Financials

TAIB
20
1999

NINETEEN NINETY NINE

An outstanding year from every perspective. Against the backdrop of our 20th Anniversary, we produced record growth…our core business lines reached performance objectives…and our initiatives to build further depth to our organization—by function, products and geography—came to fruition. Encouraged by this excellent performance, we eagerly await to embrace the opportunities of the new millennium.

C O N T E N T S

(US$'000s)	**1999**	1998	1997	1996	1995
Earnings					
Net interest income	**9,472**	7,985	9,092	8,137	7,390
Fees and other income	**32,231**	23,895	22,128	15,336	13,885
Net income before provisions	**25,004**	17,410	18,351	11,925	11,603
Net income	**14,026**	10,117	7,270	10,403	9,678
Dividend	**5,063***	5,484	5,062	5,062	4,219
Financial Position					
Total assets	**512,562**	402,822	371,950	333,569	306,889
Investments and marketable securities	**365,715**	232,615	207,594	135,196	141,279
Loans and advances	**27,264**	40,706	55,153	62,496	47,596
Customer deposits	**124,382**	125,927	110,432	84,424	51,429
Total deposits	**328,554**	274,802	246,791	214,544	188,798
Shareholders' equity	**120,291**	112,261	108,703	107,947	103,953
Ratios					
Earnings:					
Return on Average Equity (%)	**12.1**	9.1	6.7	9.8	9.5
Return on Average Assets (%)	**3.1**	2.6	2.1	3.3	3.1
Earnings per Share (cents)	**16.6**	12.0	8.6	12.3	11.5
Cost:					
Expenses to Total Operating Income	**40%**	45%	41%	49%	45%
Capital:					
Total Liabilities to Shareholders' Equity (times)	**3.3**	2.6	2.4	2.1	2.0
BIS risk-adjusted Capital Adequacy ratio (%)	**43.8**	38.7	34.5	43.7	44.9

* In addition, a bonus issue is proposed in the ratio of 1 share for every 20 shares.

Dear Shareholders,

Nineteen ninety-nine was the most successful year in TAIB Bank's history. As a result of highly focused efforts by everyone, all previous revenue and profit records to date were surpassed. We posted a total operating income of US$41.7 million and a net profit of US$14.0 million, up 31% and 39% respectively, from 1998. Consequently, earnings per share increased 39% to 17 cents. The Board of Directors, therefore, has recommended both a cash dividend of 6%, as well as a bonus share issue of 1 share for every 20 shares.

Our vision and strategy continue to serve us well...

As further testimony to our strategic shift away from lending a few years ago, non-interest income reached a level of 77% of the total operating income. Also notable in all around revenue growth are the 113% growth in fees and commission, and 55% growth in securities trading income. Our return on equity improved from 9.1% to 12.1%. At year-end, the Group's Total Assets stood at US$512 million, a 27% gain from 1998.

The excellent results cited on the pages that follow, as well as all of the achievements highlighted in the accompanying supplement, make 1999 a year which we can look back upon with pride. Overall, however, the signature events of the year were reaching the 20-year milestone and laying the foundation for TAIB Tower, our new headquarters in Bahrain. We're particularly proud to be further endorsing our commitment to Bahrain and reaffirming our confidence in its position as the financial center of the Middle East.

As in previous years, our balance sheet continues to reflect the overall strength of the Bank and its capacity to withstand market fluctuations. Our leverage, though marginally up at 3.3, remains at a healthy level, while our risk-adjusted capital adequacy ratio further strengthened from 38.7% in 1998 to 43.8%—more than triple the level required by the Bahrain Monetary Agency. During 1999, Capital Intelligence maintained their outlook for TAIB Bank as "Stable," and assigned a credit rating of A3 for short-term and BB+ for long-term.

HIGHLIGHTS

CORPORATE FINANCE

A strong, all around performance of private equity investments, including a profitable exit from Silverline Holdings Inc.

ASSET MANAGEMENT

Impressive growth of 72%, on average, from the TAIB family of funds; and the launch of the TAIB Crescent Global Fund.

Progress in Turkey, India and Kazakhstan...

TAIB's subsidiaries performed well in 1999, despite the political and economic uncertainties that prevailed in our focused markets for much of the year. TAIB YatirimBank (TYB), our wholly-owned subsidiary in Turkey, successfully took advantage of opportunities in both the domestic fixed-income and stock markets. With respect to fixed income, TYB managed the devaluation risk and provided higher returns to its overseas clients. Through its in-depth equity research, TYB's subsidiary TAIB Yatirim improved the return on both of TYB's domestic funds (one of which was among the top ten funds of 1999), and on the TAIB Golden Horn Fund, which recorded a year-on-year return of 69%. With the IMF agreement in place, and the present coalition government committed to economic reforms, we believe that lower inflation and lower interest rates will fuel economic growth in the year 2000 and beyond. The European Commission's decision to put Turkey on the fast track for membership in the Union, and improving relations between Turkey and Greece, should bring a further boost as well.

TAIB Capital Corporation Limited (TCCL), our subsidiary based in Bangalore, India, has continued to keep pace, having established a very special niche assisting companies in the IT software and e-commerce arena. During the past year, TCCL successfully brought several companies to the public market and identified numerous opportunities for private equity deals. Moreover, it was listed as one of the leading players for managing Indian software company IPOs. Finally, TAIB Securities (India) Ltd.—TCCL's Mumbai brokerage subsidiary which concentrates on institutional brokerage and assisting TAIB in fund management—finished its first profitable year of operation. Now and into the new millennium, we expect that our presence in this market, combined with our unique combination of strengths, will provide unprecedented opportunity—particularly as India's post election coalition government further liberalizes its economy for foreign investment.

REAL ESTATE

Active management of our real estate portfolio resulted in an upswing in acquisitions and exits.

BROKERAGE SERVICES

A significant improvement in securities trading income from most of our traditional markets.

TREASURY

A positive growth in structured foreign exchange and fixed income products.

During 1999, TAIB Kazak Bank (TKB), our Kazakhstan subsidiary, was granted its full-fledged banking status. Still in its formative stages, TKB has acquired its own office premises and will be moving into a new and fully-fitted facility shortly. In light of the Kazak economy showing positive signs of stability after the currency fluctuations earlier in the year, we expect TKB to take advantage of investment and commercial banking opportunities arising in this emerging republic.

The momentum for the new millennium...

No doubt, the year's successes have further helped to build our organization to a position of financial and market strength—a true benchmark for performance. It's encouraging to know that such performance is directly related to the way in which we've come to embrace opportunities inherent in the markets we serve: through fostering a culture of entrepreneurship and client focus, and capitalizing on our core strengths.

Over twenty years TAIB has evolved from a $10 million, six-person bank to an institution with shareholder equity of more than $120 million and over 150 professionals serving key markets and financial centers worldwide. Despite two wars in the Gulf, regional recessions and stock market volatility, we've sustained a focused business approach and a tradition of measured growth. We have the momentum to grow. With a strong balance sheet and remarkably strong niche market position, we shall embrace the new millennium with vigor, striving to meet our growth and profit objectives, as well as the opportunities and challenges that lie ahead. Of particular importance: investing in the people, the technology, and the products and services required to meet the changing marketplace and needs of our clients...

- People—to foster an environment that encourages performance and provides the impetus to grow both professionally and personally, to recruit and train expert talent, and to build satisfied customer and institutional relationships.

- Technology—to bolster productivity through efficiencies, to compete more effectively, and mostly to provide better service for our clients.

- Products and Services—to enhance and broaden the mix, and to add further value.

Going forward, we will also continue to adopt corporate governance and transparency standards that are more internationally recognized. Already, we've implemented the accounting standards IAS 32 and IAS 29. We've also established an Audit Committee of the Board, and plan to add a Risk Management Committee. In the meantime, both internal audit and risk management standards are being upgraded to ensure the future growth of the Bank.

Lastly, we would like to take this opportunity to thank those who, for the last twenty years, are responsible for our success:

To the Government of Bahrain, HH the Amir, Sh Hamad bin Isa Al Khalifa, the Crown Prince HH Sh Salman bin Hamad bin Isa Al Khalifa and HH the Prime Minister Sh Khalifa bin Salman Al Khalifa—for their enduring confidence;

To the Minister of Finance and the Governor of the Bahrain Monetary Agency—for their continuous guidance and support;

To our shareholders—for their unwavering commitment;

To the Board of Directors and Advisory Board—for their insightful guidance and counsel;

To our customers—for providing us with the opportunity to help them accomplish their investment objectives;

And finally, to our dedicated management and staff, who have worked hard and maintained a single-minded commitment throughout.

Sheikh Abdulrahman Al Jeraisy
Chairman

Iqbal G. Mamdani
Vice Chairman and Chief Executive Officer

19 January 2000

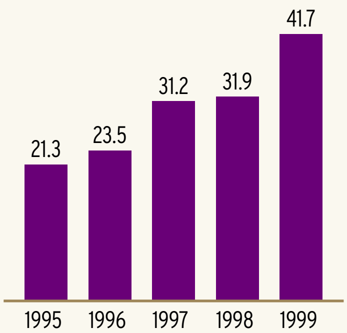
Sheikh Abdulrahman Al Jeraisy
Chairman

Iqbal G. Mamdani
Vice Chairman and
Chief Executive Officer

Overview of Financial Results

The Bank set a record in 1999 with a net operating income of US$41.7 million, up 39% from 1998, while the net profit advanced to US$14.0 million in 1999 as compared to US$10.1 million in 1998. The Return on Average Equity increased to 12.1% as against 9.1% the previous year, while Return on Average Assets went up to 3.1% from 2.6%. The year-on-year performance comes from an all-around growth in income, notable among which are a 113% increase in fees and commission, and a 55% increase in the securities trading income. Non-interest income, as a percentage of net operating income, rose further from 75% in 1998 to 77% in 1999.

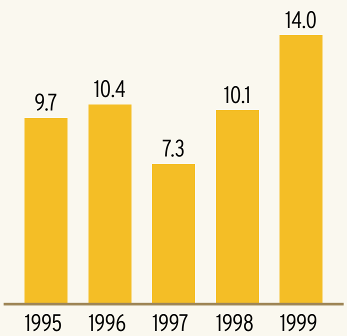
Earnings per share consequently rose from 12 cents a share in 1998 to 17 cents a share in 1999.



Total Operating Income (US$millions)

Net Interest Income

The net interest income for 1999 was US$9.5 million, which represents a 19% increase over 1998. This is a result of maximizing interest earnings from fixed income securities related to investment banking, as well as asset management.



Total Income (US$millions)

Fees and Commission

The Bank's income from fees and commission rose 113% from the previous level of US$4.2 million to US$8.9 million, mainly due to a higher overall level of investment banking activity in 1999.

We successfully introduced and managed an investment product tailored to suit our investors' requirements for Turkey, which contributed US$1.4 million in fees, while advisory fees relating to our corporate finance activities in the Information Technology Sector of the United States and India contributed a further US$3.6 million.

In real estate, the Bank made new investments, along with our investors, of approximately US$30.0 million; the activity also contributed US$3.3 million to the fees and commission earnings.

Securities Trading Income

The 55% increase over the previous year, from US$7.6 million to US$11.8 million in 1999, comes primarily from significantly better performance in the U.S., Indian, and Turkish equity markets by portfolios under the Bank's management, as well as externally managed funds.

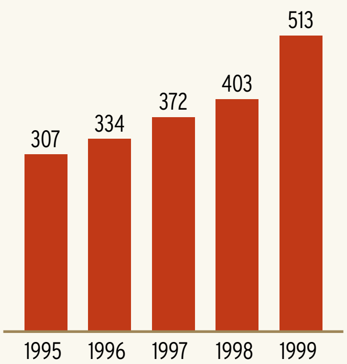
Operating Expenses

Operating expenses of US$16.7 million were up 15% over the previous year, partly due to consolidating, for the first time, the figures of our real estate subsidiary in the U.S., and partly to increased marketing efforts, particularly advertising and web-site enhancement, and expenses towards increased activity in India, Kazakhstan and Turkey. It may be noted that total expenses as a percentage of total revenue decreased to 40% in 1999 from 45% in 1998, while staff costs decreased to 19% of revenue, from 22% of revenue, in line with our objectives.

Balance Sheet

Total Assets

The Bank's total assets crossed the US$500 million mark as at 31 December 1999, and stood at US$512.6 million, an increase of US$109.7 million over the previous year-end. This is primarily due to a higher investment of US$106.5 million in marketable securities, mainly U.S. Treasury securities and managed funds in Europe and the U.S.



Total Assets (US$millions)

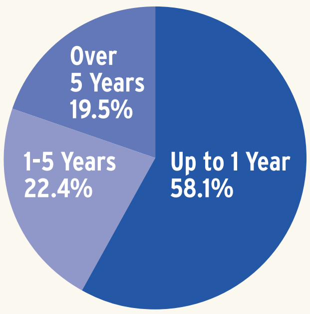
Loans and Advances

The Bank's aggregate loans and advances were brought down by a further US$13.4 million to US$27.3 million, in keeping with the strategic shift away from lending activity. As at 31 December 1999, net loans and advances, as a percentage of total assets, decreased to 5.3% from 10.1% in the previous year.

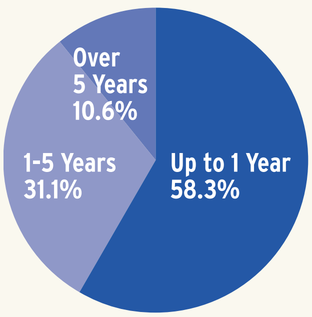
Liquidity

Based on contractual maturities and repricing dates, 58% of the Bank's total assets were due to mature within one year while 49% of the Bank's liabilities were due to mature within the same period. The total interest rate sensitivity gap remains comfortable.

The Bank's leverage also stands at a comfortable 3.3 as at 31 December 1999, as against a level of 2.6 at the end of last year.



1999 Maturity Profile of Assets



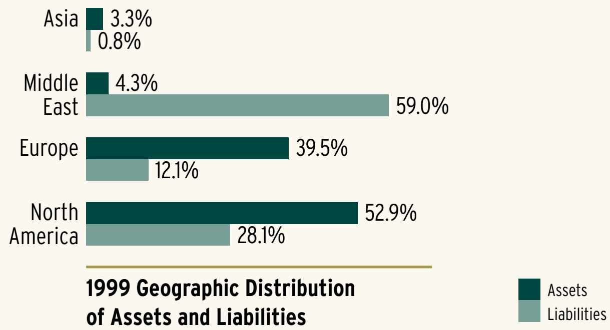
1998 Maturity Profile of Assets

Long-term Investments

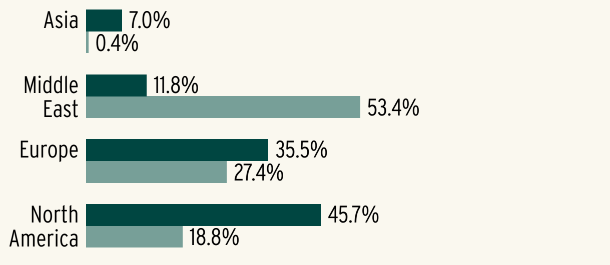
Long-term investments at year-end grew 19% over the previous year to US$205.4 million, comprising 40% of the total assets. In terms of composition, 67% of the total investment was in marketable securities, of which 80% consisted of triple-A rated securities of North American issuers. Our investments in marketable securities grew to US$138.3 million, from US$107.8 million in 1998, and our share of investments in various real estate investments rose to US$38.3 million in 1999, from US$30.0 million in 1998.

Geographic Diversification of Assets

North American and European assets grew to 52% and 39% respectively in 1999, from 45% and 35% in 1998. On the other hand, our assets in the Middle East and Asia were reduced to 4% and 3% respectively in 1999, from 11% and 7% in 1998, reflecting our cautious approach.



1999 Geographic Distribution of Assets and Liabilities



1998 Geographic Distribution of Assets and Liabilities

Funds Under Management

As at 31 December 1999, funds under management in discretionary and non-discretionary accounts rose 38% over the previous year to a figure of US$88.9 million.

Capital Strength

Shareholders' equity increased by 7% to US$120.3 million. The Bank maintains a strong capital base, which it seeks to enhance primarily through retention of earnings. In accordance with Bahrain Monetary Agency (BMA) guidelines, at 31 December 1999, the Bank's capital adequacy computed in accordance with the BIS guidelines was 43.8% (consisting entirely of Tier 1 capital), substantially higher than the required minimum of 12% stipulated by the BMA. The comparative figure as at 31 December 1998 was 38.7%.

Risk Management is an integral part of TAIB Bank's processes of conducting its business. It is our continuing objective to internalize the process at all levels, in order that active risk management becomes a mindset across the Bank and its subsidiaries. Given the businesses that we focus on, the principal risks that we seek to manage relate to risks in real estate or private equity investments, in asset management, in marketable securities, and in other investment and brokerage activities undertaken by the Bank on behalf of clients or on its own account. Our overall objective is to minimize, contain and manage risks at levels which are compatible with our strategy for investment banking activities.

Within the overall supervision of the Board of Directors and the Vice Chairman & Chief Executive Officer (CEO), Risk Management within the Bank is overseen by a Senior Vice President (SVP), who reports directly to the Vice Chairman & CEO. The Risk Management Department which he heads is also responsible for laying down and reviewing guidelines and procedures to all areas of risk management on an ongoing basis. Compliance with these guidelines, and/or limits, is monitored at three levels: firstly, at the level of the business unit or the subsidiary concerned; secondly, at the level of the SVP and the CEO respectively; and thirdly, by the independent audit processes.

Consistent with the specific needs for risk management in our business strategy of specializing in selected emerging markets, our risk management process is integrated into the entire investment process—commencing from the due diligence exercise prior to the acquisition of investments, to the ongoing reviews and analyses of the investments, and further on to the process of divestment. This methodology is uniformly applied to all areas of investments, whether in real estate, private equity, or in marketable securities.

In regard to our asset management activities, the methodology adopted in designing investment portfolios for our clients, as well as the Bank's own investments, includes optimum asset allocation limits, so as to avoid geographical and sectoral concentration of risk.

In this carefully nurtured evolution of risk management from a concept to a culture, we are also in the process of examining value-at-risk models to quantify and evaluate particularly volatile and ever-changing market risks, while being fully conscious of the fact that there can be no substitute for applying sound judgement.

The following outlines the five primary risk factors that the Bank constantly seeks to address through its risk management processes.

Credit Risk

Credit risk is the risk of incurring a loss as a result of a counterparty's failure to meet its obligation. Loans or commitments to extend credit, certain derivative transactions, fixed-income and certain other securities inventories, are all subject to credit risk. Since the Bank has strategically shifted away from the area of loans and advances, this source of credit risk has been considerably reduced.

The process for all credit decisions and exposures involves active inputs from the business divisions regarding the containment of risks. These, including the acceptability of the risk concerned, are reviewed as an integral part of the approval of the proposal by the SVP Risk Management, who is a member of the Global Investment Committee which approves the proposal at the first stage, and where necessary, obtains the approval of the Executive Committee. All the proposals are further discussed and reviewed by the Board of Directors which meets quarterly. The Bank's credit policy and procedures require careful appraisal and prior approval of all transactions that carry credit risk, as well as an obligatory annual review of each credit line, including those made available to Banks, by the Bank's Senior Management and the Board. Though the Bank is winding down its loan portfolio, Senior Management rigorously monitors all the existing loans, including non-performing loans, and regularly reviews the specific and general provisions in consultation with the external Auditors to ensure that they are sufficient to cover the latent risks in the portfolio.

There was no significant concentration of credit risk in the books of the Bank as on the balance sheet date.

Market Risk

Market risk is the risk of loss to the Bank resulting from changes in the value of financial instruments, arising out of changes in interest rates, foreign exchange rates and equity prices. Conservative policies and comprehensive procedures govern the Bank's trading activities, which specifically discourage proprietary trading in foreign exchange. The specific limits for each area of investment in marketable securities are monitored and reviewed both periodically and in response to market changes. All options contracts purchased or written are offset by matching contracts written or purchased; all exposures taken by the Bank require the prior approval of the Global Investment Committee, and where appropriate, the Board of Directors. The Bank uses sensitivity analysis as a tool to estimate the amount of market risk, and all trading or investment positions in marketable securities are marked to market to monitor stop-loss limits. In other areas of investment, such as in real estate or private equity transactions, market risks affecting exits from these investments are evaluated on a constant basis, starting with the time the investments are made.

Liquidity Risk and Interest Rate Risk

Liquidity risk is the risk of dependency on borrowed funds and consequently being unable, in times of political or regional unrest, to fund the Bank’s portfolio of assets at reasonable rates and to appropriate maturities. Our liquidity management process is the responsibility of the Asset Liability Committee (ALCO), of which the SVP Risk Management is a member. On a weekly basis, ALCO reviews the funding, cash flow, and interest rate risk factors pertaining to the Treasury and to Asset Management.

It is our policy to maintain a sufficiently high level of liquid funds at all times to provide for emergent situations which are beyond the Bank’s control. Further, when necessary, we perform stress tests on our liquidity profile to evaluate the sufficiency, or otherwise, of funds even under adverse external circumstances.

The total interest rate sensitivity gap as at the end of 1999, which is included in the financial statements, and which also shows the maturity profiles of assets and liabilities, is at comfortable levels commensurate with our scale of operations.

Operational Risk

Operational risk is the risk of loss resulting from processing errors, mishandling, non-compliance with procedures, negligence, failure of the business support systems, forgeries, reconciliation and accounting errors, control failures, etc. Operational risk is managed mainly through strong internal controls, which include regular and surprise internal audits by our Audit Department, the scope of which covers our subsidiaries as well. In the area of Information Management and Accounting, we have a system of regular off-site back-up of computer data for our major back office operations. In 1999 we were focused and vigilant about Year 2000 issues; we developed and tested contingency plans to mitigate the impact of any service disruptions caused by any factors outside our control, and also became fully compliant on schedule. There were no instances whatsoever of any Y2K disruptions in the Bank or its subsidiaries at the material time. There were also no losses incurred by the Bank in 1999 arising from other processing, operational or accounting failures.

Legal Risk

Legal risk is the risk of potential loss to the Bank from being unable to enforce claims on, or defend claims from, counterparties. We manage legal risk through Senior Management review of all major contractual documentation, and where appropriate, employ the services of reputed law firms, whether locally or otherwise. The enforcement of claims by the Bank are followed up and reviewed by Senior Management on a monthly basis. The Group has some claims against it which are commented upon in Note 18 to the Consolidated Financial Statements. These claims, however, are unlikely to result in a loss to the Bank or to the Group.

The Bank remains committed to strengthen, on an ongoing basis, the “best practice” approach in all matters related to Corporate Governance. It is recognized clearly within the Bank that it is necessary to establish sound strategies and a clear responsibility and accountability structure for the execution of these strategies, with the added emphasis that these strategies and structures do not reduce the transparency or availability of information. We believe that the need to keep the interests of all stakeholders of the Bank constantly in mind, and to serve their interests within both internal and external boundaries of regulatory control, has been the overriding driving force.

In keeping with this overall objective, the Bank has established several committees, within the Board of Directors, as well as at the level of Senior Management, not only to oversee policy and adherence to the strategies, but also to look into the operational areas and to keep in focus the need for checks and balances.

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, the Vice Chairman (& CEO) and any other one 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 Audit Committee 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 meets 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.

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

Awarded the Medal of King AbdulAziz, First Class, in November 1999

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

Chairman of TAIB Securities Ltd., London

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

Director of TAIB Capital Corporation Ltd., Bangalore

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

Ahmed Mohamed 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. AlRashed & Sons, Al Khobar

Director of AlBank AlSaudi AlFransi, Riyadh

Director of Banque Française de L'Orient, Paris

Director of AlRashed Trading & Contracting Co., Riyadh

Director of AlRashed & AlOmran 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.

Honorary Chairman of YASED (Foreign Investors' Association)

Deputy Chairman of Istanbul Stock Exchange

Director of Euro Turk Bank

Director of Turkish Industrial Development Bank

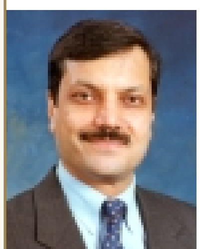
Ebrahim Sharif Alsayed
Director

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



Pradip P. Shah
Director

Chairman of IndAsia Fund Advisors Pvt. Ltd.

Director of Indian Merchants' Chamber

Director of Bhartiya Reserve Bank Note Mudran Limited

Member of the Governing Council of Baun Foundation Medical Research Centre

Trustee of Vasant J. Sheth Memorial Foundation

Director of Prudential ICICI Asset Management Company Ltd.

Director of Indocam Himalayan Fund NV

Director of R.R. Donnelley India (Pvt) Ltd.

Director of Zip Global Network Limited

Mohammed Al Attas
Director

Owner of Al Zaytoon Trading & Contracting Est., Jeddah

Advisory Boards

Gulf

Mohamed Faki—*Saudi Arabia*
Najeeb Al-Saleh—*Kuwait*
Nooruddin A. Nooruddin—*Bahrain*

Hong Kong

Hari N. Harilela
C. T. Chan

Switzerland

Camille Froidevaux
Jerome Joliat

United Kingdom

Dr. Abdool Magid A.K. Vakil
Nicholas P. Clegg
Salim Lalani

United States

Edward G. Nelson
William G. Gridley, jr.
Cecil M. Phillips
Jun Mizuno

Senior Management

Iqbal G. Mamdani
Chief Executive Officer

CEO since inception. Formerly Vice President and Gulf Regional Manager for American Express Bank. Holds a BA from International Christian University, Mitaka, Japan and an MA from University of California at Berkeley. More than 30 years' experience in Banking.

Ebrahim Sharif Alsayed
Executive Vice President—Investment Banking

Joined TAIB in 1980. Studied Mechanical Engineering at theUniversity of Texas, Austin. More than 19 years experience in banking.

Babu Sahadev
Senior Vice President—Asset Management

Formerly with American Express Bank. Graduate of the University of Baroda, India. Has been involved in Treasury operations for over 22 years.

Narayan A. Menon
Senior Vice President—Risk Management

Formerly Deputy General Manager, International Division, State Bank of India. Graduate of the University of Madras, India. Holds an MBA from IMEDE International, Lausanne, Switzerland. More than 29 years' experience in banking.

FINANCIAL CONTENTS

We have audited the consolidated financial statements of TAIB Bank E.C. ("the Bank") and its subsidiaries ("the Group") as set out on pages 12 to 37. These consolidated 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, the financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 1999, and the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

Further, as required by the Bahrain Commercial Companies Law 1975, as amended, in the case of the Bank, we report that:

(1) we have obtained all the information that we considered necessary for the purpose of our audit;

(2) the Bank has maintained proper books of account and the consolidated financial statements are in agreement therewith;

(3) the financial information contained in the Statement of the Chairmen and the Financial Review is consistent with the books of account of the Bank; and

(4) nothing has come to our attention which causes us to believe that the Bank has breached any of the applicable provisions of the Bahrain Commercial Companies Law 1975, as amended, or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 1999.

PricewaterhouseCoopers

PricewaterhouseCoopers

Manama, Bahrain

19 January 2000

	As at 31 December	
(US$'000s)	**1999**	1998
ASSETS		
Cash and balances with central banks	**13,425**	12,182
Due from other banks	**89,386**	99,079
Marketable securities (Note 3)	**151,379**	44,868
Loans and advances (Notes 4 & 5)	**27,264**	40,706
Advances to a shareholder (Note 6)	**6,932**	6,673
Investments held for resale (Note 7)	**8,930**	15,194
Long term investments (Notes 5 & 8)	**205,406**	172,553
Goodwill	**167**	254
Property and equipment (Note 9)	**3,184**	1,446
Other assets	**6,489**	9,867
Total assets	**512,562**	402,822
LIABILITIES		
Due to other banks	**81,465**	76,835
Due to customers	**124,382**	125,927
Securities sold under agreements to repurchase	**122,707**	72,040
Other liabilities	**20,479**	9,672
Proposed dividend (Note 10)	**5,063**	5,484
Long term debt	**37,500**	—
Total liabilities	**391,596**	289,958
Minority interest	**675**	603
SHAREHOLDERS' EQUITY		
Share capital (Note 11)	**84,375**	84,375
Less: Treasury shares	**(23)**	(168)
Capital reserve (Note 12)	**476**	476
Statutory reserve (Note 12)	**12,555**	11,560
General reserve (Note 12)	**5,815**	5,800
Retained earnings	**17,093**	10,218
Total shareholders' equity	**120,291**	112,261
Total equity and liabilities	**512,562**	402,822

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.

(US$'000s)	1999	1998
	Year Ended 31 December	
Interest income	**27,804**	27,498
Interest expense	**(18,332)**	(19,513)
Net interest income	**9,472**	7,985
Securities trading income	**11,820**	7,617
Foreign exchange income	**3,296**	2,448
Fees and commission	**8,869**	4,161
Other operating income	**8,246**	9,669
Total operating income	**41,703**	31,880
Staff costs	**(8,117)**	(7,122)
Other operating costs	**(8,582)**	(7,348)
Net operating income	**25,004**	17,410
Provisions		
Specific (Note 5)	**(8,585)**	(6,199)
General (Note 5)	**(2,500)**	(1,000)
	(11,085)	(7,199)
Profit before tax	**13,919**	10,211
Tax income/(expense)	**215**	(90)
Profit after tax	**14,134**	10,121
Minority interest	**(108)**	(4)
Net profit for the year	**14,026**	10,117
Earnings per share (basic) (Note 10)	**US$0.17**	US$0.12

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.

	Year Ended 31 December						
(US$'000s)	Share capital	Treasury shares	Capital reserve	Statutory reserve	General reserve	Retained earnings	Total
At 1 January 1998	84,375	(16)	476	10,508	5,825	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	—	(152)	—	—	(25)	—	(177)
Transfer to statutory reserve (Note 12)	—	—	—	1,074	—	(1,074)	—
At 31 December 1998	84,375	(168)	476	11,560	5,800	10,218	112,261
Net profit for the year	—	—	—	—	—	14,026	14,026
Currency translation adjustment	—	—	—	—	—	(1,093)	(1,093)
Proposed dividend (Note 10)	—	—	—	—	—	(5,063)	(5,063)
Treasury shares	—	145	—	—	15	—	160
Transfer to statutory reserve (Note 12)	—	—	—	995	—	(995)	—
At 31 December 1999	**84,375**	**(23)**	**476**	**12,555**	**5,815**	**17,093**	**120,291**

Included in retained earnings and statutory reserve at 1 January 1999 is a cumulative currency translation adjustment of US$12,057,000 (1998: US$11,159,000).

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

(US$'000s)	Year Ended 31 December 1999	1998
Cash flows from operating activities		
Income for the year before taxation	**13,919**	10,211
Adjustments		
Provisions	**11,085**	7,199
Depreciation	**687**	601
Movements in operating assets and liabilities		
Marketable securities	**(106,511)**	(451)
Loans and advances	**4,395**	12,680
Other assets	**3,095**	8,949
Due to other banks	**4,630**	7,007
Due to customers	**(1,545)**	15,495
Other liabilities	**8,024**	(2,348)
Long term investments and investments held for resale	**(25,439)**	(28,745)
Net change in securities sold under repurchase agreements	**50,667**	5,509
Change in exchange rates related to operating assets and liabilities of overseas subsidiaries	**(1,093)**	(898)
Net cash (used in)/provided by operating activities	***(38,086)***	*35,209*
Cash flows from investing activities		
Net decrease in advance to a shareholder	**(259)**	2,533
Purchase of property and equipment	**(2,425)**	(260)
Net cash (used in)/provided by investing activities	***(2,684)***	*2,273*
Cash flows from financing activities		
Dividend paid	**(5,180)**	(4,760)
Proceeds from long term debt	**37,500**	—
Net cash provided by/(used in) financing activities	***32,320***	*(4,760)*
Net (decrease)/increase in cash and cash equivalents	***(8,450)***	*32,722*
Cash and cash equivalents at the beginning of the year	***111,261***	*78,539*
Cash and cash equivalents at the end of the year	***102,811***	*111,261*
Cash and cash equivalents comprise:		
Cash and balances with central banks	**13,425**	12,182
Due from other banks	**89,386**	99,079
	102,811	111,261

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

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

(a) 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 operations 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.

(b) 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 unrealized 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.

(c) 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 hyper-inflationary economies where the closing rate method of translation is used. The gains or losses arising on translation are dealt with in the shareholders' equity.

(d) Fees and commission

Fees and commission are recognized as income when received.

(e) 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.

Negative goodwill represents the excess of the net assets of the subsidiary over the carrying amount of its investment. The amount of negative goodwill is treated as deferred income and included in other liabilities and is amortized using a straight line method over five years.

(f) 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.

(g) Marketable securities

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

(h) Long term 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 recognized 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 amortized 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.

(i) Investments held for resale

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

(j) 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 recognized on a cash basis.

(k) 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.

(l) 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 arising from those transactions which are used as hedges are recognized 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 recognized as foreign exchange income/expenses in the statement of income.

(m) 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.

(n) Taxation

Provision for taxation of 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.

(o) Employee compensation costs

Group employee benefits and entitlements to annual leave, holiday, air passage and other short term benefits are recognized as they accrue to the employees. The Group's contributions to defined contribution pension plans are charged to the income statement in the year to which they relate. In respect to these plans, the Group has a legal and constructive obligation to pay the contributions as they fall due and no obligations exist to pay the future benefits.

The Bank operates a staff terminal benefit scheme called the Employees' Investment Plan ("EIP") wherein the Bank's employees have an option to contribute an amount subject to a maximum ceiling which is matched by an equivalent contribution by the Bank. The Bank's contributions to the EIP are charged to the Income Statement in the years to which they relate. On termination, in addition to the share contributed by the employee to the EIP, the employee is paid the vested portion of the Bank's contribution to the EIP, with the proviso that in the case of expatriate employees, the amount paid is the higher of the vested portion of the Bank's contribution to the EIP and the terminal benefit payable in compliance with labor legislation.

Provisions for staff terminal benefits for employees of subsidiaries are made in compliance with the labor legislation of the countries in which the subsidiaries are domiciled.

(p) Treasury shares

Own shares of the Bank held at the balance sheet date are designated as treasury shares. These shares are treated as a deduction from the Bank's equity. Gains and losses on sales of own shares are charged to general reserve.

(q) Provisions

Provisions other than for loans and investments are recognized 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. The Bank has its registered office at Sehl Centre, Diplomatic Area, Manama, Bahrain. Its shares are listed on the Bahrain Stock Exchange.

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

2. Subsidiaries

The Bank's principal subsidiaries at 31 December 1999 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 Capital Corporation Limited	India	Merchant banking
TAIB Securities Mauritius Limited	Mauritius	Holding investments
TAIB Investments N.V.	Netherland Antilles	Real estate investments
TAM Real Estate Florida Inc.	USA	Real estate investments
TAIB Securities W.L.L.	Bahrain	Securities brokerage services
TAIB Securities Inc.	USA	Securities advisory services
TAIB Securities Limited	UK	Securities advisory services
TAIB Asia Limited	Hong Kong	Financial services
TAIB (Suisse) S.A.	Switzerland	Financial services
TAIB Kazak Bank	Kazakhstan	Commercial banking

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

During the year the Bank has consolidated the financial position and results of TAM Real Estate Florida, Inc. in which it now has a controlling interest. Hitherto, the Bank's investment in this company was carried at cost and included under long-term investments. As a consequence of this change, the Bank has taken the excess of the net assets of the subsidiary over the carrying amount of its investment as negative goodwill.

3. Marketable Securities

(US$'000s)	**1999**	1998
Mortgage backed securities	**9,250**	7,600
Government bonds and treasury bills	**70,216**	22,832
Listed equities	**9,287**	7,200
Listed debt securities	**191**	337
Investment in managed funds	**62,435**	6,899
	151,379	44,868

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$7.3 million (1998: US$5.2 million) are kept as a guarantee with the relevant regulatory authorities.

4. Loans and Advances

Loans and advances include non-performing loans aggregating to US$3,847,000 (1998: US$6,838,000), and these are stated net of provisions for bad and doubtful loans of US$11,752,000 (1998: US$7,505,000).

5. Provisions

	Loans	Investments			
(US$'000s)	Specific	Specific	General	Total	Grand Total
At 1 January 1998	9,384	3,136	—	3,136	12,520
Provided	2,368	4,175	1,000	5,175	7,543
Written off	—	(1,850)	—	(1,850)	(1,850)
At 31 December 1998	11,752	5,461	1,000	6,461	18,213
Provided	6,941	1,644	2,500	4,144	11,085
Provision reclassified	2,000	(2,000)	—	(2,000)	—
Other movements	(1,020)	(1,924)	—	(1,924)	(2,944)
At 31 December 1999	**19,673**	**3,181**	**3,500**	**6,681**	**26,354**

Recoveries of loans previously written off amounting to US$Nil (1998: US$344,000) 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 directors, and businesses in which shareholders and directors, individually or combined, have significant influence.

Jamba SA, incorporated in Luxembourg, holds 44.07% (1998: 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 1999 were US$6,932,000 (1998: US$6,673,000). 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 1999, loans and advances included unsecured loans (for which repayment terms have not been specified) of US$4,156,000 (1998: US$5,938,000) due to two subsidiaries of Jamba SA. This balance comprises principal and capitalized interest. Interest is charged on these advances at market rates.

Loans and advances include US$800,000 (1998: US$732,000) 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$2,482,000 (1998: US$18,169,000) placed by directors and major shareholders and by companies in which directors and major shareholders have a significant interest. These deposits are accepted on normal commercial terms offered by the Bank.

7. Investments Held for Resale

(US$'000s)	**1999**	1998
Unlisted investments	**8,930**	15,194

8. Long-term Investments

(US$'000s)	**1999**	1998
Marketable securities	**138,350**	107,784
Investments in real estate	**38,349**	29,969
Other investments	**28,707**	34,800
	205,406	172,553
Market value of marketable securities and investments in real estate	**174,181**	135,880

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 1999, in addition to the Bank's investment, funds provided by other investors amounted to US$56,270,000 (1998: US$44,300,000) and loans from financial institutions amounted to US$76,251,000 (1998: US$122,100,000). These loans are secured without recourse to the Bank by the underlying properties.

At 31 December 1999, the Bank's share of the estimated market value of real estate investments as determined by independent appraisers amounted to US$42,800,000 (1998: US$36,658,000).

9. Property and Equipment

(US$'000s)	**1999**	1998
Cost	**8,650**	4,884
Accumulated depreciation	**(5,466)**	(3,438)
Net book amount	**3,184**	1,446

Included in accumulated depreciation is an amount of US$687,000 (1998: US$601,000) representing the depreciation charge for the year.

10. Proposed Dividend

The Board of Directors propose to the General Assembly to pay a cash dividend of US$0.060 per share (1998: US$0.065) constituting 6.0% (1998: 6.5%) of the Bank's issued and fully paid up capital, amounting to US$5,062,500 (1998: US$5,484,375). The Directors also propose to recommend additionally a bonus share issue of 1 share for every 20 shares. The proposed dividend and bonus issue of shares, 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).

	1999	1998
Net profit attributable to shareholders (US$'000s)	**14,026**	10,117
Average number of issued and fully paid up ordinary shares ('000s)	**84,352**	84,207
Basic earnings per share	**US$0.17**	US$0.12

11. Share Capital

(US$'000s)	**1999**	1998
Authorized 100 million ordinary shares of US$1 each	**100,000**	100,000
Issued and fully paid 84.375 million ordinary shares of US$1 each	**84,375**	84,375

In the normal course of its equity trading and market activities, the Bank buys and sells its own shares. These shares are treated as deductions from shareholders' equity. Gains and losses on sales of own shares are charged to general reserve. The total number of treasury shares at the end of 1999 was 23,000 shares (1998: 168,000 shares).

Share options were granted on 12 October 1999 to certain key personnel at a price of US$1.10 per share and expire on 12 October 2002. The total number of share options granted amounted to 5 million ordinary shares of US$1 each. No options were exercised during the year.

12. Reserves

Capital Reserve
The 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. Furthermore, the gains and losses on sale of treasury shares are charged to the general reserve.

13. Contingent Liabilities and Commitments

(US$'000s)	**1999**	1998
Lending related	**2,288**	4,895
Derivatives and foreign exchange (Note 15)	**927,886**	467,654
Other commitments	**—**	429
	930,174	472,978

14. Off Balance Sheet Lending Related Financial Instruments

(US$'000s)	**1999**	1998
Letters of credit	**1,500**	3,000
Guarantees	**488**	1,595
Undrawn loan commitments	**300**	300
	2,288	4,895

At 31 December 1999, all the Group's letters of credit and guarantees expire within one year. All commitments to extend credit expire within two 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)	**1999**	1998
Spot and forward contracts		
Foreign exchange bought	**353,943**	113,827
Foreign exchange sold	**353,943**	113,827
Currency options (notional amount)		
Assets	**60,000**	70,000
Liabilities	**60,000**	70,000
Interest rate swaps (notional amount)		
Assets	**50,000**	50,000
Liabilities	**50,000**	50,000
	927,886	467,654

At 31 December 1999, all of the Group's foreign exchange contracts mature within one year, all currency options expire within one year and all interest rate swaps expire within two years. Note 22 provides information on significant net open foreign currency positions held by the Group.

16. Other Commitments

At 31 December 1999, the Group was committed to no repurchases from its customers of Government bonds and treasury bills under normal operational repurchase agreements (1998: US$429,000).

17. Funds Under Management

(US$'000s)	**1999**	1998
Discretionary accounts	**69,887**	58,377
Non-discretionary accounts	**18,968**	6,200
	88,855	64,577

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 of the above three funds and also acts as the investment advisor for the Everest Fund and TAIB Income Fund.

Discretionary accounts include US$13,204,000 (1998: US$23,258,000) which represent funds managed by TAIB Securities W.L.L. on behalf of its customers.

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

18. Contingent Liabilities Arising from Litigation

At 31 December 1999 there were four claims outstanding against the Group. The total amount claimed is US$1,176,400 (1998: US$1,509,000). No provision has been made since the Directors believe that the claims are without any merit and will not result in any significant loss to the Group.

19. Interest Rate Risk Management

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below summarizes the Group's exposure to interest rate risks. Included in the table are the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

1999							
(US$'000s)	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
Cash and balances with central banks	13,425	—	—	—	—	—	13,425
Due from other banks	87,408	1,633	345	—	—	—	89,386
Marketable securities	69,281	2,648	2,490	—	3,459	73,501	151,379
Loans and advances	8,546	5,365	986	11,772	—	595	27,264
Advances to a shareholder	—	6,932	—	—	—	—	6,932
Investments held for resale	—	—	—	—	—	8,930	8,930
Long-term investments	73,150	—	—	—	37,623	94,633	205,406
Goodwill	—	—	—	—	—	167	167
Property and equipment	—	—	—	—	—	3,184	3,184
Other assets	—	—	—	—	—	6,489	6,489
Total assets	251,810	16,578	3,821	11,772	41,082	187,499	512,562
Due to other banks	79,783	1,616	—	—	—	66	81,465
Due to customers	54,017	783	6,696	50,000	—	12,886	124,382
Securities sold under agreements to repurchase	61,532	61,175	—	—	—	—	122,707
Other liabilities	—	—	—	—	—	20,479	20,479
Proposed dividend	—	—	—	—	—	5,063	5,063
Long-term debt	15,750	21,750	—	—	—	—	37,500
Total liabilities	211,082	85,324	6,696	50,000	—	38,494	391,596
Minority interest	—	—	—	—	—	675	675
Shareholders' equity	—	—	—	—	—	120,291	120,291
Total liabilities and shareholders' equity	211,082	85,324	6,696	50,000	—	159,460	512,562
On balance sheet gap	40,728	(68,746)	(2,875)	(38,228)	41,082		
Off balance sheet gap	—	—	(50,000)	50,000	—		
Total interest rate sensitivity gap	40,728	(68,746)	(52,875)	11,772	41,082		
Cumulative interest rate sensitivity gap	40,728	(28,018)	(80,893)	(69,121)	(28,039)		

19. Interest Rate Risk Management (continued)

(US$'000s)	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Non-interest bearing	Total
			1998				
Cash and balances with central banks	12,182	—	—	—	—	—	12,182
Due from other banks	99,079	—	—	—	—	—	99,079
Marketable 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
Long-term 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
Total assets	196,233	25,331	36,260	578	44,519	99,901	402,822
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
Long-term debt	—	—	—	—	—	—	—
Total liabilities	166,916	27,744	14,755	50,000	—	30,543	289,958
Minority interest	—	—	—	—	—	603	603
Shareholders' equity	—	—	—	—	—	112,261	112,261
Total liabilities and shareholders' equity	166,916	27,744	14,755	50,000	—	143,407	402,822
On balance sheet gap	29,317	(2,413)	21,505	(49,422)	44,519		
Off balance sheet gap	—	—	(50,000)	50,000	—		
Total interest rate sensitivity gap	29,317	(2,413)	(28,495)	578	44,519		
Cumulative interest rate sensitivity gap	29,317	26,904	(1,591)	(1,013)	43,506		

19. Interest Rate Risk Management (continued)

The tables above include floating rate instruments as follows:

(US$'000s)	**1999** Up to 1 month	**3–12 months**	**Total**	1998 Up to 1 month	3–12 months	Total
On balance sheet						
Marketable securities	**5,791**	**—**	**5,791**	7,353	—	7,353
Long-term investments	**73,150**	**—**	**73,150**	51,257	—	51,257
	78,941	**—**	**78,941**	58,610	—	58,610
Off balance sheet						
Interest rate swaps—notional asset	**—**	**—**	**—**	—	—	—
Interest rate swaps—notional liability	**—**	**(50,000)**	**(50,000)**	—	(50,000)	(50,000)
	—	**(50,000)**	**(50,000)**	—	(50,000)	(50,000)

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

	1999 US$ %	**TL %**	1998 US$ %	TL %
Marketable securities				
Mortgage backed securities	**6.2**	**—**	4.5	—
Treasury bills	**5.4**	**70.0**	4.6	79.0
Eurobonds	**—**	**—**	7.7	—
Investments				
Brady bonds	**—**	**—**	8.8	—
Mortgage backed securities	**6.2**	**—**	4.6	—

20. Credit Risk and Concentrations of Credit Risk

Concentration of credit risk arises 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.

There were no significant concentrations of credit risk as at 31 December 1999. The comparative net exposures as at 31 December 1998 are as follows:

(US$'000s)	1998 On balance sheet	Off balance sheet	Total exposure
Emsan Group	22,213	249	22,462
Silverline Holdings Corp.	11,505	—	11,505

The Group's investments in Emsan Group, a manufacturing company in Turkey, and Silverline Holdings Corp. (formerly Subra Holding Inc.), an infotech company in the United States of America, have not been consolidated as the controlling interest in them is intended to be temporary because they have been acquired with a view to their subsequent disposal in the near future.

During the year the Group disposed of its investment in Silverline Holdings Corp. fully, and part of its investment in Emsan Group.

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 values differ.

(US$'000s)		**1999**	
	Book value	**Fair value**	**Shortfall**
Long-term investments	**205,406**	**202,888**	**(2,518)**

(US$'000s)		1998	
	Book value	Fair value	Shortfall
Long-term investments	172,553	171,735	(818)

The estimated fair value of all other financial instruments is not significantly different from their book amount. No provision has been made for the shortfall in accordance with accounting policy (h).

22. Significant Net Open Foreign Currency Positions

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

(US$'000s)	**1999**	1998
Indian Rupees (IRS)	**2,082**	8,148

The position in the above-mentioned foreign currencies results from the holding of marketable securities.

23. Maturity Profile

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

		1999			1998	
(US$'000s)	**Assets**	**Liabilities**	**Net**	Assets	Liabilities	Net
Up to 1 month	**173,401**	**162,442**	**10,959**	154,809	98,912	55,897
From 1 to 3 months	**99,803**	**66,226**	**33,577**	37,807	28,892	8,915
From 3 months to 1 year	**24,191**	**20,929**	**3,262**	42,435	37,895	4,540
From 1 year to 5 years	**114,981**	**88,170**	**26,811**	125,268	119,667	5,601
From 5 years and over	**100,186**	**54,504**	**45,682**	42,503	5,195	37,308
Shareholders' funds	**—**	**120,291**	**(120,291)**	—	112,261	(112,261)
	512,562	**512,562**	**—**	402,822	402,822	—

24. Segmental Reporting and Concentration of Assets, Liabilities and Off Balance Sheet Items

(a) Geographical segments

The Group is organized on a geographical basis and operates in four main geographical areas. The Group's exposure to credit risk is spread across these areas:

North America	– United States of America
Europe	– United Kingdom and Turkey
Middle East	– Bahrain, United Arab Emirates and Saudi Arabia
Asia	– India, Pakistan and Kazakhstan

			1999		
(US$'000s)	**North America**	**Europe**	**Middle East**	**Asia**	**Total**
Segmental income					
Operating income	**32,055**	**4,547**	**(3,587)**	**8,688**	**41,703**
Segmental result					
Profit/(loss) before tax	**14,228**	**812**	**(5,902)**	**4,781**	**13,919**
Tax income					**215**
Profit after tax					**14,134**
Minority interest					**(108)**
Net profit for the year					**14,026**
Other information					
Segmental assets	**270,913**	**202,475**	**22,308**	**16,866**	**512,562**
Segmental liabilities	**144,047**	**62,080**	**302,220**	**4,215**	**512,562**
Off balance sheet items	**404,024**	**390,506**	**120,375**	**15,269**	**930,174**
Capital expenditure	**1,325**	**745**	**355**	**—**	**2,425**
Depreciation	**243**	**274**	**170**	**—**	**687**
Provisions	**2,500**	**4,294**	**2,337**	**1,954**	**11,085**

24. Segmental Reporting and Concentration of Assets, Liabilities and Off Balance Sheet Items (continued)

(a) Geographical segments (continued)

			1998		
(US$'000s)	North America	Europe	Middle East	Asia	Total
Segmental income					
Operating income	20,017	9,467	(3,810)	6,206	31,880
Segmental result					
Profit/(loss) before tax	9,497	1,493	(6,640)	5,861	10,211
Tax income					(90)
Profit after tax					10,121
Minority interest					(4)
Net profit for the year					10,117
Other information					
Segmental assets	184,283	143,212	47,347	27,980	402,822
Segmental liabilities	75,619	110,581	214,902	1,720	402,822
Off balance sheet	274,682	164,800	13,158	20,338	472,978
Capital expenditure	54	7	160	39	260
Depreciation	36	186	354	25	601
Provisions	1,325	2,782	1,092	2,000	7,199

Transactions between the geographical segments are on normal commercial terms and conditions. There are no material items of income or expense between the geographical segments.

24. Segmental Reporting and Concentration of Assets, Liabilities and Off Balance Sheet Items (continued)

(b) Business segments

The Group is organized into three main business segments:

Asset management	– Incorporating full financial advisory services and portfolio management.
Corporate finance	– Incorporating private equity and corporate advice on acquisitions, divestments, joint venture and financial restructuring.
Brokerage and securities trading	– Offering full brokerage services within the Group's selected markets.

(US$'000s)	Total assets	Total operating income	Capital expenditure
1999			
Business segment			
Asset management	**385,262**	**11,731**	**1,325**
Corporate finance	**116,927**	**18,707**	**745**
Brokerage and securities trading	**10,373**	**11,265**	**355**
	512,562	**41,703**	**2,425**
1998			
Business segment			
Asset management	311,880	10,608	37
Corporate finance	82,133	15,922	161
Brokerage and securities trading	8,809	5,350	62
	402,822	31,880	260

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

	1999			1998		
(US$'000s)	**Assets**	**Liabilities**	**Off balance sheet items**	Assets	Liabilities	Off balance sheet items
Industry sector						
Trading and manufacturing	**124,531**	**66,543**	**446,676**	112,182	67,091	28,288
Banks and financial institutions	**388,031**	**446,019**	**483,498**	290,640	335,731	444,690
	512,562	**512,562**	**930,174**	402,822	402,822	472,978

25. Number of Employees

The number of persons employed by the Group at the end of the year was 164 (1998: 187).

26. Employee Retirement and Terminal Benefits

The costs associated with contributions made by the Group in relation to defined contribution pension schemes amounted to US$164,000 (1998: US$160,000). In relation to these plans, the Group has a legal and constructive obligation to pay the contributions as they fall due and no obligations exist to pay the future benefits.

The Bank's contributions to the Employee Investment Plan ("EIP") for the year amounted to US$144,400 (1998: US$131,000). This is a defined contribution plan and the Bank has an obligation to pay the contributions as they fall due as described in accounting policy (o).

27. Consolidated Average Balance Sheet

(US$'000s)	As at 31 December **1999**	1998
ASSETS		
Cash and balances with central banks	**11,731**	7,832
Due from other banks	**80,163**	64,353
Marketable securities	**62,535**	43,293
Loans and advances	**35,041**	47,574
Advances to a shareholder	**6,997**	8,699
Investments held for resale	**17,945**	16,099
Long-term investments	**200,083**	169,975
Goodwill	**203**	277
Property and equipment	**2,618**	1,595
Other assets	**9,356**	13,513
Total assets	**426,672**	373,210
LIABILITIES		
Due to other banks	**72,062**	66,162
Due to customers	**124,183**	111,128
Securities sold under agreements to repurchase	**81,322**	71,910
Other liabilities	**16,650**	9,488
Proposed dividend	**2,637**	2,560
Long-term debt	**9,375**	—
Total liabilities	**306,229**	261,248
Minority interest	**611**	605
SHAREHOLDERS' EQUITY		
Share capital	**84,375**	84,375
Less: Treasury shares	**(59)**	(93)
Capital reserve	**476**	476
Statutory reserve	**11,964**	10,836
General reserve	**5,811**	5,971
Retained earnings	**17,265**	9,792
Total shareholders' equity	**119,832**	111,357
Total equity and liabilities	**426,672**	373,210

28. TAIB Bank E.C. Balance Sheet

(US$'000s)	As at 31 December 1999	1998
ASSETS		
Cash and balances with central banks	**10,683**	11,166
Due from other banks	**83,082**	97,001
Marketable securities	**139,902**	30,743
Loans and advances	**24,703**	35,937
Advances to a shareholder	**6,932**	6,673
Investments held for resale	**8,930**	15,194
Long-term investments	**193,644**	172,189
Advances to subsidiaries	**3,557**	3,470
Investment in subsidiaries	**29,883**	18,043
Goodwill	**167**	254
Property and equipment	**1,566**	871
Other assets	**3,351**	7,107
Total assets	**506,400**	398,648
LIABILITIES		
Due to other banks	**69,889**	63,456
Due to customers	**124,380**	125,278
Securities sold under agreements to repurchase	**122,707**	72,040
Deposits from subsidiaries	**3,794**	4,925
Other liabilities	**16,422**	6,985
Proposed dividend	**5,063**	5,484
Long-term debt	**37,500**	—
Total liabilities	**379,755**	278,168
SHAREHOLDERS' EQUITY		
Share capital	**84,375**	84,375
Less: Treasury shares	**(23)**	(168)
Statutory reserve	**12,522**	11,415
General reserve	**5,815**	5,800
Retained earnings	**23,956**	19,058
Total shareholders' equity	**126,645**	120,480
Total equity and liabilities	**506,400**	398,648

(Expressed in millions of Turkish Lira)	As at 31 December 1999	Restated 1998
ASSETS		
Cash and due from banks	**751,316**	127,925
Time deposits at banks	**1,953,121**	257,138
Marketable securities	**3,633,361**	5,783,567
Loans—net	**1,381,010**	2,302,798
Investment in direct financing leases—net	**—**	77
Due from related parties	**7,175**	8,300
Accrued interest receivable and other assets	**83,335**	108,003
Tax receivable	**116,586**	34,501
Deferred tax asset	**24,188**	276,700
Office furniture, equipment and leasehold improvements—net	**206,924**	205,835
Intangible assets—net	**3,601**	15,316
Total Assets	**8,160,617**	9,120,160
LIABILITIES		
Funds borrowed from banks	**6,261,985**	6,877,858
Due to related parties	**1,381**	6,239
Accrued interest payable and other liabilities	**146,777**	85,104
Deferred tax liability	**35,199**	653,191
Taxes and withholdings payable	**30,872**	87,873
Reserve for employment termination benefits	**25,525**	21,242
Total liabilities	**6,501,739**	7,731,507
Subordinated loan from parent company	**1,083,800**	1,028,550
SHAREHOLDERS' EQUITY		
Share capital	**188,000**	188,000
Adjustment to share capital	**5,935,368**	5,935,368
Accumulated deficit	**(5,548,290)**	(5,763,265)
Total shareholders' equity	**575,078**	360,103
Total shareholders' equity and subordinated loan from parent company	**1,658,878**	1,388,653
Total liabilities and shareholders' equity	**8,160,617**	9,120,160

- **TAIB Bank E.C.**
  - **TAIB YatirimBank A.Ş.** Istanbul, Turkey
  - **TAIB Kazak Bank** Almaty, Kazakhstan
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  - **TAIB (Suisse) S.A.** Geneva, Switzerland
  - **TAIB Asia Ltd.** Hong Kong
  - **TAIB Securities W.L.L.** Bahrain
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  - **TAM Real Estate Inc.** Florida, USA

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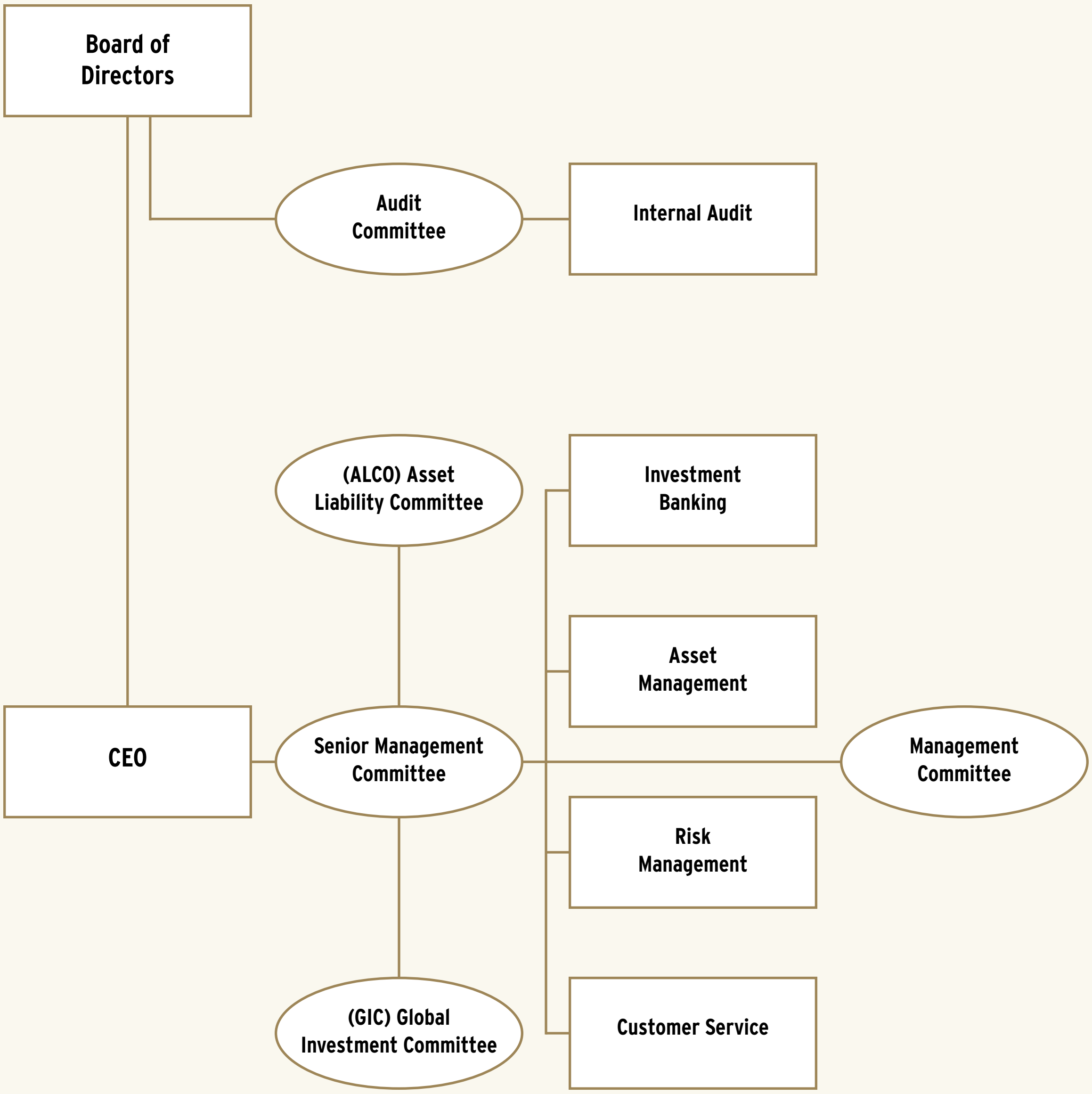
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Asset Management
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Risk Management
(GIC) Global Investment Committee
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