. ft., Juno Beach, Florida
SOSQ Properties Investments Inc.	Shopping center, 144,536 sq. ft., Brooksville, Florida
Pempi Property Investments Inc.	Shopping center, 44,359 sq. ft., Kissimmee, Florida
Socha Property Investments Inc.	Shopping center, 228,970 sq. ft., Orlando, Florida
OMP Property Investments Inc.	Shopping center, 105,252 sq. ft., Gainesville, Florida
Vista Property Investments Inc.	Shopping center, 100,902 sq. ft., Lake Buena Vista, Florida
WG Property Investments Inc.	Shopping center, 479,603 sq. ft., Macon, Georgia
TAM 1 Residential Holdings Inc.	Five multi-family apartment complexes in Florida and Pennsylvania, spanning 93 acres and comprising 1,180 dwelling units
Spring House Property Investments Inc.	Apartment complex in Tamarac, Florida; 300 dwelling units
Creekstone Property Investments LLC	15 apartment buildings totaling 338 units located in Houston, Texas.
UNITED KINGDOM	
<i>Investment held through:</i>	<i>Description of Property</i>
Nosata Enterprises Ltd.	Shopping mall in Blackwood, Gwent, South Wales. Total floor area 76,752 sq. ft.
Skaleratna Investments Ltd. London.	Office and retail property located in Chancery Lane. Total floor area 30,692 sq. ft.
Bayonet Holdings Ltd.	Three office building units located in St. Augustine's Yard, Bristol. Total floor area 37,198 sq. ft.
Skelton Ltd.	Single and two-storey industrial units, Amersham, Buckinghamshire. Total floor area 148,105 sq. ft.

Another aspect of our strategy was to relinquish the management of residential properties to specialist property managers. Our past experience had shown us that residential apartment complexes are management-intensive and benefit greatly from the economies of scale provided by outsourced management.

In the U.K., we successfully exited four property investments, resulting in returns ranging from 13% to 27% per annum. Similarly in the U.S., we concluded three exits of anchored shopping centers in Florida, post-September 11th, with returns of approximately 20% per annum for the Bank and investors. In 2002, we expect to make a number of new acquisitions in conjunction with our strategic alliance partners, both in the U.S. and the U.K.

ASSET MANAGEMENT

TAIB's Asset Management Division comprises three major activities – fixed-income securities, portfolio management services, and asset-liability management.

At the end of 2001, the Bank had investments totaling US\$112.1 million within our fixed-income portfolio, which consists mainly of Collateralized Mortgage Obligations (CMOs) guaranteed by the U.S. Government or institutions sponsored by the U.S. Government. By cautiously investing 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 overall balance sheet.

In response to client feedback and the overall risk-averse trend due to market volatility, our portfolio management services focussed on creating investment products with protection of capital and in some cases, protected minimum returns. The development of these 'guaranteed' products supported our strategy of product differentiation within the marketplace and product compliance with our asset-liability management requirements. In addition, our asset-liability management team introduced Islamic *Murabaha* commodity financing transactions.

During 2001, the Bank renewed all of its institutional investors' mandates for managing portfolios and, additionally, expanded the size of the segregated portfolio accounts.

As for fund management activities, TAIB's ten mutual funds provide investors with a wide choice of markets, strategies, investment styles, and risk-return characteristics—thereby catering to differing investment objectives. Our funds continued to perform reasonably well relative to the depressed and volatile market conditions. Due to TAIB's close monitoring of each fund manager's performance, six funds outperformed their respective benchmarks during 2001.

As part of the overall fund management strategy, TAIB placed an increased focus on alternative investments in 2001, demonstrated by the increase in our portfolio of such products to over US\$180 million. We continue the process of identifying alternative investment fund managers who target absolute returns with diverse strategies and strong risk discipline. Hedge funds that combine multiple managers and multiple investment strategies into a fund of funds, with their low-volatility characteristics built into them, and with their low correlation to the behavior of capital markets, have shown to be an important component that add to the robustness of most large investment portfolios.

TAIB PRIVATE BANK

Among the Bank's core strengths is our relationship with our clients — predominantly high net-worth individuals and institutions in the region. In 2001, we restructured in order to allocate additional resources to augment our wealth management services. By increasing the size of the private banking team and recruiting quality talent, we have added more depth and coverage to our client relationships. We have also deployed a Customer Relationship Management (CRM) software package to support processes, making client servicing activity more efficient.

TAIB's key priority is to provide wealth management services to our clients, thereby shifting from the traditional distribution model of individual investment products. We are able to make this progression due to our diverse range of investment offerings that are positioned at different points along the risk-reward curve. We believe there is a

great need for private bankers to take on an enhanced role to serve as relationship managers, working in conjunction with the asset management services team.

ONLINE INVESTMENT SERVICES

The combination of the high cost of personalized product delivery and one-on-one client servicing has driven minimums progressively higher in the private client servicing business. This has led to a significant gap in servicing the large segment that lies between the retail and high net-worth individual segments.

TAIB expects to target this segment, within our market regions, by pioneering the concept of an online investment services 'one-stop site', *taibdirect.com*, which would serve all of an investor's needs. We have built, and will continue to develop our online-infrastructure through a series of strategic alliances with existing providers of investment services, thus combining their domain expertise with our marketing and distribution capabilities. Our model has an edge over our online competitors by the fact that we offer human-assisted fallbacks to the self-directed web-based services. In addition, with a focussed team in place that identifies and performs the due diligence on prospective service providers, we are now able to perform all the necessary steps in-house to bring this service to our clients' desktops.

Taking the strategy a step further, we plan to co-brand these investment services with leading retail banks within our target market. By widening the market for these online investment services, TAIB strives to become the premier provider of online financial services in these markets. The first such co-branding agreement has been signed with National Bank of Bahrain, and the service is scheduled to launch in 2002.

INFORMATION TECHNOLOGY

In 2001, we continued to make improvements to our information technology infrastructure, to further automate the transactional processes and transmittal of information both externally to clients and internally within the Bank.



TAIB YatirimBank A.Ş.
Şişli
Istanbul, Turkey



IN 2001, WE RESTRUCTURED IN ORDER TO ALLOCATE
ADDITIONAL RESOURCES TO AUGMENT OUR WEALTH
MANAGEMENT SERVICES. BY INCREASING THE SIZE OF
THE PRIVATE BANKING TEAM AND RECRUITING QUALITY
TALENT, WE NOW PROVIDE MORE DEPTH AND
COVERAGE TO OUR CLIENT RELATIONSHIPS.

Customers are now able to view account information and track the status of their investments via the *taibdirect.com* website—anytime, anywhere. In the coming months, we expect to progressively add more features and functionality to this facility.

HUMAN RESOURCES

During the year, the Senior Management Committee was reorganised to reflect a balanced representation from each major business segment, including the risk management and corporate services units.

We also implemented a new incentive plan, replacing the previous system of incentives. The new Variable Pay Program, as it is known, provides a more attractive means of motivating business divisions to meet goals, and attract better talent.

In recent years, TAIB has sponsored a comprehensive and reputable trainee program for qualifying Bahrain University graduates. We expect to continue and make enhancements to this program in the future.

ACQUISITION OF OFFICE SPACE

As a sign of our commitment to the local economies in which we operate, the Bank acquires real estate. Our new headquarters in Bahrain, the 16-floor TAIB Tower, is currently under construction and will be completed by December 2002.

In Almaty and Bangalore, we own our premises on Furmanova Street and M.G. Road. We believe the investments in these properties will pay for themselves.

OUR SUBSIDIARY NETWORK

India

TAIB Capital Corporation Limited (TCCL), our subsidiary in Bangalore, has recruited new managerial talent and expertise to concentrate more on private equity and asset management activities. In addition, we expect them to continue their technology

investment banking services by initiating mandates and fully leveraging the TIBG network and our cross-border advantage.

TAIB Securities India Limited (TSIL), our Mumbai-based brokerage subsidiary continues to increase the number of its empanelments with institutions for equity brokerage services. In 2002, TSIL is set to launch **indiadirect**, the online stock trading service to the National Stock Exchange (NSE) for NRIs and resident individuals.

With continuing economic reforms and liberalisation of the national economy, India offers investors more investment opportunities than ever before.

Turkey

With a 100% devaluation of the Turkish Lira and a 10% shrinkage of the national economy, TAIB YatirimBank A.Ş. (TYB), our subsidiary in Istanbul, had a challenging year. Turkey's economy has steadily improved and received a boost with the US\$10 billion loan package from the International Monetary Fund (IMF) in December. We hope to see TYB benefit from the increase in economic activity and overall upturn of the equity markets, with a rise in brokerage activity.

Kazakhstan

TAIB Kazak Bank (TKB), our subsidiary in Almaty, has fared moderately well in 2001. As one of seventeen licenced foreign banks operating in Kazakhstan, TKB has reported a steady growth of earnings since its inception in 1999, and a growth in their client base, due to the addition of new financial service offerings. Notably, TKB has increased their commercial loan portfolio, initiated automobile lease financing, and is in the process of implementing exclusive foreign-exchange kiosks in Almaty's leading commercial mall. In addition, TKB continues to explore investment banking and advisory service opportunities as they arise.

REVIEW OF OPERATIONS



TAIB Kazak Bank
Furmanova Street
Almaty, Republic of Kazakhstan



AS A SIGN OF OUR COMMITMENT TO THE
LOCAL ECONOMIES IN WHICH WE OPERATE, THE BANK
ACQUIRES REAL ESTATE...WE BELIEVE THE
INVESTMENTS IN THESE PROPERTIES WILL PAY FOR
THEMSELVES.

WE BELIEVE THAT A PREREQUISITE OF SUCCESSFUL RISK MANAGEMENT IS THE ABILITY TO IDENTIFY, MEASURE AND CONTROL RISKS DURING THE EARLIEST STAGES OF THE INVESTMENT PROCESS.



TAIB Securities (India) Ltd.
Worli
Mumbai, India

The Bank's risk management processes are incorporated into each business division 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 38.4%, well in excess of the regulatory requirement of 12%;
- Asset allocation strategy — we seek to diversify portfolios and avoid concentration within one area, be it geographical, currency, asset class, management style or investment type;
- Accent on asset quality — we endeavor 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, outlined below are the main methodologies for managing the various types of risks to which the Bank is exposed:

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 19 to the consolidated financial statements, 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 during the earliest stages of the investment process.

With 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.

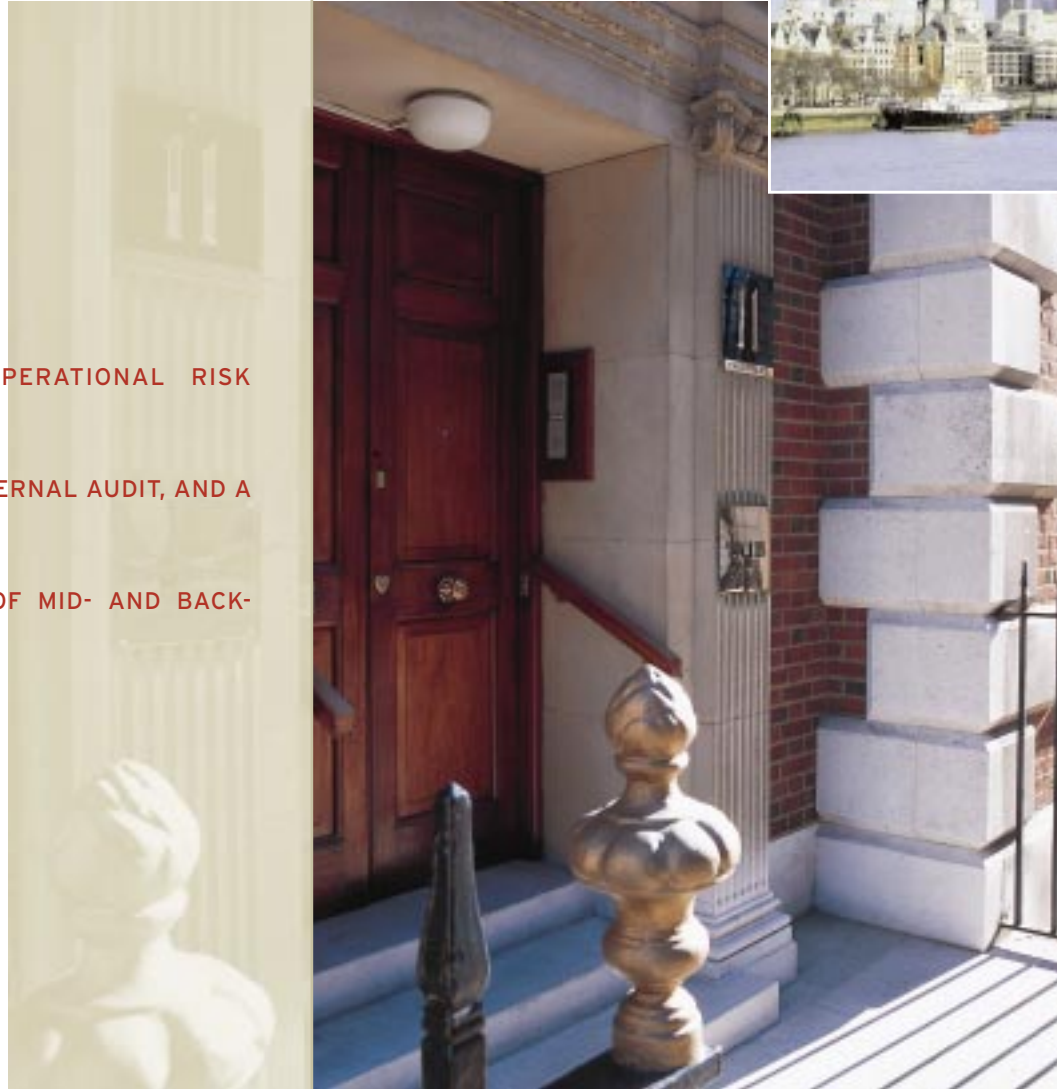
Post-investment monitoring of acquisitions takes place at three levels — the business division, the risk management team, and the GIC. The reviews aim at ensuring that investments stay on the charted course set prior to the acquisition. Further, the reviews serve to more clearly define the Bank's exit strategies once investments approach maturity.

b) Asset Management

Prior to committing funds to an asset management investment, there is a rigorous Fund Manager selection process that involves a detailed study of the prospect and his/her track record, the characteristics of the Fund, including its risk-return profile, and its correlation and compatibility with the existing Bank portfolio. Particular emphasis is placed upon the independent corroboration of facts wherever possible. Where appropriate, the comfort 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.

OUR DIVERSE APPROACH TO OPERATIONAL RISK
INCLUDES INTERNAL CONTROLS, INTERNAL AUDIT, AND A
HIGHER DEGREE OF AUTOMATION OF MID- AND BACK-
OFFICE FUNCTIONS.



TAIB Securities Ltd.
Carlos Place
London, UK

R I S K M A N A G E M E N T

In respect of internally managed portfolios and institutions where TAIB itself or its subsidiaries are Fund Managers, a number of risk-limiting measures are in place to strictly monitor for conformance to the approved trading strategy, marking positions to market on a continuous basis, 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, in 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 higher degree of automation of mid-and back-office functions. Internal controls consist of embedding controls within each process and ensuring that front office staff never handle

back-office functions. Every business critical task is designed in such a manner as to require several people to complete the entire process cycle. During 2001 we further strengthened the Bank's 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 2001 due to a failure of any of its systems or due to fraud.

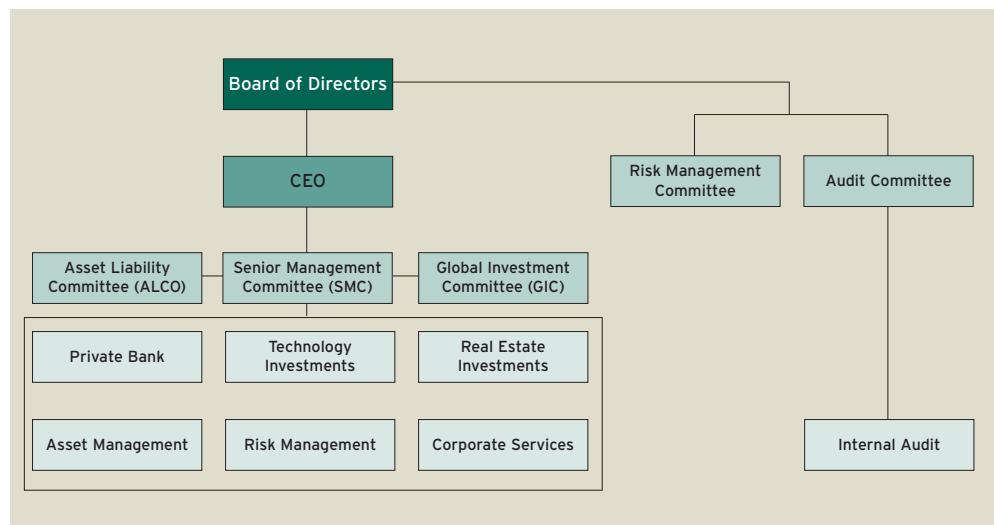
Legal & Compliance Risk

Our Legal and Compliance risk management is managed by 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.

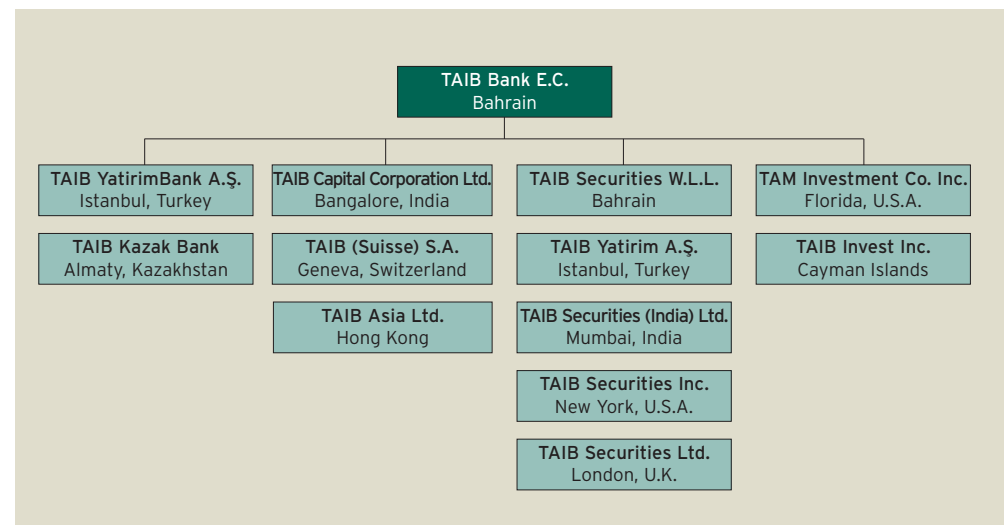
In summary, the year 2001 presented a plethora of unusual risks which led to exceptional market volatility across global equity markets for the majority of the year. In a telling manner, this past year has borne testimony to our risk management process and skills for us and for our clients, in demonstrating the benefits of diversifying the investment portfolio.

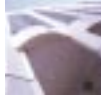
CAPITAL ADEQUACY (PER BMA GUIDELINES)	
	US\$000's
Tier 1 Capital	
Total Capital Base Net of Adjustments	143,010
Credit Risk Weighted Assets	203,190
Market Risk Weighted Assets	169,247
Total Risk Weighted Assets	372,437
Capital Adequacy Ratio	38.4%

T A I B O R G A N I S A T I O N A L S T R U C T U R E A N D C O M M I T T E E S



T A I B G R O U P O R G A N I S A T I O N C H A R T



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