

O U R C O M M I T M E N T E N D U R E S



TAIB BANK E.C. 2002 ANNUAL REPORT

OUR CURRENT ADVERTISING CAMPAIGN IS SHOWCASED THROUGHOUT THIS REPORT.

TODAY, AMIDST CONTINUED ECONOMIC AND GEOPOLITICAL UNCERTAINTY THE WORLD OVER, WE REFLECT BACK TO REPORT ON 2002. UNQUESTIONABLY, IT WAS A SOBERING YEAR FOR MOST INVESTMENT BANKS, INCLUDING TAIB. ALTHOUGH WE RECORDED AN UNUSUAL EARNINGS SETBACK, MANY OPERATING PERFORMANCE INDICATORS WERE POSITIVE. THUS, WE REMAIN CONFIDENT IN THE UNDERLYING STRENGTHS OF OUR BUSINESS MODEL AND STRATEGY FOR THE LONG TERM, AND LOOK FORWARD TO CONTINUING TO CREATE VALUE FOR ALL OF OUR CONSTITUENTS.

OUR COMMITMENT ENDURES.

(US\$'000s)	2002	2001	2000	1999	1998
EARNINGS					
Net interest and similar income	7,348	2,970	4,152	9,472	7,985
Fees and other income	2,576	30,074	35,085	32,231	23,895
Net income before provisions	(4,551)	16,276	21,798	25,004	17,410
Net income	(10,492)	10,216	15,475	14,026	10,117
Dividend	NIL	5,096	7,134	5,063*	5,484
FINANCIAL POSITION					
Total assets	510,685	540,068	544,927	512,562	402,822
Investments and marketable securities	318,827	388,435	414,458	365,715	232,615
Loans and advances	26,358	24,968	28,841	34,196	47,379
Customer deposits	156,026	106,859	103,688	124,382	125,927
Total deposits	259,937	262,745	254,512	328,554	274,802
Shareholders' equity ^o	124,744	145,153	147,281	125,354	117,745
RATIOS					
<i>Earnings:</i>					
Return on Average Equity (%)	-7.8	7.0	11.4	11.5	8.7
Return on Average Assets (%)	-2.0	1.88	2.93	3.1	2.6
Earnings per Share (cents)	-11.0	10.0	15.5	16.5	12.0
<i>Cost:</i>					
Expenses to Total Operating Income (%)	146	51	44	40	45
<i>Capital:</i>					
Total Liabilities to Shareholders' Equity (times)	3.1	2.7	2.7	3.1	2.4
BIS risk-adjusted Capital Adequacy Ratio (%)	33.2	38.4	36.6	43.8	38.7

* 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).

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DEAR SHAREHOLDERS,

It is a great disappointment to report that TAIB recorded a net loss of US\$10.5 million for the year 2002, as against a net profit of US\$10.2 million for 2001.

First net loss after 14 consecutive years of positive earnings


In 2002, formidable challenges were presented by the world's declining equity and financial markets.

The net result of such upheaval created a loss in our trading securities portfolio. Through the marked-to-market valuations made in accordance with International Accounting Standard 39, we recorded a valuation loss of US\$11 million, (US\$6.4 million from the CMO portfolio and US\$3.2 million from the Managed Funds portfolio), as against a gain of over US\$19 million in 2001.



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The trading securities portfolio stands reduced to US\$123 million as at the end of December 2002, from approximately US\$192 million in the previous year. The decrease of approximately US\$68 million reduces our vulnerability to price fluctuations in a volatile market environment. Approximately 75% (US\$92 million) invested through principal guaranteed notes issued by "AA" rated European banks adds further portfolio stability.

Finally, as a measure of prudence, we also set aside US\$6.1 million in provisions for impairments that may occur in certain software-services related investments.

Gains in operating performance despite the year's challenges

Aside from reducing our trading securities portfolio, other improvements to our overall balance sheet included:

- An increase in liquid assets and a reduction in deposits from banks.
- Net interest and similar income recorded a growth of 147% over the previous year, and touched US\$7.3 million.
- Foreign exchange income, although small, increased by over 400%.
- Fees and commissions touched US\$8.3 million, signaling a growth of over 82% when compared to 2001.
- Other income rose by 12% to a level of US\$2.3 million.
- Six out of ten TAIB Mutual Funds outperformed their respective benchmark indices.
- Our flagship Chambord Fund notched an increase in net asset value of approximately 7%.
- Employment costs and operating expenses were lower by 14% in 2002, when compared to 2001.

Even in the most trying times, we were particularly proud of our ability to exit from our investments and to conclude new transactions, as demonstrated by:

- Four real estate investment exits—one in the United States and three in the United Kingdom, with IRRs ranging from around 15% to 30%.
- The completion of four new real estate investments, aggregating more than US\$620 million. One of the acquisitions, the largest transaction we have ever handled, amounted to US\$550 million.
- Two exits from private equity transactions, one of which realised an IRR of nearly 17% for our co-investors.

Forging ahead with spirit and purpose

In 2003, we realise the possibility of increased global tensions and market instability, and understand that the year ahead could be a difficult one. However, we continue to be committed in our resolve, and are ready to forge ahead.

Balance: Measured Risk and Reward

As always, our cautious and measured approach to value creation will remain a guiding principle as we seek to ensure that our income generating capacity is restored and profitability is achieved in 2003. Diversifying investments across asset classes, combined with a focus on asset quality, are core strategies that will continue to play a pivotal role as we adhere to the risk-reward profile set by the Board of Directors. Furthermore, as we continually assess our ability to successfully function within volatile environments, tighter risk management policies and guidelines will be instituted.

Transition: Private Bank

Throughout 2003, we intend to further develop our client relationships, and the diversity of our investment offerings. First, we plan to build affinity with our clients by adopting a focussed 'one-on-one' approach to customer service and to our marketing communication initiatives. Second, we will expand regional and global distribution through the development of strategic partnerships with leading institutions. This strategy not only allows us to increase our customer-base, but also augment it with the investments that we offer—thereby enabling us to better fulfill our clients' wealth management needs.

Commitment: Enduring

In the days and months ahead, we will remain mindful of the interests of our clients, our shareholders, and the communities in which we serve. Our imminent move to our new headquarters, TAIB Tower, will keep us inspired. And our pursuit of both market leadership and innovation, a tradition spanning 24 years, will help keep us moving forward.

In appreciation

As another year comes to a close, we respectfully acknowledge the support of the Government of the Kingdom of Bahrain, the Ministry of Finance and the Bahrain Monetary Agency, as well as the leadership of the Board of Directors and the Advisory Boards. Our gratitude also extends to our shareholders for their ongoing confidence, to our clients for their loyalty, and finally, to our management and staff for their true dedication.



Sheikh Abdulrahman Al Jeraisy
Chairman



Iqbal G. Mamdani
Vice Chairman and
Chief Executive Officer

Abdulrahman Al Jeraisy¹

Chairman

Chairman, Jeraisy Group, Riyadh
 Chairman, Riyadh Chamber of Commerce and Industry
 Chairman, Saudi Chambers of Commerce and Industry
 Member, Saudi team of the Arab Union of International Arbitration
 Member, Board of Directors of U.S.–Saudi Arabian Business Council
 Member, Board of Directors of Arriyadh Development Authority

Ahmed Mohamed Baroom¹

Director

Vice Chairman & CEO, Saudi Falcon Cement Co. Ltd., Jeddah
 Chairman, Saudi Steel Reinforcements Ltd., Jeddah
 Chairman, Saudi Express Transport Co., Jeddah
 Chairman, Modern Scaffolding Est., Jeddah
 Chairman, United National Export Company Ltd., Jeddah

Yavuz Çanevi^{2,3}

Director

Former Governor, Central Bank of Turkey, Istanbul
 Member, IFC Business Advisory Council, Washington, D.C.
 Chairman, Turk Ekonomi Bankasi A.Ş., Istanbul
 Honorary Chairman, YASED (Foreign Investors' Association), Istanbul
 Deputy Chairman, Istanbul Stock Exchange
 Director, Credit Agricole Indosuez Turk Bank A.Ş., Istanbul
 Director, Turkish Industrial Development Bank, Istanbul

Farouk Yousuf Khalil Almoayyed

Director

Chairman, Y.K. Almoayyed & Sons B.S.C.©
 Chairman, Almoayyed Contracting Co.
 Chairman, Almoayyed International Group
 Chairman, Ashrafs W.L.L.
 Chairman, Bahrain Duty Free Shop Complex
 Chairman, Bahrain Hotels Co. (Gulf Hotel)
 Chairman, Al Wasat Newspaper
 Chairman, Board Trustee of Ibn Khuldoon School, Bahrain
 Deputy Chairman, National Bank of Bahrain
 Director, Gulf Union Insurance and Reinsurance Co.

Iqbal G. Mamdani¹

Vice Chairman and CEO

Chairman, TAIB YatirimBank A.Ş., Istanbul
 Chairman, TAIB Kazak Bank, Almaty
 Chairman, TAIB Securities W.L.L., Bahrain
 Chairman, TAIB Securities Ltd., London
 Chairman, TAIB Securities Inc., New York
 President, Trans-Arabian Development Co. E.C., Bahrain
 Director, TAIB Capital Corporation Ltd., Bangalore
 Director, Diamond Trust Bank Ltd., Kenya and Tanzania

Abdulaziz R. Alrashed²

Director

Chairman, Alrashed Group, Saudi Arabia

Pradip P. Shah^{2,3}

Director

Chairman, IndAsia Fund Advisors Pvt. Ltd.
 Chairman, Shah Foods Ltd.
 Director, Pfizer Ltd.
 Director, BASF India Ltd.
 Director, Tata Infomedica Ltd.
 Director, Indocam Himalayan Fund NV, Netherlands
 Director, Wartsila India Ltd.
 Director, Matsushita Lakhnapal Battery India Ltd.
 Director, Zip Global Network Ltd., Mauritius
 Director, Prudential ICICI Asset Management Ltd.
 Director, Hardy Oil & Gas Ltd., U.K.
 Director, Shipping Corporation of India Ltd.

Mohammed Al Attas

Director

Owner, Al Zaytoon Trading & Contracting Est., Jeddah

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

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

Susan I. Clark

Senior Vice President, Real Estate

Twenty-one years with TAIB Bank. Graduate of the University of Aberdeen, Scotland and M.Sc. from the University of Strathclyde, Scotland.

Dayanand Shetty

Senior Vice President, Corporate Services

Twenty years with TAIB Bank. Graduate in Accounting, and MBA in Finance from American University, Washington D.C., U.S.A.

Salah Saleh Sultan

Senior Vice President, Private Bank

Ten years with TAIB Bank. Has more than twenty-one years of banking experience within local and international banks. Formerly with AlBaraka Islamic Investment Bank and Banque Nationale de Paris, Bahrain. Executive Development Program with Northwestern University, Chicago, U.S.A.

Ramesh S. Mahalingam

Senior Vice President, Asset Management

Five years with TAIB Bank. 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.

International

Edward G. Nelson

Nicholas P. Clegg

Jun Mizuno

Gulf

Najeeb Al-Saleh

Abdulmajeed Alsultan

Abdulaziz Mohammed Alsubaei

Khalid bin Abdulaziz Al Mukairin

Asia

Hari N. Harilela

C.T. Chan

Europe

Camille Froidevaux

Jerome Joliat

Dr. Abdool Magid A.K. Vakil

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True wealth management involves a delicate blend of financial objectives, market conditions, investment opportunities and constant monitoring, to achieve optimum returns. That is our philosophy. That is our practice. By utilizing our investment expertise and market knowledge, we create time for you to enjoy the things in life that mean the most.

Trust that your money is working for you.

Find out more about TCCL's Private Banking services:

E-Mail: pbtcci@taib.com or
Phone: (091-022) 56626000

Enjoy life. Let us manage your money.

TAIB Capital Corporation Ltd.

ALMATY BANGALORE ISTANBUL LONDON MANAMA MUMBAI NEW YORK ORLANDO

TAIB Private Banking

PRINT ADVERTISEMENT FOR TCCL PRIVATE BANKING

“The acquisition of four new properties in the United States and the United Kingdom attributed to an 82% increase in fees and commission.”

Against the backdrop of continued geopolitical developments and global market declines, TAIB Bank recorded a loss of US\$10.5 million in 2002, including a provision charge of US\$6.1 million.

NET INTEREST AND SIMILAR INCOME

Net interest and similar income for the year was US\$7.3 million, an increase of 147% from US\$2.9 million in 2001. The increase came primarily from improvements in net interest margins, as a result of the declining interest rate environment that prevailed throughout 2002, following the seven rate cuts during 2001.

Additionally, higher earnings from U.S. Real Estate promissory notes, AAA rated fixed income instruments, and decreases in interest expenses on our long-term debt, all collectively contributed to the increase in net interest and similar income.

FEES AND COMMISSION

Income from fees and commission consists of real estate transactions, the Group's brokerage operations and asset management activities. Fees and commission for 2002 was US\$8.3 million, representing 84% of the total operating income of the year. The 82% increase was primarily due to the acquisition of four new properties—two in the U.S. and two in the U.K.

INCOME FROM THE SALE OF OTHER INVESTMENTS

During the year the Bank made profitable exits from four real estate properties (three in the U.K. and one in the U.S.), as well as one successful exit from a private equity investment in Bahrain, thus generating a total gain of US\$2.0 million for the year as compared to US\$3.8 million for the year 2001. This drop in income can be attributed to the continued slowdown in the private equity markets and the decline in valuations.

LOSS FROM TRADING SECURITIES

The Bank's trading securities comprises investments in financial instruments in the United States, Europe, Turkey and India. In all of these markets except India, the indices recorded steep declines. During 2002, the Dow Jones Industrial Average declined by 17%, the FTSE Index by 24%, the Istanbul Stock Exchange Index by 25%, the NASDAQ Composite Index by 31% and the NASDAQ 100 by 38%.

Therefore, when the Bank's securities were marked-to-market at the end of the year in accordance with the International Accounting Standards, we recorded a loss of US\$11.0 million, as against a gain of over US\$19.0 million in 2001. While TAIB Funds also suffered valuation losses, six of our ten funds outperformed their respective benchmark indices.

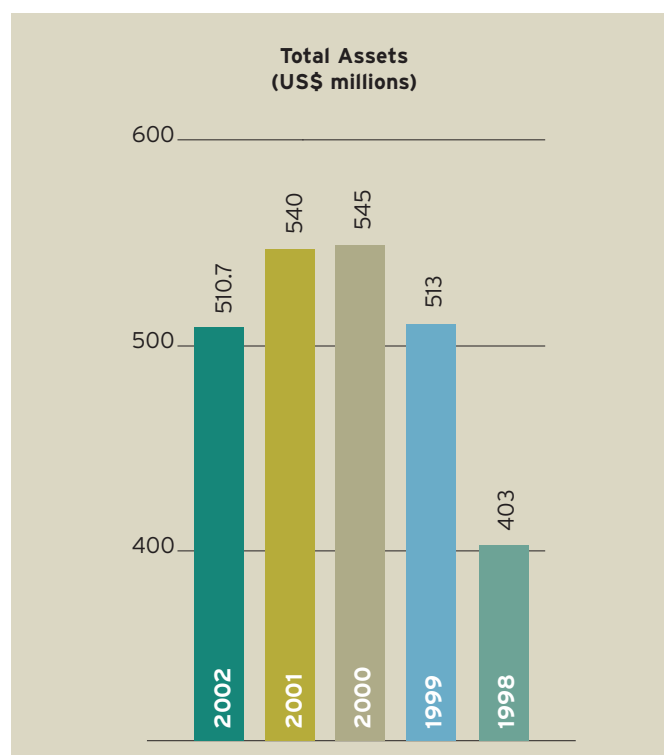
OPERATING EXPENSES

Total operating expenses for the year ended 31 December 2002 was US\$14.5 million as compared to US\$16.8 million for the year ended 31 December 2001. This reflects a savings in total expenses of about 14% over the previous year as a result of our cost control and reduction measures instituted in 2001. Operating costs were also reduced by lowering staff costs and other operating expenditures.

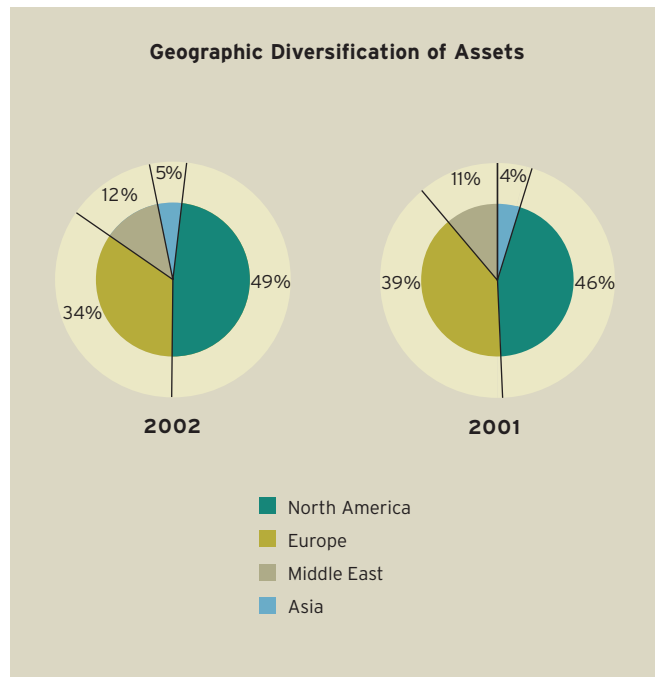
BALANCE SHEET ANALYSIS

Total Assets

Total assets as at 31 December 2002 were US\$510.7 million, a decline of US\$29.4 million from the previous year. Principal factors for the decrease in footing included a reduction in the trading securities portfolio as a result of the redemption of principal guaranteed Euro Medium Term Notes which matured during the year, and higher cash flows received from our CMO portfolios. On the liabilities side, repayment of matured component out of redemption proceeds from Euro Medium Term Notes led to a corresponding decrease in long-term debt.



As part of our cautious risk management approach, the Bank has maintained the geographical distribution of assets at levels relative to previous years. North America and Europe account for 83% of total assets (2001: 85%), and the Middle East and Asia account for the remaining 17% (2001: 15%). The Bank's exposure to emerging markets on a consolidated asset basis is as follows: Turkey 3.7%, India 2.8%, and Kazakhstan 1.5%.



Trading Securities

Our trading securities portfolio was reduced to US\$123.2 million as at the end of December 2002, from a level of US\$191.5 million. This portfolio consists of Guaranteed Notes 74.7% (2001: 62.9%), Mortgage-backed securities 11.7% (2001: 25.8%) and Other Funds and Equities 13.6% (2001: 11.3%). The decrease in our trading portfolio by 36%, as compared to the previous year, is attributed to the redemption of matured Guaranteed Notes and higher cash flows from early prepayment of Mortgage-backed securities. Guaranteed notes are issued and guaranteed by "AA" rated European banks, while Mortgage-backed securities are issued by U.S. Government guaranteed/sponsored agencies.

Loans and Advances

The increase in the Bank's loan portfolio arises mainly from an increase in the commercial loan portfolio from our subsidiary, TAIB Kazak Bank. Except for this subsidiary's portfolio, the Bank has continued to wind down its loan portfolio. At year end, 60% of net loans and advances were

secured by cash or other collateral. The following table illustrates the loan portfolio movement and the percentage of loans to total assets over the last five years.

	2002	2001	2000	1999	1998
Net Loans and Advances (US\$ millions)	26.4	25.0	28.8	34.2	47.4
Ratio of Net Loans and Advances to Total Assets	5.2%	4.6%	5.3%	6.7%	11.8%

Other Investments

Other investments principally includes the Bank's investments in funds, structured corporate investments, real estate investments, and quoted debt and equity investments. The table below shows the relative portion of each category on a comparative basis.

	2002		2001	
	US\$ millions	%	US\$ millions	%
Available-for-sale investments	106.5	54%	109.2	55%
Held-to-maturity investments	63.7	33%	62.6	32%
Originated debt securities	11.2	6%	12.2	6%
Property interests held for sale	14.2	7%	12.8	7%
Total	195.6	100%	196.9	100%

Available-for-Sale Investments

Quoted: Approximately 36% (2001: 42%) of this category is quoted investments with a book value of US\$38.6 million (2001: US\$45.8 million). The decrease in this category is primarily due to US\$5.7 million in redemptions, and the remaining due to fair value adjustments.

Unquoted: The remaining unquoted investments of US\$67.9 million (2001: US\$63.4 million) comprise investments in structured corporate investments and real estate pro-notes. The decrease of US\$4.4 million in investments, as compared to the previous year, can be attributed to the provision of US\$3.4 million for the possible diminution in fair value of unquoted investments. The remaining movements were due to the combined impact of US\$8.5 million additional investments in real estate pro-notes, as offset by US\$1.1 million sale of structured corporate investments.

Held-to-Maturity Investments

Held-to-maturity investments comprise the Group's investments in AAA rated securities of U.S. Government guaranteed/sponsored agency bonds. This has increased by US\$1.1 million, due to additional investments made throughout the year.

Originated Debt Securities

This category consists of the Group's investments in structured corporate investments. The decrease in this category was due to the US\$1.5 million provision for possible diminution in value.

Property Interests Held for Sale

The Bank's equity investments in U.S. Real Estate properties are reported under this category. Net increase of US\$1.4 million over the previous year was due to two new acquisitions.

Liabilities

Total deposits from customers as at year end stood at US\$156.0 million, an increase of 46% over the US\$106.9 million as at 2001 year end.

Deposits from banks and borrowings under repurchase agreements stood at US\$103.9 million as at the end of 2002, as against US\$152.5 million for the same period last year.

Liquidity

The Bank continues to maintain an adequate level of liquidity. As at the end of year 2002, the ratio of total liquid assets to total assets stood at 37% (2001: 35.4%) and consisted of cash, placements with banks, U.S. Government guaranteed/sponsored securities, and Treasury Bills.

The following maturity profile of assets and liabilities, which are maturing within one year, also shows that liquid assets have increased over the previous year.

As at 31 December 2002, assets maturing within one year constituted 67% of the total assets of the Bank, while 49% of liabilities were due to mature within the same period.



Capital Strength

As at year end 2002, the Bank's capital adequacy ratio was 33.2%, significantly higher than the Bahrain Monetary Agency's stipulation of 12%, and the international minimum requirement of 8%. Our leverage ratio was 3.1 (2001: 2.7), indicating the Bank's strong capitalisation.

	2002	2001	2000	1999	1998
Assets maturing within one year	67%	62%	67%	58%	58%
Liabilities maturing within one year	49%	44%	44%	48%	41%

“The Bank completed its single largest real estate transaction—
a portfolio of 11 shopping centres located strategically throughout
the U.K.—valued at US\$550 million.”

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True. Some women always get their way.



Women's Private Banking

OUTDOOR ADVERTISEMENT FOR WOMEN'S PRIVATE BANKING

The year 2002 was another difficult year for the global financial markets. Investment banking in particular, saw some of its worst recessionary trends such as depressed global market sentiments, a declining interest rate environment, plunging equity valuations, and a drop in consumer spending. The implications were manifold, including a slowdown in private equity acquisitions, delay in exits, and drops in portfolio value. Despite these increased challenges, TAIB's operating performance continued to improve. Guided by a sound business model with inherent cross border advantages, positive gains were precipitated by our refined methodologies, cultivation of an increasingly broader network, expanded online service offerings, as well as continued product differentiation. Our loss was only the second ever reported in TAIB's history, the impact of which was minimised by successful transactions in real estate and private equity.

However, in the area of trading securities, due to the decline in the equity and financial markets in the U.S., Europe, Turkey and India, the marked-to-market valuation of TAIB's portfolio made in accordance with International Accounting Standards, resulted in a loss of US\$11 million in 2002, as against a gain of US\$19 million in 2001. Out of this loss, US\$6.4 million occurred in the CMO (Collateralised Mortgage Obligations of the U.S. Government or its sponsored agencies) portfolio. In addition, the portfolio of Managed Funds contributed to a further valuation loss of US\$3.2 million. A final contributing factor to the losses was the provision of US\$6.1 million to provide for impairments in technology-related investments.

REAL ESTATE: ASSETS INCREASE

TAIB's real estate portfolio comprises retail and residential properties in the U.S., and retail and industrial properties in the U.K. Proprietary investments as at 31 December 2002 totaled US\$49.7 million (2001: US\$40.1 million), with an independently appraised estimated market value of US\$57.8 million (2001: US\$40.9 million). Client co-investment amounted to US\$128.0 million as at 31 December 2002 (2001: US\$59.8 million). As at the end of 2002, the market value of all real estate assets under management amounted to US\$780 million (2001: US\$249 million).

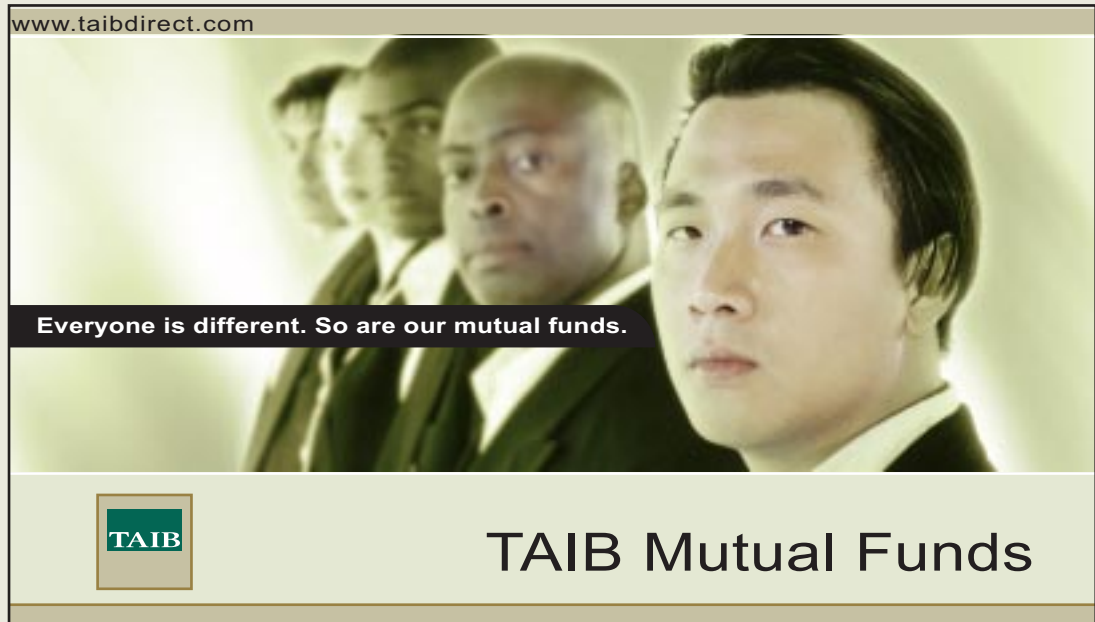
During 2002, TAIB's real estate exits and acquisitions collectively contributed nearly US\$7 million to revenue. We successfully exited from four real estate investments, resulting in returns of up to 27% for three properties in the U.K., and returns in excess of 20% for one property in the

U.S. And, we are particularly proud to have transacted the single largest acquisition in TAIB's history—a portfolio of 11 shopping centres throughout the U.K., valued at US\$550 million. This acquisition, along with another in the U.K. and two in the U.S., aggregated more than US\$620 million.


In 2003, continued instability of the equity markets remains a key impetus for sustaining our focus on aligning with carefully selected partners, whose market leadership in real estate investment and property management both complements our strengths and fuels performance. We will also undertake careful consideration of promising acquisitions in certain Gulf Cooperation Council (GCC) countries, as well as in major cities outside of the U.K.

PORTFOLIO OF REAL ESTATE INVESTMENTS	
UNITED STATES OF AMERICA	
<i>Investment held through:</i>	<i>Description of property:</i>
Delray Property Investments, Inc.	Shopping centre, 111,382 sq. ft., Juno Beach, Florida
SOSQ Property Investments, Inc.	Shopping centre, 144,536 sq. ft., Brooksville, Florida
Socha Property Investments Inc.	Shopping centre, 228,970 sq. ft., Orlando, Florida
OMP Property Investments, Inc.	Shopping centre, 105,252 sq. ft., Gainesville, Florida
Vista Property Investments Inc.	Shopping centre, 100,902 sq. ft., Lake Buena Vista, Florida
WG Property Investments, Inc.	Shopping centre, 479,603 sq. ft., Macon, Georgia
TAM Tamiami Trail	Shopping centre, 110,867 sq. ft., Miami, Florida
TAM I 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, 300 dwelling units, Tamarac, Florida
Creekstone Property Investments LLC	Apartment complex, 338 dwelling units, Houston, Texas
Cypress Lodge Property Investments Inc.	Apartment complex, 366 dwelling units, Houston, Texas
UNITED KINGDOM	
<i>Investment held through:</i>	<i>Description of property:</i>
Southern Outlet Centers Limited	Two factory outlets totaling 192,000 sq. ft., located in Clacton & Aldershot
Dearsley IV Limited	Eleven shopping centres located throughout the UK, with 1.92 million sq. ft. net rentable area and 710 tenants

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Everyone is different. So are our mutual funds.



TAIB Mutual Funds

OUTDOOR ADVERTISEMENT FOR MUTUAL FUNDS

“Our co-investors realised an IRR of nearly 17% with an exit from our private equity investment in Fuddruckers, a dining chain in the GCC.”

PRIVATE EQUITY: RETURNS

The Group's private equity functions—including acquisitions, exits, M&A advisory services and post-acquisition monitoring—are managed by Bahrain-based Product Partners who work closely with their counterparts in Bangalore, Mumbai, New York, London and Istanbul.

As at year end 2002, the Bank's total value of private equity investments amounted to US\$59.8 million (2001: US\$60.7 million). While new investment was curbed during the year, we did complete two exits successfully. Our co-investors realised an IRR of nearly 17% with an exit from our investment in Fuddruckers, a casual dining chain in the GCC. In addition, we exited from Intoil Inc., a company engaged in U.S. oil and gas exploration, and proceeds of the investment are expected to be distributed to co-investors during the second quarter of 2003.

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
New Intoil E.C. (Bahrain)	Operates oil and gas fields in North America and the United Arab Emirates
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 Ltd.	Strategic investment in a U.S. software services company listed on the NASDAQ

PORTFOLIO INVESTMENTS THROUGH TAIB INVEST INC.	
Newsmax Media Inc., U.S.A	New River Inc., U.S.A
Amicas, Inc., U.S.A	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	Synergy Log-in Systems Ltd, India

ASSET MANAGEMENT: FUND PERFORMANCE

The role of TAIB's Asset Management Division continues to undertake three functions: Funds and portfolio management services, asset-liability management, and fixed-income securities.

TAIB's mutual fund family provides investors with ten funds with a choice of markets, strategies, investment styles, and risk-reward characteristics for varying investment objectives. Viewed against the backdrop of depressed and volatile market conditions, we believe that overall our funds continued to perform reasonably well, with six funds outperforming their respective benchmarks during 2002, as shown below.

TAIB FUNDS				
NAME	INCEPTION DATE	PERFORMANCE IN 2002	BENCHMARK INDEX	PERFORMANCE OF BENCHMARK INDEX IN 2002
Golden Horn Fund	1-Aug-97	-18.3%	ISE-100 Dollar Index	-33.9%
American Explorer Fund	15-Jan-98	-16.9%	Nasdaq 100 Stock Index	-37.6%
TAIB BioMed Fund	7-Jul-00	-32.5%	Amex Biotech Index	-41.7%
TAIB Crescent Global Fund	15-Feb-00	-14.2%	DJIM Islamic Index	-22.6%
TAIB Rocky Mountain Fund	1-May-00	+4.4%	MSCI World Index	-21.1%
TAIB Technology Growth Fund	7-Jul-00	-32.5%	Lipper Science & Technology Index	-41.4%

Overall, our securities portfolio has demonstrated its resilience to an extremely difficult economic and stock market environment which has seen three successive years of decline and volatility. In the face of this sustained instability, we focussed on structuring investment products with an emphasis on the protection of capital and in some cases, protected minimum returns. These 'principal guaranteed' products were designed to suit the respective requirements of both institutional and private investors.

As far as alternative investments are concerned, we continued to identify and select fund managers who target absolute returns with diverse strategies and strong risk discipline. For hedge funds, our fund-of-funds approach will provide low volatility characteristics, as well as low correlation to the performance patterns of capital markets in the coming year. In 2002, our flagship Chambord Fund notched an increase of nearly 7% in net asset value for the year.

The fixed-income portfolio, consisting mainly of Collateralized Mortgage Obligations (CMOs) guaranteed by the U.S. government or institutions sponsored by the U.S. government, held investments by the Bank amounting to US\$77 million at year end 2002. These investments generated a total cash flow of US\$41 million during the

year, while other fixed income offerings, namely bonds and preferred stock, remained attractive investments. Once again, our cautious investment in a mix of instruments has ensured adequate interest/principal payment flows as well as a higher degree of safety.

We are pleased to announce that our team structured a significant number of Islamic *Murabaha* commodity financing transactions—meeting the growing requests of our GCC client base. On the foreign exchange and treasury fronts, the Bank's Bahrain and Istanbul treasury desks were successful in meeting investor needs for a cross-currency structured product.

ONLINE INVESTMENT SERVICES: ADVANCES

In 2002, *taibdirect.com*'s online service capabilities were bolstered by the launch of *fxdirect*, an online foreign exchange trading application that provides real-time currency trade execution and access to analytical tools and research. In the beginning of 2003, our clients will be able to trade equities online on the National Stock Exchange (NSE) in India via *indiadirect*. Going forward, we plan to continue the development of our online infrastructure and expand our distribution of online trading capabilities via strategic partnerships and alliances with regional institutions in the GCC countries.

PRIVATE BANK: TRANSITION

Increasingly over the years, we've focussed on nurturing relationships with our high net-worth individual clients—by meeting their financial interests, sharing meaningful insight and knowledge, as well as maintaining absolute discretion. This has led us to become more attuned to the financial challenges facing our investors, and has resulted in the development of an array of private client services oriented toward managing and enhancing wealth. Moving forward, a full transition to becoming a private bank will ensue. Our endeavours will encompass the offering of a full complement of investment products and services—our own as well as those provided by global and regional institutional partners. Customer Relationship Managers will also engage in fostering one-on-one dialogues with their clients, in order to build and manage each portfolio based on individual financial needs, investment goals and risk/reward objectives.

TAIB introduced its Women's Private Banking team (WPB)—an initiative that offers individualized private banking services and caters to the growing need of women investors in the GCC. Apart from possessing the capacity to develop customized investment strategies and portfolios, the service also acts as a financial education resource for women investors.

OPERATING SUBSIDIARIES: POISED

Following is a review of our operating subsidiaries during the year:

Turkey: TAIB YatirimBank A.Ş.

Now in its 16th year of operation, TAIB YatirimBank A.Ş. (TYB) in Istanbul, had a challenging year, marked by Turkey's constant economic and political turmoil. However, despite the volatilities and uncertainties in the financial services sector, TYB recorded an impressive 12.4% return on equity. The subsidiary continues to focus on fixed-income securities trading, asset management and brokerage services, for both domestic and overseas clients. In the area of fund management, TAIB Golden Horn Fund (GHF), which is managed by professionals at TYB, outperformed its benchmark index by a considerable margin. In addition, the TAIB B-Type Mutual Fund for domestic investors, was top-ranked amongst more than 70 similar funds.

India: TAIB Capital Corporation Ltd. and TAIB Securities India Limited

Incorporated in 1995, TAIB Capital Corporation Ltd. (TCCL) in Bangalore, provides merchant banking and advisory services to Indian corporates, and serves as one of the Group's vital links in the identification of private equity investment opportunities. Its wholly owned subsidiary—TAIB Securities India Limited (TSIL)—provides equity brokerage services to individual and institutional clients. In keeping with our focus to provide an ever expanding range of private client services, TCCL has begun to offer portfolio management services to its high net-worth clients both in India and abroad, while TSIL introduces *indiadirect*—our online product for Indian equity trading on the National Stock Exchange (NSE)—in the first quarter of 2003.

Kazakhstan: TAIB Kazak Bank

TAIB Kazak Bank (TKB), based in Almaty, is a full-fledged commercial bank licensed by the National Bank of the Republic of Kazakhstan. In 2002, this subsidiary achieved a return on equity of nearly 10%, and has been recording a

“In 2002, TAIB Securities W.L.L. in Bahrain launched *fxdirect*—an online product for foreign exchange trading.”

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steady growth of earnings since inception five years ago. TKB began a commercial loan portfolio operation in 2000, having received its full commercial banking license in the same year. Since then, it has expanded its loan portfolio and client base both in deposits and advances, and has introduced lease financing. In addition, TKB continues to explore investment and advisory service opportunities as they arise.

United Kingdom: TAIB Securities Limited

TAIB Securities Limited (TSL), our London subsidiary, facilitates the identification, structuring and monitoring of real estate projects in the U.K. During the year, it began to develop specialised products in order to enhance the Group's global offering for our clients in the GCC countries.

United States: TAIB Securities, Inc. and TAM Investment Company Inc.

TAIB Securities Inc. (TSI) in New York leverages the Group's cross border advantages in support of private equity transactions. In addition, this subsidiary offers wealth management advisory services with an emphasis on real estate investments. TAIB's real estate subsidiary in Florida, TAM Investment Company Inc. (TAM), partners with leading property investment and property management companies to oversee the Bank's real estate investments. During 2002, a return on equity of over 10% was recorded.



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“TAIB Securities, Inc. leverages the Group’s cross border advantages in support of private equity transactions and real estate investments.”

“In spite of the economic, geopolitical and regional obstacles facing us, we have been able to contain and manage risks in an effective manner—both for ourselves and for our clients.”

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People work for money. Money works for me.



TAIB Bank E.C.

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The Bank's risk management processes are integrated into each business division and subsidiary of the Bank to ensure that overall, each exposure conforms to the risk-reward profile of the Bank, and the major risk management policies in place. To start, the risk management process involves developing and implementing policies addressing the major risks to which the Bank is likely to be exposed, including the issuance of operational guidelines, limits, and restrictions governing each exposure. In subsequent stages, these risks are measured, controlled and managed to ensure adherence to these policies and that policy amendments, where warranted, are also put in place.

OUR APPROACH TO RISK

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

- The Bank's risk continues to be overseen at the highest corporate level by the Board of Directors' Risk Management Committee, whose role is to examine and advise the Board whether the risks and the policies related thereto are commensurate with, and appropriate to, the operations of an international investment bank in a competitive environment such as ours.
- Maintaining a low financial leverage—as demonstrated by our low debt-to-equity ratio of 3.1, and a capital adequacy ratio of 33.2%, well in excess of the regulatory BMA requirement of 12%. The purpose of maintaining a low liquidity ratio, builds into the system an inherent capacity, and the ability to raise funds in the future should the need arise.
- A balancing strategy for asset allocation—our objective is to diversify portfolios and avoid concentrations in any area, be it geography, currency, asset class, management style or investment type.
- Accent on asset quality—we endeavour to minimise, manage, cap or hedge risks wherever possible, in order to retain only those risks in which we have core management competencies. We seek to continuously improve asset quality from the very beginning through a rigorous process of validating and vetting such assets, even at the early stages prior to such assets being booked.
- The continued performance monitoring of the various trading assets, and taking corrective action, to successfully manage our assets in volatile environments.

Within the above framework, the following are the main methodologies adopted by the Bank for managing the various types of risks to which it is exposed:

Credit Risk

Credit Risk is both managed and mitigated by dealing with well-known names in banking, fund management, and other sectors, as counter-parties, including those with respect to off-balance sheet products. As further explained in the Notes to the Audited 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 at the earliest stages of the investment process. With regard to investment banking transactions, the Bank seeks to minimise risk 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 necessary, by independent third party due diligence reports on technical, financial and legal matters, as well as on valuation;
- Critical 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, on the other hand, occurs at three levels—the business division, the risk management team, and the GIC. Such reviews are done at regular and periodic intervals, and are intended to ensure that investments stay on the charted course. Furthermore, our monitoring serves to more clearly identify and fine-tune the Bank's exit strategies as investments approach their originally intended 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, as well as the characteristics of the Fund, including its risk-return profile, its volatility, and its correlation to, and compatibility with the Bank's portfolio and policies. Particular emphasis is placed upon the independent corroboration of facts wherever possible. Where appropriate, the comfort of guarantees, to protect capital/principal, is also sought.

Ongoing post-investment monitoring takes the form of regular fund performance updates, a continual dialogue with the Fund Managers, and periodic review meetings with the GIC. These review meetings and reports are key determinants in the Bank's decision to continue with or redeem the investment.

With respect to portfolios managed internally within the Group, where TAIB or its subsidiaries are Fund Managers, a number of risk-limiting measures are in place that are strictly and continuously monitored for, such as, conformance to the approved trading strategy, marking positions to market on a continuous basis, adherence to all the limits governing such portfolios, including total investment ceiling limits, stop-loss limits, limits on sector and individual concentrations of positions within the portfolio, etc. By thus measuring and managing the market risk on proprietary desks, we have been able to respond quickly to adverse market movements.

LIQUIDITY RISK & INTEREST RATE RISK

Liquidity risk within the Bank is managed by specifying threshold minimum balances of cash and near-cash assets, whereby such 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 also uses its repo lines for liquidity purposes. On the other hand, both interest rate risks and maturity mismatch risks, are contained by maintaining a reasonable balance between the maturities of assets and liabilities, within the general constraints of the regional financial markets.

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 are built into each process and it has been the Bank's policy to ensure that front office staff never handles back-office functions. Every business-critical task is designed in such a manner as to require more than one person to complete the entire process cycle, in addition to which there is key oversight by a senior person at the end of each day. Our experienced Internal Audit team conducts ongoing transaction-level and procedural-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 2002 due to a failure of any of its systems or due to fraud.

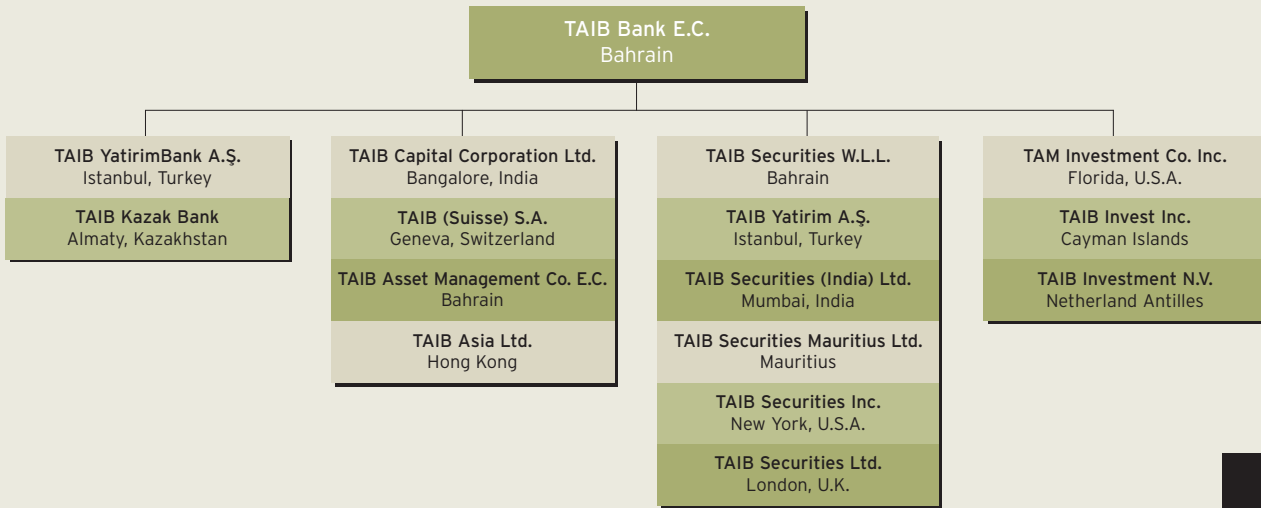
CAPITAL ADEQUACY (PER BMA GUIDELINES)	US\$'000s
Total Capital Base Net of Adjustments (Tier 1)	116,007
Credit Risk Weighted Assets	212,908
Market Risk Weighted Assets	136,187
Total Risk Weighted Assets	349,095
Capital Adequacy Ratio	33.2%

LEGAL AND COMPLIANCE RISK

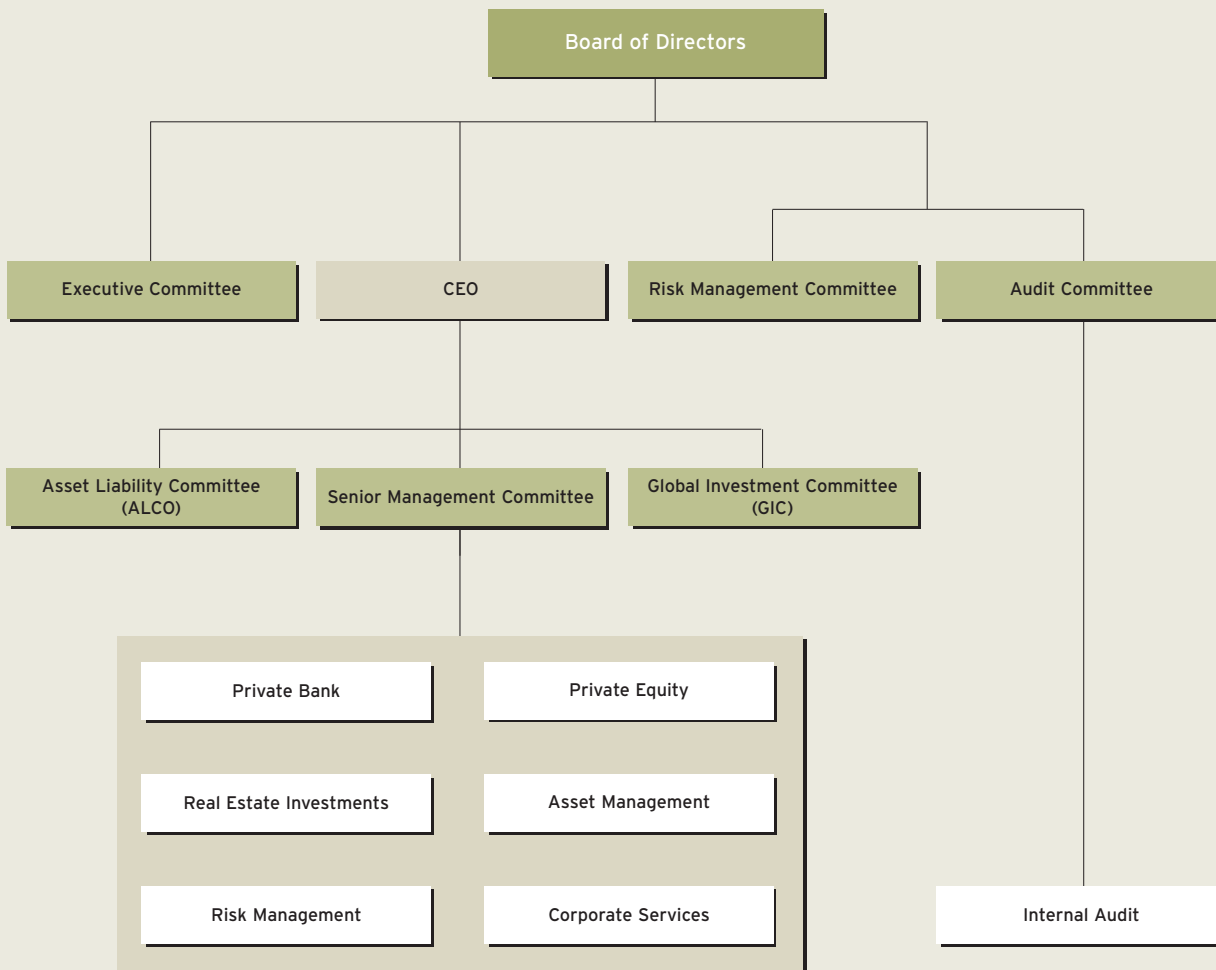
A full-time in-house legal counsel manages our Legal and Compliance risks. All regulatory and statutory obligations placed on the Bank and its subsidiaries, which include, inter-alia, conformance to/with the Prevention of Money Laundering and Know Your Customer legislation/regulations, are monitored for compliance, and all documentation that binds or commits the Bank in any manner is reviewed before issuance.

2002 was a year in which banks and financial institutions were exposed to a variety of risks—economic, geopolitical and regional. Despite the odds against us, we have been able to contain and manage these risks in an effective manner, both for ourselves and for our clients.

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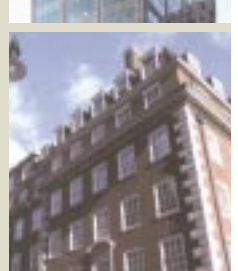
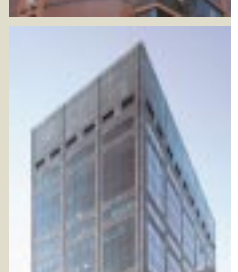
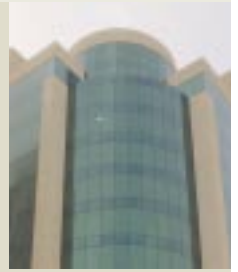
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