



★ 1998 Annual Report

Connecting:

# Connecting:

## Financial Highlights

(us\$'000s)	1998	1997	1996	1995	1994
<b>Earnings</b>					
Net interest income	<b>7,985</b>	9,092	8,137	7,390	8,627
Fees and other income	<b>23,895</b>	22,128	15,336	13,885	12,289
Net income before provisions	<b>17,410</b>	18,351	11,925	11,603	11,797
Net income	<b>10,117</b>	7,270	10,403	9,678	9,580
Dividend	<b>5,484</b>	5,062	5,062	4,219	1,875*
<b>Financial Position</b>					
Total assets	<b>402,822</b>	371,950	333,569	306,889	313,154
Investments and dealing securities	<b>232,615</b>	207,594	135,196	141,279	149,250
Loans and advances	<b>40,706</b>	55,153	62,496	47,596	61,218
Customer deposits	<b>125,927</b>	110,432	84,424	51,429	53,074
Total deposits	<b>274,802</b>	246,791	214,544	188,798	202,548
Shareholders' equity	<b>112,261</b>	108,703	107,947	103,953	100,023
<b>Ratios</b>					
<i>Earnings:</i>					
Return on Average Equity (%)	<b>9.1</b>	6.7	9.8	9.5	9.8
Return on Average Assets (%)	<b>2.6</b>	2.1	3.3	3.1	2.9
Earnings per Share (cents)	<b>12.0</b>	8.6	12.3	11.5	12.8
<i>Capital:</i>					
Total Liabilities to Shareholders' Equity (times)	<b>2.6</b>	2.4	2.1	2.0	2.1
BIS risk-adjusted Capital Adequacy ratio (%)	<b>38.7</b>	34.5	43.7	44.9	42.1

\* In addition, there was a stock dividend payment of 2.5% of the then issued capital, and a bonus share issue of 10%

# Emerging Markets

**N**o one is more connected to the emerging markets of the Middle East, Turkey, India and Kazakhstan than TAIB Bank. Building on many years of investment banking experience, we focus our market intelligence and active management strategy on select industries we know best. By bringing the most promising investment products to global capital markets, we connect investors to opportunities for exceptional returns.

Dear Shareholders:

**W**e are pleased to present the nineteenth Annual Report of the Bank together with the financial statements for the year ended 31 December 1998.

The results of 1998 further validated our strategy of focusing on pure investment banking business, as we achieved a total operating income of US\$31.9mm, the highest since the Bank's inception, and a net profit of US\$10.1mm, which represents a 39% increase over 1997. Consequently, earnings per share increased to 12 cents per share from the previous year's level of 9 cents per share. The Board of Directors, therefore, recommended a higher dividend of 6.5% as compared to 6% last year.

True to projections, 1998 saw a steady decrease in our lending portfolio, which now stands reduced to 12% of the Bank's total assets. As a direct consequence, the proportion of fees and other non-interest income to the total operating income improved a further 4% on the previous year to 75%, its highest level yet.

The world economy has witnessed much turbulence in emerging markets in 1998, and in the face of such adverse global economic conditions it is our conservative, yet creative, investment philosophy that has enabled us to minimise the contagious effect of such crises. We were, in fact, able to grow in most areas of our business—corporate finance, brokerage and asset management—within the markets we operate. Our leverage is steady at 2.6 while our risk-adjusted capital adequacy ratio has further strengthened to 38.7%, up from 34.5% in 1997.

During 1998 Capital Intelligence maintained their outlook for TAIB Bank as “Stable”, with a credit rating of A-2 for short-term and BBB- for long-term.

One of our key successes this year has been in structuring and placing private equity, concentrating on the Indian info-tech industry, an area where we have developed significant expertise. This activity contributed 30% of our total revenue in 1998, and we see considerable potential in the years to come, especially with the synergies resulting from networking our corporate finance teams in India, Bahrain and New York.

Our income from Brokerage and Securities Trading grew by 25% over the previous year, with the resulting positive impact on net profit. Our Bahrain brokerage subsidiary, TAIB Securities, improved its market share marginally, to 14% from the previous year's level of 13%, with a healthy mix of portfolio management and execution transactions. In Turkey, we achieved substantially higher brokerage volumes, but at TAIB YatirimBank certain other adverse developments led to a reduced contribution from this subsidiary. In India, the acquisition of a brokerage operation to provide investors with reliable access to India's most active share market in Mumbai was the high point. A distinguishing feature of our brokerage services has been our well-researched equity analysis reports, which are made available to all our clients on a regular basis, and are posted on our website for instant access.

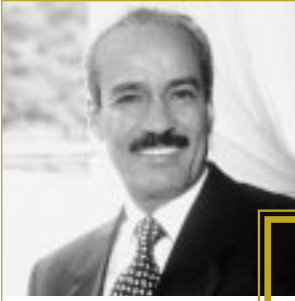
On the Asset Management front, 1998 was the year we built on our earlier successes. Among the highlights were the launch of two new funds under the TAIB banner—the American Explorer Fund, which focuses on U.S. high-tech equities, and the TAIB Income Fund, concentrating on U.S. mortgage-backed securities, both of which posted respectable returns for the year. Our Turkish country fund, the Golden Horn Fund, despite being affected by the downturn in the market, performed better than the Turkish equity index for most of the year. Our winner among the funds, however, was the Everest Fund, which reported a 40% increase in NAV for the year, and was ranked No. 1 by Standard & Poor's Micropal for the second successive year for year-on-year performance among all Indian equity funds. We intend to add to our family of funds with the launch of two new funds—the Rocky Mountain Fund (a U.S. fund of funds) and a Guaranteed Fund.

1998 was not a favourable year for the foreign exchange markets, which experienced all-around volatility, resulting, in our case, in a 10% reduction in the contribution made by our Foreign Exchange activities to the total revenue, as compared to the previous year.

Our Real Estate activities were on a low key during 1998, since buying opportunities did not meet the investment criteria of our conservative approach. We do, however, hope to see a turnaround in this market in the coming months and, consequently, new opportunities for making further investments.

We have reaffirmed our presence in Kazakhstan during 1998, and our subsidiary TAIB Kazak Bank is in the process of completing the formalities for the acquisition of its premises in Almaty. In 1999, both TAIB Kazak Bank and TAIB expect to play a bigger role in the growth phase of this young republic.

**O**ur focus on investment banking enabled TAIB Bank to earn the highest operating income since its inception – and a 39% increase in net profit over 1997.



**Abdulrahman Al Jeraisy**  
*Chairman*



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

As we move forward into the new millennium, we see that every year will present unique opportunities and challenges. Fortunately, we have the people, systems and resources to capitalise on the opportunities and meet the challenges. In the process, we will endeavour to provide superior value to our customers and our shareholders, and a rewarding career to our employees. As we prepare to take on an ever-increasing level of competition and challenges it brings with it, we have added depth to the organisation without adding layers. We are well on course in our efforts to ensure that the Bank's systems will become Year 2000 compliant in a timely manner, and we expect to have the necessary business continuity plans implemented well before the end of 1999.

We would like to take this opportunity to express our gratitude to our Board of Directors and to the Advisory Board for their valuable contributions, to the Bahrain Monetary Agency for their support, to our investors for their patronage, and to our shareholders for their confidence in our management. We would also like to thank our management and staff for their perseverance and dedication in making 1998 a successful year.

**Abdulrahman Al Jeraisy**  
*Chairman*

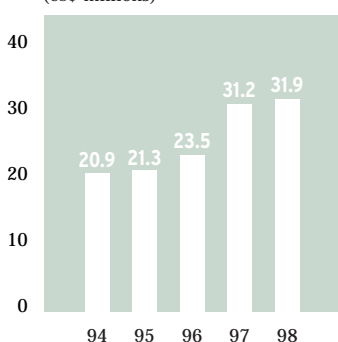
**Iqbal G. Mamdani**  
*Vice Chairman and Chief Executive Officer*

## Overview

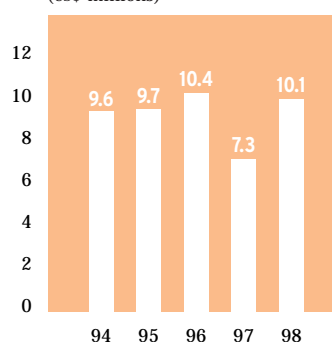
The Bank earned a net profit of US\$10.1 million in 1998 as compared to US\$7.3 million in 1997, resulting in a 39% increase, while the total operating income for 1998 advanced to US\$31.9 million from US\$31.2 million, its highest level since the bank's inception. The year-on-year advance comes from a strong performance in the Securities Trading and Brokerage operations, and from private equity transactions, which have more than offset the lower earnings from other categories.

Earnings per share consequently rose from 8.6 cents in 1997 to 12 cents in 1998.

**Total Operating Income**  
(US\$ millions)



**Net Income**  
(US\$ millions)



## Net Interest Income

In 1998, the net interest income of the Bank was US\$8.0 million, which represents a US\$1.1 million reduction from the previous year. This is a result of the Bank's strategy of focusing on investment banking and shifting away from lending and traditional commercial banking activities. The Bank, however, continues its efforts to maximise interest earnings from investment banking-related fixed income securities.

## Fees and Other Income

The Bank's income under this category rose by US\$1.8 million to US\$23.9 million. The advancement is primarily due to an increase in income from structured private equity transactions and securities trading as well as from externally managed funds, which have more than offset the reduction in incomes from treasury activities, fees and commission.

## Operating Expenses

Operating expenses at US\$14.5 million were up by 12% over the previous year. The increase consists of a US\$0.8 million increase in staff expenses, mainly due to additional staffing in the brokerage and securities areas, and in our subsidiaries, and a similar increase in other operating expenses essentially in stepping up the Bank's marketing activities and in upgrading technology.

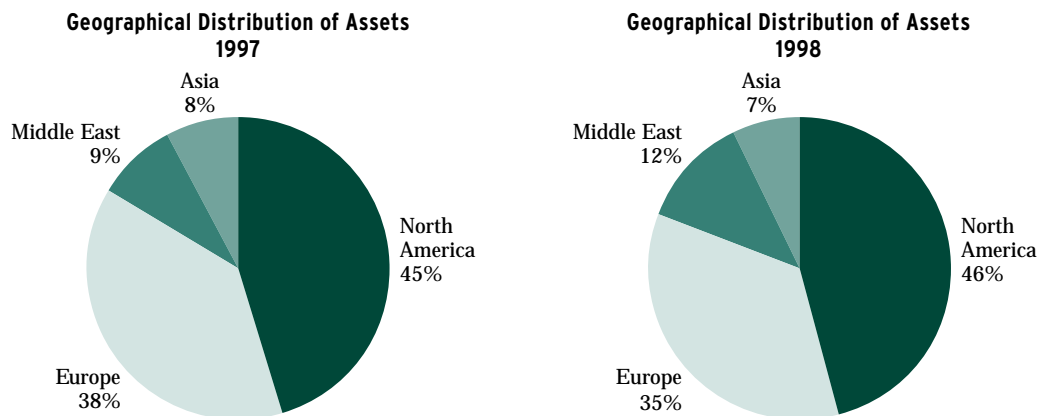
## Assets

The Bank's total assets grew by US\$30.9 million to US\$402.8 million mainly as a result of an increase in the level of investments by US\$22.6 million and placements with banks by US\$26.5 million. The Bank's aggregate loans and advances to customers were brought down by a further US\$14.4 million to US\$40.7 million in keeping with the strategic shift to investment banking business. As at 31 December 1998, net loans and advances as a percentage

of total assets decreased to 10.1% from 14.8% as at the end of the previous year. Advances to related parties continued to be brought down; the reduction in 1998 was 27.5% of the previous year's level. As on 31 December 1998 the advances to related parties stood at 1.7% of the total assets. Based on contractual maturities and repricing dates, 64% of the Bank's total assets were due to mature within 1 year, while 52% of the Bank's liabilities were due to mature within the same period.

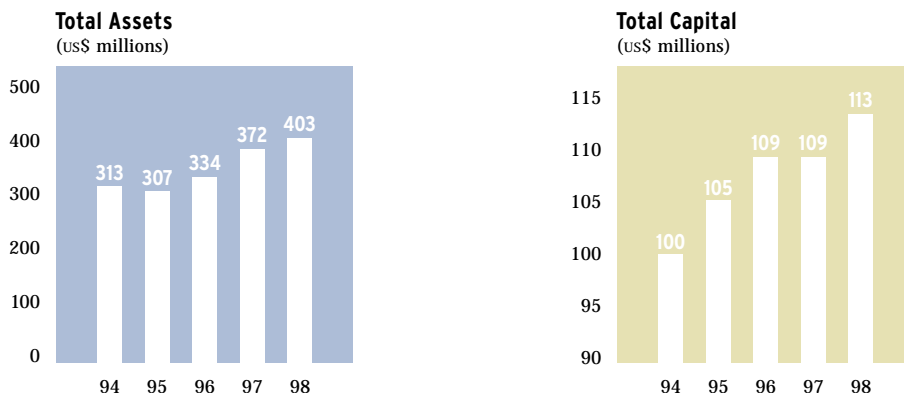
Investments grew to US\$172.6 million representing 43% of the total assets, up from the level of 40% in the previous year. In terms of composition, 62% of the total investments was in marketable securities, 90% of which consisted of triple-A rated securities of North American issuers. An analysis of the investments portfolio by category of investments is contained in Note 8 to the financial statements.

The geographical diversification of risk is reflected in the regional distribution of assets, which at 31 December 1998 stood as: 46% in North America, 35% in Europe, 12% in the Middle East, and 7% in the Indian subcontinent. Details of the distribution of the total assets by geographical region as well as by industry segment are contained in Notes 24 and 25, respectively.



### Capital Strength

Shareholders' equity rose by 3.3% to US\$112.2 million. The Bank's capital adequacy ratio computed in accordance with the BIS guidelines was 38.7% at 31 December 1998, as compared to 34.5% the previous year. This ratio is well above the required minimums of 8% and 12% as stipulated by the BIS and the Bahrain Monetary Agency, respectively, and consists entirely of Tier 1 capital.



### **Board of Directors**

The Board of Directors comprises two executive Directors (including the Vice Chairman, who is also the CEO) and five non-executive Directors, including a non-executive Chairman. There are four scheduled Board Meetings every year and other discussions among the Directors are held on an ongoing and frequent basis. A profile of each director appears alongside.

### **Board Committees**

To enable it to discharge its executive functions efficiently, and its control functions effectively, the Board has constituted two committees—the Executive Committee, and the Audit Committee.

### **Executive Committee**

The Executive Committee consists of three Directors—the Chairman, Vice Chairman (& CEO) and any one other member of the Board. It exercises financial powers delegated by the Board of Directors. The Executive Committee handles business either by circulation or through meetings, as the situation warrants.

### **Audit Committee**

The constitution of the Audit Committee is in keeping with TAIB's resolve to conform to best practices in banking. It consists of three non-executive Directors, all of whom have considerable experience in, and exposure to, banking and/or banking-related products and services. The Audit Committee is scheduled to meet at least three times a year, and its scope of work includes, but is not limited to, an independent examination of all matters relating to the Bank, the internal controls, an assessment of significant risks or exposures, review of published financial information before it is published, etc. The external auditor attends its meetings, having the opportunity for private discussions with the Committee.

## Board of Directors

### **Abdulrahman Al Jeraisy**

*Chairman*

Member of the Board of Saudi Arabian Monetary Agency (SAMA)  
Member of the Supreme Council for Riyadh Development Authority  
Member of the Executive Committee of U.S.-Saudi Arabian Business Council  
Chairman of Riyadh Chamber of Commerce and Industry  
Chairman of Riyadh Industrial City Council  
Chairman of Jeraisy Group, Riyadh

### **Iqbal G. Mamdani**

*Vice Chairman and CEO*

Chairman of TAIB Securities Inc., New York  
Chairman of TAIB YatirimBank, Istanbul  
Chairman of TAIB Kazak Bank, Almaty  
Chairman of TAIB Securities W.L.L., Bahrain  
Director of TAIB Securities Ltd., London  
Director of TAIB Capital Corporation Ltd., Bangalore

### **Ahmed Mohamed Baroom**

*Director*

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

### **Abdulaziz R. Al Rashed**

*Director*

Chairman/Managing Partner of Rashed A. Al Rashed & Sons, Al Khobar  
Director of Al Bank Al Saudi Al Fransi, Riyadh  
Director of Banque Française de L'Orient, Paris  
Director of Al Rashed Trading & Contracting Co., Riyadh  
Director of Al Rashed & Al Omran Co., Riyadh

### **Yavuz Çanevi**

*Director*

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

### **Pradip P. Shah**

*Director*

Chairman of IndAsia Fund Advisors Pvt. Ltd.  
Chairman of Indian Merchants' Chamber (Business & Economic Affairs)  
Director of Reserve Bank of India—Western Region Board  
Director of Indocam Himalayan Fund NV  
Director of Afcon Paulings India Ltd.  
Director of Tata Donnelley Ltd.

### **Ebrahim Sharif AlSayed**

*Director*

Managing Director of TAIB Securities W.L.L., Bahrain  
Director of TAIB Capital Corporation Ltd., Bangalore  
Director of TAIB Securities Inc., New York  
Director of TAM Real Estate Inc., Florida

### **Mohammed Al Attas**

*Director*

Owner of Al Zaytoon Trading & Contracting Est., Jeddah

**C**apturing the opportunities in emerging markets requires a global perspective. At TAIB Bank, we tailor investment strategies to the conditions of each market. To balance reward and risk, we offer clients a wide range of investment services and instruments that meet their individual needs, and continually strive to develop new investment products in response to ever-changing market trends. For business clients, we take a creative approach to provide capital financing and other investment banking services to encourage their growth and enhance their valuations. With more than 10 years of experience in finding unique real estate properties, we consistently provide investors with above-average returns. Finally, our treasury services clients can count on around-the-clock access to our regional markets.

**TAIB:  
At-a-Glance**

### **Asset Management**

TAIB Bank is a full-service financial adviser. We provide the level of support and services each individual requires. For experienced investors, we may provide our expert research and advice, while for others, we devise asset allocations and manage their portfolios entirely. In either case, clients appreciate the broad range of investment options offered, from equities and derivatives, to fixed income and foreign exchange funds investing in emerging markets as well as unique opportunities in U.S. and other leading markets.

## **Treasury Services**

Immediate access to the world's financial markets is essential in these days of around-the-clock investing. At TAIB Bank, we monitor financial, economic and political developments through our global network of analysts and alliance partners minute by minute, so clients are always promptly informed of events that may affect their investments. TAIB Bank offers the full spectrum of Treasury Services, including: Foreign Exchange (Discretionary and Non-Discretionary), Options, Fixed Income, Repos and Reverse Repos, and Structured Products.

## **Corporate Finance**

TAIB Bank excels at devising innovative financing packages for businesses—including private equity and corporate advisory on acquisitions, divestments, joint ventures and financial restructuring. It is our goal to enhance companies' valuations through strategic mergers, acquisitions or business associations. For companies in specific niche markets, including high-technology, we help build businesses by applying our own financial and management expertise, and by bringing companies to new sources of capital and new markets where they can grow more rapidly.

## **Brokerage Services**

TAIB Bank offers brokerage services within all of its markets through its brokerage subsidiary, TAIB Securities, with offices in Bahrain, Turkey, India, New York and London. Built upon the widely recognized expertise of our investment analysts, reliable and transparent execution is the cornerstone of TAIB's added value to the investor. Our new Portfolio Management capabilities offer the degree of service each individual requires. Our advisers will build an investment portfolio based on a client's desired levels of risk, return and liquidity, or investors can take advantage of balanced portfolios built by TAIB Securities.

## **Real Estate**

By creatively structuring and actively managing unique and undervalued commercial properties, TAIB Bank has real estate holdings within the U.S. and United Kingdom valued at more than US\$200 million. We focus on shopping centers throughout the southeastern U.S. and industrial and commercial real estate in the U.K., seeking to reward investors with quarterly returns from rental proceeds.

# Expertise:



★ Drawing on 20 years of local experience to capitalise on new opportunities.

1998 was proof that emerging markets can be volatile. While the markets were in disarray, TAIB Bank's investments outperformed comparable market indices by wisely choosing investment targets and concentrating on industry niches we understand.

# Markets

The TAIB Everest Fund was ranked No. 1 fund in its class for the second year running by Standard & Poor's Micropal.

Despite instabilities in the Turkish government and the economy, TAIB Bank's Golden Horn Fund outperformed the index, thanks to outstanding research and market intelligence.

**T**AIB Bank has in-depth knowledge of the cultures, business practices, industries and economic conditions in its chosen markets. Clients rely on our market insights to discover and quickly capitalise on new opportunities, which we cultivate with creative investment strategies and hands-on management. Confident in our 20-year experience in local markets, TAIB Bank commits its own capital to every investment.

As part of its long-term efforts to expand business and build relationships in its markets, TAIB Bank acquired an existing brokerage operation in India now known as TAIB Securities (India) Ltd.

✦ Fostering entrepreneurial ideas by providing companies with new strategies for growth.



# Ideas:

TAIB Bank worked closely with the managers of a U.S. engineering design specialist that had developed and provided unique computer-aided design (CAD) products to one of the world's largest shipping registrars. To improve its valuation, we're helping them harness their unique capabilities and develop related skill sets.

**A**t TAIB Bank, our aim is to maximise investment benefits. We actively participate with managements to reach critical decisions that impact strategy and valuation. Identifying businesses with upside potential, we connect ideas to capital – to new markets, new financing, new strategic partners. Our role is to provide platforms for entrepreneurial ideas to take shape in environments that motivate organic expansion along with acquisition, fostering greater opportunities for growth. TAIB Bank brings ideas to capital by identifying key industries in our focus markets that have a sustaining competitive advantage. Information technology is one such industry.

# Capital

For a company listed on the Indian stock exchanges that harbored embedded software capabilities along with e-commerce and Internet applications expertise, we continue to work with the management to further develop its market in the U.S. and Europe.

We restructured a software service provider, specializing in telecom and financial services, from an India-held structure to a U.S.-held one. Facilitating growth through acquisition, this company's revenues have grown substantially since our investment two years ago.

# Needs:



✦ Offering investors a diverse range of investment opportunities to meet individuals' goals.

To meet clients' needs for a diverse range of investment choices, we introduced two new funds in 1998: the American Explorer Fund, a U.S. high-tech equities fund; and the TAIB Income Fund, a fixed income securities fund.

# Results

TAIB Bank continually searches for new ways to bring above-average results to clients, with below-average risk. In 1999, we expect to introduce at least two new funds: TAIB Guaranteed Fund and TAIB Rocky Mountain Fund, a fund of funds investing in U.S. equities.

The TAIB family of mutual funds continued to perform well, despite overall volatility in the emerging markets. Most funds performed in the top quartile in their selected markets.

**At TAIB we recognise that each investor is unique—with individual goals, risk tolerances and investing time lines. It is our mission to create an investment strategy best suited to meet those individual goals by working closely with each client. TAIB Bank offers asset allocation advice, diligent research and ongoing asset management services to balance the client's desire for rewards against his tolerance for risk. By offering a growing and diverse range of investment products, each focused on market niches, we connect individual needs with outstanding results.**

TAIB Securities offers portfolio management services for its brokerage clients. Our financial analysts can either devise individual portfolios and manage trading decisions to keep clients' portfolios on track with their goals, or provide thorough research and recommendations to those who prefer to make their own trading decisions.

✦ Providing clients with comprehensive market intelligence to make informed investment decisions.



# Investors:

The monthly mutual fund performance and activity is now available at any time, simply by checking the monthly fund reports on our website.

**www.taib.com** is a comprehensive site on the Internet for intelligence and up-to-date research on emerging markets that we specialize in. We've designed a one-stop site for financial news so investors no longer need to search for the crucial information they need to keep informed.

**We offer comprehensive market intelligence and research on the emerging markets where TAIB Bank is continually monitoring events – available around the globe, around-the-clock, at [www.taib.com](http://www.taib.com), our new website. Investors have instant access to breaking news, as well as to in-depth reports on industries and companies in the Gulf, Turkey, Central Asia and India. At TAIB Bank, outstanding research translates into exceptional returns.**

We're upgrading systems to provide improved customer service and reporting, and to ensure that they are Y2K compliant in time, before the onset of the new millennium.

# Information

TAIB's new website provides updated news and market indices from Reuters®, as well as quotes, so investors can make informed investment decisions.

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**Auditors'  
Report to the  
Shareholders of  
TAIB Bank E.C.**

We have audited the accompanying consolidated financial statements of TAIB Bank E.C. (the "Bank") and its subsidiaries (the "Group") as at 31 December 1998 and the related consolidated statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion:

(1) the financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 1998 and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards;

(2) the Bank has maintained proper books of account and the financial statements and the information contained in the Directors' report are in agreement therewith; and

(3) the Bank, on the basis of the information and explanations given to us, has complied, in all material respects, with the provisions of the Bahrain Commercial Companies Law 1975, as amended, and its Articles of Association during the year ended 31 December 1998.

In addition, in accordance with the requirements of the Bahrain Commercial Companies Law 1975, as amended, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.



**PricewaterhouseCoopers**

12 January 1999

5th Floor, UGB Tower  
Manama, Bahrain

## Consolidated Balance Sheet

(us\$'000s)	Year At 31 December	
	1998	1997
<b>Assets</b>		
Cash and balances with central banks	12,182	5,921
Due from other banks	99,079	72,618
Dealing securities (Note 3)	44,868	44,417
Loans and advances (Notes 4&5)	40,706	55,153
Advances to a shareholder (Note 6)	6,673	9,206
Investments held for resale (Note 7)	15,194	13,214
Investments (Notes 5&8)	172,553	149,963
Goodwill	254	317
Property and equipment (Note 9)	1,446	1,787
Other assets	9,867	19,354
<b>Total assets</b>	<b>402,822</b>	<b>371,950</b>
<b>Liabilities</b>		
Due to other banks	76,835	69,828
Due to customers	125,927	110,432
Securities sold under agreements to repurchase	72,040	66,531
Other liabilities	9,672	10,745
Proposed dividend (Note 10)	5,484	5,062
<b>Total liabilities</b>	<b>289,958</b>	<b>262,598</b>
<b>Minority interest</b>	<b>603</b>	<b>649</b>
<b>Shareholders' Equity</b>		
Share capital (Note 11)	84,375	84,375
Less: Treasury shares	(168)	(16)
Retained earnings	10,218	7,535
Capital reserve (Note 12)	476	476
Statutory reserve (Note 12)	11,560	10,508
General reserve (Note 12)	5,800	5,825
<b>Total shareholders' equity</b>	<b>112,261</b>	<b>108,703</b>
<b>Total equity and liabilities</b>	<b>402,822</b>	<b>371,950</b>

Sheikh Abdulrahman Al Jeraisy  
Chairman

Iqbal G. Mamdani  
Vice Chairman and Chief Executive Officer

The accounting policies and the accompanying notes form an integral part of these consolidated financial statements.

## Consolidated Statement of Income

(us\$'000s)	Year Ended 31 December	
	1998	1997
Interest income	<b>27,498</b>	24,403
Interest expense	<b>19,513</b>	15,311
<b>Net interest income</b>	<b>7,985</b>	9,092
Securities trading income	<b>7,617</b>	6,109
Foreign exchange income	<b>2,448</b>	5,377
Fees and commission	<b>4,161</b>	6,370
Other operating income	<b>9,669</b>	4,272
<b>Total operating income</b>	<b>31,880</b>	31,220
Operating expenses	<b>(14,470)</b>	(12,869)
Provisions (Note 5)	<b>(7,199)</b>	(10,903)
<b>Profit before tax</b>	<b>10,211</b>	7,448
Income tax expense	<b>(90)</b>	(174)
<b>Profit after tax</b>	<b>10,121</b>	7,274
Minority interest	<b>(4)</b>	(4)
<b>Net profit for the year</b>	<b>10,117</b>	7,270
<b>Earnings per share</b> (basic) (Note 10)	<b>us\$0.12</b>	us\$0.09

Sheikh Abdulrahman Al Jeraisy  
Chairman

Iqbal G. Mamdani  
Vice Chairman and Chief Executive Officer

The accounting policies and the accompanying notes form an integral part of these consolidated financial statements.

## Consolidated Statement of Changes in Equity

(us\$'000s)	Year Ended 31 December						Total
	Share Capital	Capital Reserve	Statutory Reserve	General Reserve	Treasury Shares	Retained Earnings	
At 1 January 1997	84,375	476	9,869	5,825	—	7,402	107,947
Net profit for the year	—	—	—	—	—	7,270	7,270
Currency translation adjustment	—	—	(46)	—	—	(1,390)	(1,436)
Proposed dividend (Note 10)	—	—	—	—	—	(5,062)	(5,062)
Treasury shares	—	—	—	—	(16)	—	(16)
Transfer to statutory reserve (Note 12)	—	—	685	—	—	(685)	—
At 31 December 1997	84,375	476	10,508	5,825	(16)	7,535	108,703
Net profit for the year	—	—	—	—	—	10,117	10,117
Currency translation adjustment	—	—	(22)	—	—	(876)	(898)
Proposed dividend (Note 10)	—	—	—	—	—	(5,484)	(5,484)
Treasury shares	—	—	—	(25)	(152)	—	(177)
Transfer to statutory reserve (Note 12)	—	—	1,074	—	—	(1,074)	—
At 31 December 1998	84,375	476	11,560	5,800	(168)	10,218	112,261

Included in retained earnings and statutory reserve at 1 January 1998 is a cumulative currency translation adjustment of us\$11,159,000 (1997: us\$9,723,000).

The accounting policies and the accompanying notes form an integral part of these consolidated financial statements.

## Consolidated Statement of Cash Flows

(us\$'000s)	Year Ended 31 December	
	1998	1997
<b>Cash flows from operating activities</b>		
Income for the year before taxation	10,211	7,448
Adjustments		
Provisions	7,199	10,903
Depreciation	601	550
<b>Movements in operating assets and liabilities</b>		
Dealing securities	(451)	3,336
Loans and advances	12,680	(306)
Other assets	8,949	(4,898)
Due to other banks	7,007	373
Due to customers	15,495	25,368
Other liabilities	(2,348)	4,930
Investments and investments held for resale	(28,745)	(78,078)
Net change in securities sold under repurchase agreements	5,509	5,866
Change in exchange rates related to operating assets and liabilities of overseas subsidiaries	(898)	1,436
<b>Net cash provided/(used) in operating activities</b>	<b>35,209</b>	<b>(25,944)</b>
<b>Cash flows from investing activities</b>		
Net repayments of advance by a shareholder	2,533	1,575
Net purchase of property and equipment	(260)	(287)
Acquisitions	-	(369)
<b>Net cash provided by investing activities</b>	<b>2,273</b>	<b>919</b>
<b>Cash flows from financing activities</b>		
Dividend paid	(4,760)	(4,825)
<b>Net cash used in financing activities</b>	<b>(4,760)</b>	<b>(4,825)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>32,722</b>	<b>(29,850)</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>78,539</b>	<b>108,389</b>
<b>Cash and cash equivalents at end of the year</b>	<b>111,261</b>	<b>78,539</b>

The accounting policies and the accompanying notes form an integral part of these consolidated financial statements.

## Accounting Policies

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

### **Basis of preparation**

The consolidated financial statements are prepared in accordance with and comply with International Accounting Standards. The consolidated financial statements are prepared under the historical cost convention.

In view of the international nature of the Group's operation and in accordance with the provisions relating to Exempt Companies in Bahrain, the amounts shown in these consolidated financial statements are presented in United States dollars.

### **Basis of consolidation**

Subsidiary undertakings, being companies in which the Bank has power to exercise control over operations, have been fully consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Bank and are no longer consolidated from the date of disposal.

Undertakings in which the Bank has power to exercise control over operations and which are intended to be temporary because the undertakings have been acquired and are held exclusively with a view to resale in the near future are not consolidated. These undertakings are disclosed as investments.

All intercompany transactions, balances and unrealised surpluses and deficits on transactions between group companies have been eliminated. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Bank. Separate disclosure is made of minority interests.

A list of the Bank's principal subsidiaries is set out in Note 2.

### **Foreign currencies**

Transactions denominated in foreign currencies are translated into United States dollars at rates of exchange prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into United States dollars at rates of exchange prevailing at the balance sheet date. The resultant exchange gains and losses are dealt with in the statement of income.

Outstanding forward exchange contracts at the balance sheet date are revalued at the forward market rates applicable to their maturities and the resultant gains and losses are dealt with in the statement of income.

The financial statements of subsidiaries are translated into United States dollars using the average rate of exchange for the year except for subsidiaries operating in hyperinflationary economies where the closing rate method of translation is used. The gains or losses arising on translation are dealt with in the shareholders' equity.

### **Fees and commission**

Fees and commission are recognised as income when received.

### **Goodwill**

Goodwill represents the excess of the cost of acquisition over the fair value of the Bank's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill is amortized using the straight line method over five years.

### **Property and equipment**

Property and equipment are stated at cost less accumulated depreciation. Depreciation is computed on a straight line basis in order to write off the cost of the assets over their estimated useful lives of three to five years.

### **Dealing securities**

Dealing securities are stated at fair value based on quoted market prices or discounted cash flow models. All gains and losses realised and unrealised from trading in dealing securities are reported in securities trading income. Interest earned whilst holding dealing securities is reported as interest income. Dividends received are included separately in other operating income. Dealing securities include securities sold under sale and repurchase agreements.

### **Investments**

Investments in real estate properties are stated at cost. The Group's share of income, net of direct expenses in these real estate properties, is recognised in the statement of income.

Marketable securities which management intends to hold to maturity are stated at cost or nominal value, as appropriate, less provision for any diminution in value which is other than temporary in nature. Where applicable, the premium or discount is amortised over the period to maturity.

Investments made by the Group in listed and unlisted debt and equity securities that are acquired with an intention to hold them for the long term are stated at cost. Provision is made for any diminution in value which is other than temporary in nature.

#### **Investments held for resale**

Investments held for resale include debt and equity securities which management intends to hold temporarily with a view to resell them in the near future. These securities are stated at lower of acquisition cost or their net realisable value.

#### **Loans and advances**

Loans and advances are stated net of provisions which are charged to the statement of income. The loan loss provision is based on the year-end appraisal of the Group's total portfolio of loans and advances.

The carrying value of a loan or an advance is determined after examination of various factors, including the value of security held, an analysis of the financial performance, and future prospects of each borrower and an overall evaluation of the ultimate recoverability of the loan or the advance. Provisions are charged off when settlement occurs or the ultimate recoverability is deemed to be unlikely.

Interest income in respect of loans and advances placed on non-accrual status and all unpaid interest income is reversed from the statement of income when any element of a loan or an advance, whether principal or interest, becomes past due and management believes the ultimate collection of past due amounts are doubtful. Subsequent receipts of interest are recognised on a cash basis.

#### **Securities sold under agreements to repurchase**

Securities sold under agreements to repurchase are treated as financing transactions and are stated at the amounts at which the securities will subsequently be repurchased as specified in the respective agreements as adjusted for accrued interest.

#### **Off balance sheet financial instruments**

Off balance sheet financial instruments include currency options, foreign exchange spot and forward contracts and interest rate swaps. Gains and losses generated from those transactions which are used as hedges are recognised on an accrual basis as foreign exchange income/expense in the statement of income. All options contracts written/purchased are backed by options contracts purchased/written.

Any gain or loss arising from the difference between the premiums paid and received is recognised as foreign exchange income/expense in the statement of income.

#### **Cash and cash equivalents**

For the purposes of the statement of cash flows, cash and cash equivalents comprise investments in short-term financial instruments for periods not exceeding ninety days.

#### **Income tax**

Provision for taxation for foreign subsidiaries is determined based on the tax legislation applicable in the jurisdiction in which the foreign subsidiaries are domiciled and is determined based on reported income before income taxes using the liability method.

#### **Staff terminal benefits**

The Bank operates a staff terminal benefit scheme called the Employees' Investment Plan ("EIP"), wherein the employees have an option to contribute an amount subject to a maximum ceiling which is matched by an equivalent contribution by the Bank. On termination, in addition to the share contributed by the employee to the EIP, the employee is paid the higher of the amount of the Bank's contribution to the EIP and the terminal benefit payable in compliance with labour legislation. Provision for staff terminal benefits for employees of subsidiaries are made in compliance with the labour legislation of the countries in which the subsidiaries are domiciled.

#### **Treasury shares**

Own shares of the Bank held at the balance sheet date are designated as treasury shares. These shares are treated as deduction from the Bank's equity.

#### **Provisions**

Provisions other than for loans and investments are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

## 1 Incorporation and Principal Activity

The Bank is incorporated in Bahrain as an Exempt Company and holds an investment banking license issued by the Bahrain Monetary Agency. Its shares are listed on the Bahrain Stock Exchange.

The principal activity of the Bank and its subsidiaries comprises investment banking and financial and securities advisory services.

## 2 Subsidiaries

The Group's subsidiaries at 31 December 1998 are set out below:

Subsidiary	Country of incorporation	Principal activity
TAIB YatirimBank A.Ş.	Turkey	Investment banking
TAIB Asset Management Company E.C.	Bahrain	Investment advisory services
TAIB Investments NV	Netherland Antilles	Real estate
TAIB Securities W.L.L.	Bahrain	Securities brokerage services
TAIB Securities Inc.	USA	Securities advisory services
TAIB Securities Limited	UK	Securities advisory services
TAIB Capital Corporation Limited	India	Merchant banking
TAIB Securities Mauritius Limited	Mauritius	Holding investments
TAIB Kazak Bank	Kazakhstan	Commercial banking
TAIB Asia Limited	Hong Kong	Financial services
TAIB (Suisse) S.A.	Switzerland	Financial services

All the above subsidiaries are wholly owned except TAIB Capital Corporation Limited, which is 51% owned.

## 3 Dealing Securities

(US\$'000s)	1998	1997
Mortgage backed securities	<b>7,600</b>	8,938
Government bonds and treasury bills	<b>22,832</b>	9,400
Listed equities	<b>7,200</b>	22,912
Listed debt securities	<b>337</b>	444
Investment in managed funds	<b>6,899</b>	2,723
	<b>44,868</b>	44,417

The mortgage backed securities and treasury bills are mainly financed by repurchase agreements.

In accordance with the local legislation applicable in the jurisdiction in which a foreign subsidiary is domiciled, government bonds having a nominal value of US\$5.2 million (1997: US\$1.9 million) are kept as a guarantee with the relevant regulatory authorities. Similarly, treasury bills having a nominal value of US\$7 million (1997: US\$7 million) are kept as a security with a Central Bank.

## 4 Loans and Advances

Loans and advances include nonperforming loans aggregating to us\$6,838,000 (1997: us\$5,089,000), and these are stated net of provisions for bad and doubtful loans of us\$7,505,000 (1997: us\$6,020,000).

## 5 Provisions

(us\$'000s)	Loans	Investments		Grand Total
	Specific	Specific	General	
At 1 January 1997	2,854	1,864	—	4,718
Provided	9,255	3,255	—	12,510
Bad debts written off	(2,725)	(1,983)	—	(4,708)
At 31 December 1997	9,384	3,136	—	12,520
Provided	2,368	4,175	1,000	7,543
Bad debts written off	—	(1,850)	—	(1,850)
At 31 December 1998	<b>11,752</b>	<b>5,461</b>	<b>1,000</b>	<b>18,213</b>

Recoveries of loans previously written off amounting to us\$344,000 (1997: us\$1,607,000) have been set off against the provision made during the year.

## 6 Transactions with Related Parties

The Group carries out transactions on an arm's length basis in the ordinary course of business with related parties, defined as shareholders and businesses in which shareholders, individually or combined, have significant influence.

Jamba SA, incorporated in Luxembourg, holds 44.07% (1997: 44.07%) of the Bank's shares. The Bank has advanced funds to Jamba SA for the purpose of financing Jamba SA's operations. Advances net of deposits at 31 December 1998 were us\$6,673,000 (1997: us\$9,206,000). Interest is charged on these advances at market rates. The Bank has not specified repayment terms and cash repayments are made from time to time.

At 31 December 1998, loans and advances included unsecured loans (for which repayment terms have not been specified) of us\$5,938,000 (1997: us\$5,485,000) outstanding to two subsidiaries of Jamba SA. This balance comprises principal and capitalised interest. Interest is charged on these advances at market rates. Loans and advances include us\$732,000 (1997: us\$NIL) due from a company in which directors or employees have a significant interest. Interest is charged on these exposures at market rates.

Customer deposits include us\$18,169,000 (1997: us\$13,598,000) placed by directors and major shareholders and by companies in which directors and major shareholders have a significant interest. These deposits are placed on normal commercial terms offered by the Bank.

## 7 Investments Held for Resale

(us\$'000s)	1998	1997
Unlisted investments	<b>15,194</b>	13,214

## 8 Investments

(us\$'000s)	1998	1997
Marketable securities	<b>107,784</b>	113,745
Investments in real estate	<b>29,969</b>	15,958
Other investments	<b>34,800</b>	20,260
	<b>172,553</b>	149,963
Market value of marketable securities and investments in real estate	<b>135,880</b>	129,774

Included in marketable securities are investments in bonds covered by the Brady plan amounting to us\$8,300,000 (1997: us\$8,300,000) which are stated at their nominal value. The market value of these bonds at 31 December 1998 amounted to us\$5,965,000 (1997: us\$6,059,000).

Investments in real estate represent the Bank's share of the cost of the real estate properties acquired in conjunction with other investors. At 31 December 1998, in addition to the Bank's investment, funds provided by other investors amounted to us\$44,300,000 (1997: us\$46,568,000) and loans from financial institutions amounted to us\$122,100,000 (1997: us\$100,675,000). These loans are secured without recourse to the Bank by the underlying properties.

At 31 December 1998, the Bank's share of the estimated market value of real estate investments as determined by independent appraisers amounted to us\$36,658,000 (1997: us\$23,561,000).

## 9 Property and Equipment

(us\$'000s)	1998	1997
Cost	<b>4,884</b>	4,624
Accumulated depreciation	<b>(3,438)</b>	(2,837)
Net book amount	<b>1,446</b>	1,787

Included in accumulated depreciation is an amount of us\$601,000 (1997: us\$550,000) representing depreciation charge for the year.

## 10 Proposed Dividend

The Board of Directors propose to the General Assembly to pay a cash dividend of us\$0.065 per share (1997: us\$0.06) constituting 6.5% (1997: 6%) of the Bank's issued and fully paid-up capital amounting to us\$5,484,375 (1997: us\$5,062,500). The proposed dividend, once approved by the General Assembly, is subject to the approval of the Bahrain Monetary Agency.

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the average number of issued and fully paid-up ordinary shares (excluding the average number of issued and fully paid-up ordinary shares purchased by the Bank and held as treasury shares).

	1998	1997
Net profit attributable to shareholders (us\$'000s)	<b>10,121</b>	7,274
Average number of issued and fully paid-up ordinary shares ('000s)	<b>84,207</b>	84,359
Basic earnings per share	<b>us\$0.12</b>	us\$0.09

## 11 Share Capital

(us\$'000s)	1998	1997
Ordinary shares of us\$1 each		
Authorised	<b>100,000</b>	100,000
Issued and fully paid	<b>84,375</b>	84,375

## 12 Reserves

### Capital Reserve

Capital reserve represents bonus shares issued by TAIB YatirimBank A.Ş. and is not available for distribution.

### Statutory Reserve

In accordance with the provisions of local legislation of the countries in which the Bank and its subsidiaries are domiciled, a proportion of the net profit for the year is required to be transferred to a non-distributable statutory reserve.

### General Reserve

General reserve represents appropriations from the Bank's net profit as approved by the Board of Directors and can only be distributed with the Directors' approval.

## 13 Contingent Liabilities and Commitments

(us\$'000s)	1998	1997
Lending related (Note 14)	<b>4,895</b>	32,644
Derivatives and foreign exchange (Note 15)	<b>467,654</b>	1,264,768
Other commitments (Note 16)	<b>429</b>	6,846
	<b>472,978</b>	1,304,258

## 14 Off Balance Sheet Lending Related Financial Instruments

(us\$'000s)	1998	1997
Letters of credit	<b>3,000</b>	9,870
Acceptances	-	7,444
Guarantees	<b>1,595</b>	8,418
Undrawn loan commitments	<b>300</b>	6,912
	<b>4,895</b>	32,644

At 31 December 1998, all the Group's letters of credit, acceptances and guarantees expire within one year. All commitments to extend credit expire within three years.

## 15 Derivatives and Foreign Exchange Financial Instruments

In the ordinary course of business, the Group enters into contracts that involve derivatives and foreign exchange financial instruments to meet customer requirements and to manage its exposure to fluctuations in interest and currency rates.

(us\$'000s)	1998	1997
<b>Spot and forward contracts</b>		
Foreign exchange bought	<b>113,827</b>	280,384
Foreign exchange sold	<b>113,827</b>	280,384
<b>Currency options (notional amount)</b>		
Assets	<b>70,000</b>	280,294
Liabilities	<b>70,000</b>	280,294
<b>Interest rate swaps (notional amount)</b>		
Assets	<b>50,000</b>	71,706
Liabilities	<b>50,000</b>	71,706
	<b>467,654</b>	1,264,768

At 31 December 1998, all the Group's foreign exchange contracts mature within one year, all currency options expire within one year and all

interest rate swaps expire within three years. Note 22 provides information on significant net open foreign currency positions held by the Group.

## 16 Other Commitments

At 31 December 1998, the Group was committed to repurchase from its customers certain Government bonds and treasury bills amounting to us\$429,000 under normal operational repurchase agreements (1997: us\$6,846,000).

## 17 Funds Under Management

(us\$'000s)	1998	1997
Discretionary accounts	<b>58,377</b>	40,737
Non-discretionary accounts	<b>6,200</b>	12,123
	<b>64,577</b>	52,860

Funds under discretionary management include the Everest Fund, TAIB Currency Fund, Golden Horn Fund, American Explorer Fund and TAIB Income Fund. These funds are stated at their net asset value as at the year end.

The Everest Fund is an open-ended investment company incorporated in Luxembourg as a Société d'investissement à Capital Variable. TAIB Currency Fund, Golden Horn Fund and TAIB Income Fund are open-ended investment companies registered in the British Virgin Islands as limited liability companies.

The Bank is the investment manager for all the above three funds and also acts as the investment adviser for the Everest Fund and TAIB Income Fund. Discretionary accounts include us\$23,258,000 (1997: us\$22,605,000) which represents funds managed by TAIB Securities W.L.L. on behalf of its customers.

Non-discretionary accounts comprises customers' investments in Indian securities which are undertaken through TAIB Securities Mauritius Limited.

## 18 Contingent Liabilities Arising from Litigation

At 31 December 1998, there were seven claims outstanding against the Group. The total amount claimed is us\$1,509,000 (1997: us\$2,096,000). No provision has been made, since the Directors believe that the claims are without any merit and will not result in any loss to the Group.

## 19 Interest Rate Risk Management

The Group's interest rate sensitivity position at 31 December based on the contractual repricing dates or maturity dates, whichever are earlier, is as follows:

(US\$'000s)	1998						Total
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	
Cash and balances with central banks	12,182	-	-	-	-	-	12,182
Due from other banks	99,079	-	-	-	-	-	99,079
Dealing securities	19,712	295	10,178	578	-	14,105	44,868
Loans and advances	6,199	8,927	16,758	-	-	8,822	40,706
Advances to a shareholder	6,349	324	-	-	-	-	6,673
Investments held for resale	-	-	-	-	-	15,194	15,194
Investments	52,712	15,785	9,324	-	44,519	50,213	172,553
Goodwill	-	-	-	-	-	254	254
Property and equipment	-	-	-	-	-	1,446	1,446
Other assets	-	-	-	-	-	9,867	9,867
<b>Total assets</b>	<b>196,233</b>	<b>25,331</b>	<b>36,260</b>	<b>578</b>	<b>44,519</b>	<b>99,901</b>	<b>402,822</b>
Due to other banks	60,605	16,213	-	-	-	17	76,835
Due to customers	39,362	6,440	14,755	50,000	-	15,370	125,927
Securities sold under agreements to repurchase	66,949	5,091	-	-	-	-	72,040
Other liabilities	-	-	-	-	-	9,672	9,672
Proposed dividend	-	-	-	-	-	5,484	5,484
<b>Total liabilities</b>	<b>166,916</b>	<b>27,744</b>	<b>14,755</b>	<b>50,000</b>	<b>-</b>	<b>30,543</b>	<b>289,958</b>
Minority interest	-	-	-	-	-	603	603
Shareholders' equity	-	-	-	-	-	112,261	112,261
<b>Total liabilities and shareholders' equity</b>	<b>166,916</b>	<b>27,744</b>	<b>14,755</b>	<b>50,000</b>	<b>-</b>	<b>143,407</b>	<b>402,822</b>
On balance sheet gap	29,317	(2,413)	21,505	(49,422)	44,519	-	-
Off balance sheet gap	-	-	(50,000)	50,000	-	-	-
<b>Total interest rate sensitivity gap</b>	<b>29,317</b>	<b>(2,413)</b>	<b>(28,495)</b>	<b>578</b>	<b>44,519</b>	<b>-</b>	<b>-</b>
Cumulative interest rate sensitivity gap	29,317	26,904	(1,591)	(1,013)	43,506	-	-

## 19 Interest Rate Risk Management (Continued)

(US\$'000s)	1997						Total
	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non-interest bearing	
Cash and balances with central banks	5,921	—	—	—	—	—	5,921
Due from other banks	71,505	1,113	—	—	—	—	72,618
Dealing securities	9,238	1,666	1,432	7,310	399	24,372	44,417
Loans and advances	14,589	22,000	14,314	—	—	4,250	55,153
Advances to a shareholder	—	—	9,206	—	—	—	9,206
Investments held for resale	—	—	—	—	—	13,214	13,214
Investments	61,367	2,502	8,300	—	33,006	44,788	149,963
Goodwill	—	—	—	—	—	317	317
Property and equipment	—	—	—	—	—	1,787	1,787
Other assets	—	—	—	—	—	19,354	19,354
<b>Total assets</b>	<b>162,620</b>	<b>27,281</b>	<b>33,252</b>	<b>7,310</b>	<b>33,405</b>	<b>108,082</b>	<b>371,950</b>
Due to other banks	51,580	18,100	—	—	—	148	69,828
Due to customers	52,638	2,980	5,859	41,730	—	7,225	110,432
Securities sold under agreements to repurchase	—	62,227	4,304	—	—	—	66,531
Other liabilities	—	—	—	—	—	10,745	10,745
Proposed dividend	—	—	—	—	—	5,062	5,062
<b>Total liabilities</b>	<b>104,218</b>	<b>83,307</b>	<b>10,163</b>	<b>41,730</b>	<b>—</b>	<b>23,180</b>	<b>262,598</b>
Minority interest	—	—	—	—	—	649	649
Shareholders' equity	—	—	—	—	—	108,703	108,703
<b>Total liabilities and shareholders' equity</b>	<b>104,218</b>	<b>83,307</b>	<b>10,163</b>	<b>41,730</b>	<b>—</b>	<b>132,532</b>	<b>371,950</b>
On balance sheet gap	58,402	(56,026)	23,089	(34,420)	33,405	—	—
Off balance sheet gap	—	—	(50,000)	50,000	—	—	—
<b>Total interest rate sensitivity gap</b>	<b>58,402</b>	<b>(56,026)</b>	<b>(26,911)</b>	<b>15,580</b>	<b>33,405</b>	<b>—</b>	<b>—</b>
Cumulative interest rate sensitivity gap	58,402	2,376	(24,535)	(8,955)	24,450	—	—

The tables above include floating rate instruments as follows:

(US\$'000s)	1998			1997		
	Up to 1 month	3-12 months	Total	Up to 1 month	3-12 months	Total
<b>On balance sheet</b>						
Dealing securities	<b>7,353</b>	-	<b>7,353</b>	8,539	—	8,539
Investments	<b>51,257</b>	-	<b>51,257</b>	61,011	—	61,011
	<b>58,610</b>	-	<b>58,610</b>	69,550	—	69,550
<b>Off balance sheet</b>						
Interest rate swaps— notional asset	-	-	-	21,706	—	21,706
Interest rate swaps— notional liability	-	<b>(50,000)</b>	<b>(50,000)</b>	(21,706)	(50,000)	(71,706)
	-	<b>(50,000)</b>	<b>(50,000)</b>	—	(50,000)	(50,000)

## 19 Interest Rate Risk Management (Continued)

Where applicable, the effective interest rate by major currencies for each category of the monetary financial instruments as at 31 December is shown below:

	1998			1997		
	us\$ %	TL %	EGP %	us\$ %	TL %	EGP %
<b>Dealing securities</b>						
Mortgage backed securities	4.5	-	-	5.7	—	—
Treasury bills	4.6	79.0	-	—	79.1	8.8
Eurobonds	7.7	-	-	8.6	—	—
<b>Investments</b>						
Brady bonds	8.8	-	-	8.6	—	—
Mortgage backed securities	4.6	-	-	5.7	—	—

## 20 Credit Risk and Concentrations of Credit Risk

Concentration of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the bank's performance to both positive and negative developments affecting a particular industry or geographical location.

Geographical and industrial distribution of assets, liabilities and off balance sheet items are shown in Note 24.

Significant concentrations of credit risk at 31 December 1998 representing net exposures are as follows:

(us\$'000s)	1998		Total exposure
	On balance sheet	Off balance sheet	
Emsan Group	22,213	249	22,462
Subra Holding Inc.	11,505	-	11,505

(us\$'000s)	1997		Total exposure
	On balance sheet	Off balance sheet	
Emsan Group	21,768	1,892	23,660
Subra Holding Inc.	10,119	—	10,119

The Bank's investment in Emsan Group, a manufacturing company in Turkey, and Subra Holding Inc., an info-tech company in the United States of America, has not been consolidated as the controlling interest is intended to be temporary; the subsidiary had been acquired with a view to its subsequent disposal in the near future.

## 21 Fair Value of Financial Instruments

The table below as at 31 December compares the estimated fair values of financial instruments with their respective book values where these two amounts differ.

(us\$'000s)	Book value	1998 Fair value	Shortfall
Investments	172,553	171,735	(818)

(us\$'000s)	Book value	1997 Fair value	Shortfall
Investments	149,963	149,481	(482)

The estimated fair value of all other financial instruments is not significantly different from their book value.

## 22 Significant Net Open Foreign Currency Positions

Significant long net open foreign currency positions held by the Group are as follows:

(us\$'000s)	1998	1997
Turkish Lira (TL)	-	3,610
Indian Rupees (IRS)	8,148	4,969
Egyptian Pound (EGP)	-	2,270
	<b>8,148</b>	<b>10,849</b>

The position in the above-mentioned foreign currencies results from the holding of investments and trading securities.

## 23 Maturity Profile

The maturity profile of assets and liabilities of the Group is as follows:

(us\$'000s)	1998			1997		
	Assets	Liabilities	Net	Assets	Liabilities	Net
Up to 1 month	154,809	98,912	55,897	113,794	100,239	13,555
From 1 to 3 months	37,807	28,892	8,915	33,853	27,067	6,786
From 3 months to 1 year	42,435	37,895	4,540	35,501	20,255	15,246
From 1 year to 5 years	125,268	119,667	5,601	118,363	102,967	15,396
From 5 years and over	42,503	5,195	37,308	70,439	12,719	57,720
Shareholders' funds	-	112,261	(112,261)	-	108,703	(108,703)
	<b>402,822</b>	<b>402,822</b>	<b>-</b>	<b>371,950</b>	<b>371,950</b>	<b>-</b>

## 24 Concentration of Assets, Liabilities and Off Balance Sheet Items

Assets, liabilities and off balance sheet items of the Group are distributed over the following geographical regions and industry sectors:

(us\$'000s)	1998			1997		
	Assets	Liabilities	Off balance sheet items	Assets	Liabilities	Off balance sheet items
<b>Geographical Regions</b>						
North America	184,283	75,619	274,682	168,465	82,343	876,719
Europe	143,212	110,581	164,800	142,852	71,727	232,903
Middle East	47,347	214,902	13,158	31,952	209,304	117,817
Asia	27,980	1,720	20,338	28,681	8,576	76,819
	<b>402,822</b>	<b>402,822</b>	<b>472,978</b>	<b>371,950</b>	<b>371,950</b>	<b>1,304,258</b>

	1998			1997		
	Assets	Liabilities	Off balance sheet items	Assets	Liabilities	Off balance sheet items
<b>Industry Sectors</b>						
Trading and manufacturing	112,182	67,091	28,288	102,323	51,925	183,380
Banks and financial institutions	290,640	335,731	444,690	269,627	320,025	1,120,878
	<b>402,822</b>	<b>402,822</b>	<b>472,978</b>	<b>371,950</b>	<b>371,950</b>	<b>1,304,258</b>

## 25 Segmental Reporting

The Group's financial performance can be summarised by geographical area as follows:

(us\$'000s)	1998					Total operating income
	Net interest income	Securities trading income	Foreign exchange income	Fees and commission income	Other income	
North America	<b>10,342</b>	<b>416</b>	<b>414</b>	<b>1,801</b>	<b>7,044</b>	<b>20,017</b>
Europe	<b>4,163</b>	<b>1,949</b>	<b>1,473</b>	<b>590</b>	<b>1,292</b>	<b>9,467</b>
Middle East	<b>(6,539)</b>	<b>650</b>	<b>427</b>	<b>551</b>	<b>1,101</b>	<b>(3,810)</b>
Asia	<b>19</b>	<b>4,602</b>	<b>134</b>	<b>1,219</b>	<b>232</b>	<b>6,206</b>
	<b>7,985</b>	<b>7,617</b>	<b>2,448</b>	<b>4,161</b>	<b>9,669</b>	<b>31,880</b>
Expenses						<b>(14,470)</b>
Net operating income						<b>17,410</b>

(us\$'000s)	1997					Total operating income
	Net interest income	Securities trading income	Foreign exchange income	Fees and commission income	Other income	
North America	7,310	3,460	3,626	3,763	2,431	20,590
Europe	5,259	625	39	1,683	1,112	8,718
Middle East	(4,301)	1,759	1,556	631	683	328
Asia	824	265	156	293	46	1,584
	9,092	6,109	5,377	6,370	4,272	31,220
Expenses						(12,869)
Net operating income						18,351

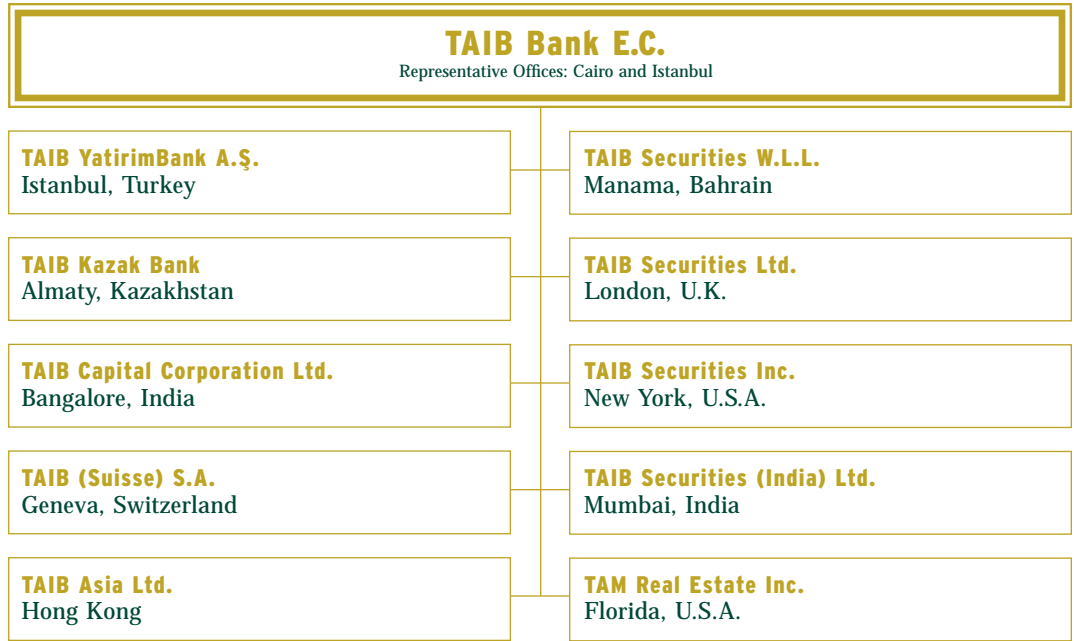
## 26 TAIB Bank EC Balance Sheet as at 31 December 1998

(US\$'000s)	1998	1997
<b>Assets</b>		
Cash and balances with central banks	11,166	4,598
Due from other banks	97,001	70,870
Dealing securities	30,743	31,364
Loans and advances	35,937	44,722
Advances to a shareholder	6,673	9,206
Investments held for resale	15,194	13,214
Investments	172,189	149,442
Advances to subsidiaries	3,470	2,832
Investment in subsidiaries	18,043	16,947
Goodwill	254	317
Property and equipment	871	1,084
Other assets	7,107	13,432
<b>Total assets</b>	<b>398,648</b>	<b>358,028</b>
<b>Liabilities</b>		
Due to other banks	63,456	48,705
Due to customers	125,278	109,793
Securities sold under agreements to repurchase	72,040	66,531
Deposits from subsidiaries	4,925	7,071
Other liabilities	6,985	4,536
Proposed dividend	5,484	5,062
<b>Total liabilities</b>	<b>278,168</b>	<b>241,698</b>
Share capital	84,375	84,375
Less: Treasury shares	(168)	(16)
Retained earnings	19,058	15,712
Statutory reserve	11,415	10,434
General reserve	5,800	5,825
Total shareholders' equity	120,480	116,330
<b>Total equity and liabilities</b>	<b>398,648</b>	<b>358,028</b>

**TAIB**  
**YatirimBank A.Ş.**  
**Consolidated**  
**Balance Sheet**

(Expressed in millions of Turkish Lira)	Year At 31 December	
	1998	1997
<b>Assets</b>		
Cash and due from banks	78,530	118,434
Term deposits at banks	157,850	617,595
Marketable securities	3,550,379	2,371,114
Loans—net	1,413,627	2,147,413
Investment in direct financing leases—net	47	13,499
Due from related parties	5,095	4,115
Accrued interest receivable and other assets	58,315	1,066,497
Tax receivable	21,179	8,695
Deferred tax asset	169,859	82,094
Investment	39,975	33,975
Office furniture, equipment and leasehold improvements—net	55,275	47,897
Preoperating expenses—net	1,228	1,333
<b>Total assets</b>	<b>5,551,359</b>	<b>6,512,661</b>
<b>Liabilities and Shareholders' Equity</b>		
Funds borrowed from banks	4,222,135	4,345,786
Due to related parties	3,830	111,832
Accrued interest payable and other liabilities	51,375	1,111,938
Deferred tax liabilities	367,540	295,184
Other liabilities	53,943	31,551
Reserve for employment termination benefits	13,040	8,696
<b>Total liabilities</b>	<b>4,711,863</b>	<b>5,904,987</b>
Subordinated loan from parent company	631,400	411,730
<b>Shareholders' Equity</b>		
Share capital	188,000	188,000
Legal reserve	21,194	12,929
Revaluation surplus	8,234	16,036
Retained earnings	(9,332)	(21,021)
<b>Total shareholders' equity</b>	<b>208,096</b>	<b>195,944</b>
Total shareholders' equity and subordinated loan from parent company	839,496	607,674
<b>Total liabilities and shareholders' equity</b>	<b>5,551,359</b>	<b>6,512,661</b>

**TAIB Group  
Organisation  
Chart**



**Board of Directors  
and  
Advisory Boards**

**Board of Directors**

Abdulrahman Al Jeraisy  
*Chairman*

Iqbal G. Mamdani  
*Vice Chairman and CEO*

Ahmed M. Baroom  
*Director*

Abdulaziz Alrashed  
*Director*

Yavuz Çanevi  
*Director*

Pradip P. Shah  
*Director*  
*(appointed 25 March 1998)*

Ebrahim Sharif ALSayed  
*Director*

Mohammed Al Attas  
*Director*

**Advisory Boards**

**Gulf**

Nooruddin A. Nooruddin

Najeeb Al-Saleh

Ahmed bin Saif Al Rawahy

Mahmoud Matbouli

Majid Saleh Al-Khulaifi

**International**

Necati Akcaglilar

Jun Mizuno

Edward G. Nelson

Christian Weyer

Nicholas P. Clegg

**Hong Kong**

Hari N. Harilela

C.T. Chan

**Switzerland**

Camille Froidevaux

Jerome Joliat

**Turkey**

Mohamed Al Awadi

Serhan Altinordu

**United Kingdom**

Dr. Abdool Magid A.K. Wakil

Salim Lalani

**United States**

William G. Gridley, Jr.

Cecil Phillips

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Iqbal G. Mamdani  
*Vice Chairman and CEO*

### Senior Management

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*Executive Vice President*  
Babu Sahadev  
*Senior Vice President*  
Narayan A. Menon  
*Senior Vice President*  
Manabendranath Sen  
*Senior Vice President*  
Dayanand Shetty  
*First Vice President*  
Susan I. Clark  
*First Vice President*  
Walter J. Rathod  
*Vice President*

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*Acting General Manager*

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Murat Sazanov  
*Deputy General Manager*

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Umit Oflas  
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