

Istanbul IFC Feasibility Study
Volume I
Summary of Findings

May 2009

* This Report has been prepared by Deloitte Consultancy on behalf of The Banks Association of Turkey.

Contents

1) Context & Executive Summary

2) Developments in the international financial services environment (global and domestic)

- Macroeconomic developments
 - IFC strategies
 - Taxation
 - Regulation
 - Products and services
-

3) Changes in Istanbul's position relative to selected competitors

4) Financial model update

5) Key performance indicators

Context

- A report assessing the potential for Istanbul to become an international financial centre (including implementation steps required for its transformation) was prepared and submitted by Deloitte to The Banks Association of Turkey (BAT) in June 2007.
- The report addressed the following :
 - Economic developments and their effect on the global financial industry.
 - Relevant economic and commercial developments in the European Union, the Balkans, the Black Sea Catchment Area, the Caucasus and the Middle East.
 - Turkey's economic and financial potential within the global and regional arena.
 - Characteristics of successful financial centres: strategic choices and focus; economic policy; general and financial regulation; audit and tax policies; market practices; infrastructure; human capital requirements; globally accepted rules; rent and settlement; social services availability; etc.
 - Istanbul's strengths and weaknesses and the requirements and implications of becoming a leading financial centre
 - Potential benefits (and risks) to Turkey of Istanbul becoming a global financial centre.
- This report was subsequently submitted to the Government of Turkey by The Banks Association of Turkey, and supported the decision to continue to pursue the development of Istanbul as a financial centre.
- Subsequently, at the beginning of 2009, the State Planning Organisation (Headed by Deputy Prime Minister Nazım Ekren, the Minister of State for the Economy) established and commissioned nine study groups to execute a series of reports as input into an "Istanbul Finance Centre Strategy Document". It is intended that this strategy document will form part of the discussions between the Government of Turkey and the IMF/World Bank in a meeting scheduled for 4-5 October 2009, to be held in Istanbul.
- One of the nine working groups, "The Current State Working Group", is being guided by the Banks Association of Turkey. This working group has mandated Deloitte to revise its report of 2007, which is to become part of the "Istanbul Finance Centre Strategy Document".

Context

- Clearly, the revision of the earlier report is prompted by recent developments in global economy (in particularly event associated with the ongoing global financial crisis), by the recognition that competitor jurisdictions have made significant progress.
- In particular, the Current State Working Group wishes this new assessment to include :
 - Current and likely future impact of the financial crisis.
 - Recent developments in the comparator jurisdictions - particularly those ‘in-region’ that are likely to pose significant strategic challenge to Turkey.
 - Specific focus on the recent (global and domestic) changes in : Taxation; Regulation; Financial Products and Services; and the general competitive environment.
 - An update of the financial model in accordance with the recent developments.
 - A definition of what is meant by an “International Financial Centre”, and the parameters by which they might best be measured.
- Accordingly, Deloitte has undertaken the following activities in the execution of this analysis:
 - Analysed developments in International Financial Centre environment and competition (both global and domestic).
 - Conducted a cross-comparison study across seven selected countries: UK (London), Singapore, Ireland (Dublin), Spain (Madrid), Russia (Moscow), Israel (Tel Aviv) and Turkey (Istanbul).
 - Determined Istanbul’s current position with respect to key twelve dimensions of strategic competition.
 - Reviewed assumptions and estimates of the financial model in line with the recent global, regional and local economical developments.
 - Described the common features and key performance indicators that describe an International Financial Centre.
- In addition to this main report an appendix has been prepared, including detailed background information and metrics for each comparator city and for Istanbul.

Executive Summary

The main findings of the report are:

- **The loss of both value and confidence in global financial markets has been, and continues to be, severe.**
- Whilst not unaffected, **Turkey has been less affected than many**, in consequence of its generally more prudent economy policy and implementation of extensive structural reforms between 2001-2008.
- The global crises has caused **an intensification of the level of dialogue around the merits of international financial centres** in particular with regard to: the value and risk created by financial centres; the recognition of the truly global nature of financial services and the global nature of competition between centres; and the continued importance of financial centres to the world economic model. This dialogue has resulted in two major activities:
 - **supranational bodies (such as the OECD) are more actively influencing the environment** for integrating and regulating financial centres around the world
 - **individual jurisdictions are rapidly developing their strategic responses** to the economic and political pressures, seeking to gain competitive advantage or better defend their current position.
- **There is a renewed focus on tax as a means of enhancing competitive positioning.** Whilst Turkey has made significant changes in many areas to enhance its fiscal environment there remains significant scope for improvement in: headline rates; specific transaction taxes; certainty of treatment and fairness; and ease of use.
- Turkey continues to make impressive changes to its regulatory environment. However **there remains significant opportunity to: improve the quality of regulatory institutions**; improve the legal supporting legal infrastructure; and redress the trust deficit exists between the international community and local institutions.
- Under current and potential future macroeconomic conditions there remains a wide range product specific opportunities for Turkey to explore and potentially exploit. In addition to the full range of domestic and regional commercial requirements, **specific product opportunities include: derivative instruments; insurance classes** (international reinsurance, international life, captive insurance); **asset servicing; Islamic finance; and environmental “green” financing.**
- **The implications for Istanbul in pursuit of becoming a regionally dominant international finance centre remain largely unchanged** from the earlier report. Consequently, the chart overleaf has been taken directly from the earlier report in order to summarize these actions (*see overleaf*). On the other hand, Istanbul has a great competitive advantage in of skilled labour force, revenue generation potential, lifestyle and cost of doing business criteria. These advantages will be of utmost benefit during the development of an IFC.

Executive Summary

- However, one practical consequence of the current environmental turmoil is that markets are in far greater flux and are changing at great speed. This speed of change also refers to the strategies employed by regional and global competitors to Istanbul. Consequently, **Istanbul must “design-in” significantly increased pace and flexibility into the organisation(s) designed to develop the financial centre.** Turkey must be agile enough to anticipate and respond to the changing demands of the macroeconomic climate and ‘swift’ market participants.
- **There is a short window of opportunity for Turkey to influence the direction of the global financial economy** to its own benefit. There is also a short period in which Turkey might capture excess financial services talent and deploy it in developing the emerging Istanbul financial markets.
- **In long term, Turkey has a great potential of growth. According to a conducted research;** in 2050 Turkey will become the 9th biggest economy in the world and 3rd in Europe after Russia and UK.
- Reassessment of the original financial model has confirmed that the original assumptions (growth, inflation, GDP and market shares) were conservative, as intended. Consequently, **faster growth in the Turkish economy during 2007/2008 has offset much of the decline in value anticipated from the weaker global economy.** In consequence, the predicted long-term value creation and employment levels remains largely unchanged.
 - Contribution of FSI to overall GDP could reach 8% by 2025 (i.e. an IFC contribution of an additional c.4%).
 - **GDP could increase by US\$20Bn** per annum by 2025.
 - **The total FS workforce could increase by 150,000** - doubling the current financial services workforce.
 - **Additional benefits should accrue from growth in related services** (the ‘economic multiplier effect’).
- **This report concludes that Istanbul can build a value crating, competitive financial jurisdiction** that can; one that can attract and serve international businesses and help develop its domestic market further. Indeed, **it is not credible for Turkey to aspire to being a world economy without making many of the recommended changes** to its financial services platform.
- Finally, it is noted that progress must be rapid if much (or any) of the value identified is to be captured.

Executive Summary

Issues to be addressed

1. Legal Environment

Realizing reforms in legal environment that will result in;

- Increased efficiency of courts
- Faster resolution of financial disputes
- Foundation of specialized courts

2. Fiscal Environment

Realizing reforms in fiscal environment that will result in;

- Focused on tax policy competitiveness strengthen
- Lower brokerage costs
- Balanced structure of direct/indirect taxes
- Decreased level of unrecorded transactions
- Stable taxation system aligned with international norms

3. Regulatory Environment

- Ensuring coordination among regulators and market participants
- Inability of regulatory bodies to retain skilled labour force
- Enhancing the independent nature of regulatory bodies

4. Skilled Labour

- Taking measures to increase the availability of employees with necessary FS and commercial skills
- Realizing reforms in education system in order to enhance the skill set of young work-force

5. Infrastructure

- Forming transportation infrastructure to eliminate traffic congestion
- Increasing the availability of high-quality real estate

6. Image

- Improving current image to support UFM concept
- Forming branding strategy for financial services sector
- Competing with other countries branding strategies

7. Other

- Eliminating costly and inflexible labour laws
- Improving flexibility of processes regarding hiring/firing workers

Definition of an International Financial Centre

- There is no single agreed definition of an international financial centre. Nor would such a definition be particularly useful if it existed. Attempts at definition invariably miss key attributes of international financial trade in our complex interconnected economy. (For example, those who have consistently claimed that the only true international financial centres are London, New York and Tokyo choose to ignore the largely domestic bias of New York, the greater proportionate clustering and exportation of financial skills from Singapore, and the significant use of offshore centres by London based entities. International bodies - economic, trade and regulatory - do not help through their tendency to use opaque logic and to change definition when it suits. Clearly then, a general acceptance or ranking of a city as an international financial centre is somewhat arbitrary, and strategic decisions should be guided by this.
- However, the following attributes of a nation's financial economy would be accepted as indicating the degree of international financial centre "status". It is these attributes that have been used to analyse the relative position of Istanbul throughout this report and to guide the strategic and operational recommendations:
 - Size of financial services markets
 - The clustering of skilled international financiers
 - Scale of domestic market that can be accessed by international companies
 - Image/reputation/profile as a centre for conducting scale-domestic and cross financial business
 - International norms within the legal environment
 - Necessary political and economic stability
 - Recognised and effective regulatory environment
 - The ease with which domestic, regional and global business can be established, conducted and curtailed
 - The cost of conducting financial services business
 - Competitiveness of the fiscal environment (corporate and individual)
 - Lifestyle supportive of the clustering of skilled financial services practitioners
 - The availability of support services and an appropriate communications, physical and transport infrastructure
- Each of these may be taken as sub-elements in the definition of a financial centre, and together will undoubtedly contribute to the numerous IFC indices published by private and public bodies throughout the world and which commonly define and guide public and institutional perceptions.

Contents

1) Context & Executive Summary

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- **Macro-economic developments**
- IFC strategies
- Taxation
- Regulation
- Products and services

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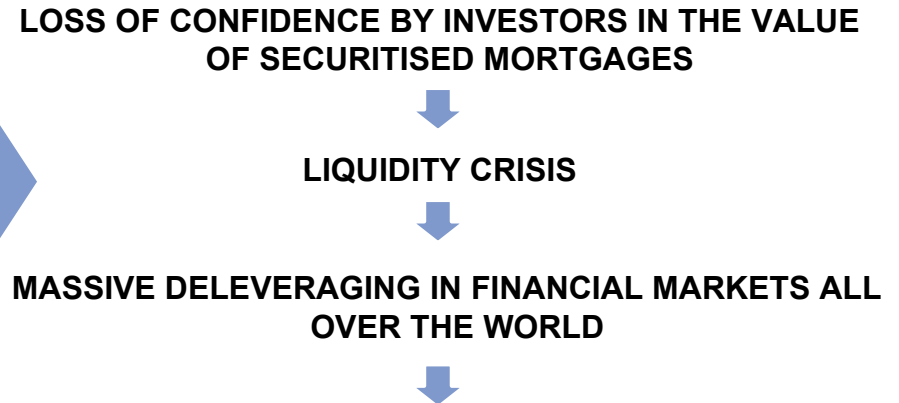
4) Financial model update

5) Key performance indicators

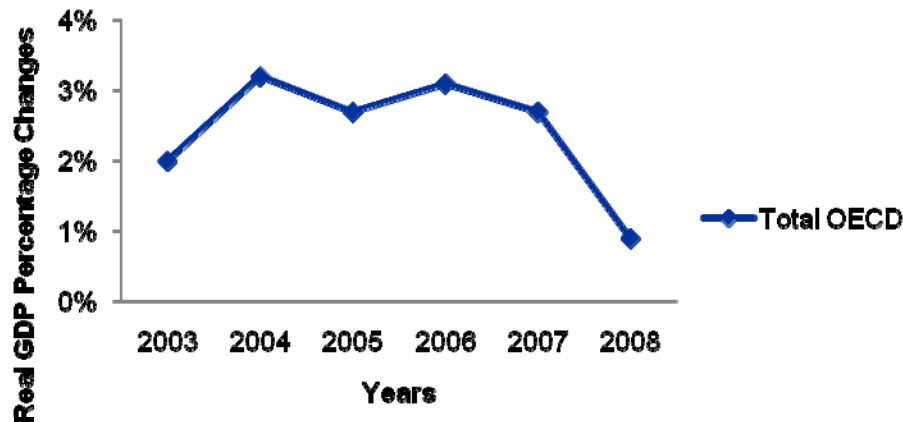
Global Economic Outlook (1)

Overview

- Excess lending over risky class of assets
- Over-securitization of financial assets
- Commodity bubble
- Lack of satisfactory level of regulatory control and monitoring
- Increased systemic risk as a result of ease of access to global financial markets



Total OECD Countries Real GDP Percentage Changes



- Repatriated overseas assets
- Scale-back in production and postponed capital spending
- Rapidly weakening labor markets
- Sharp declines in spending as a result of both unprecedented loss of wealth and overall tightening of credit with financial institutions making both corporate and consumer credit harder to get
- Steep declines in financial markets (stock exchanges and derivative markets)
- Increased public debt due to stimulus packages
- Devaluation of emerging market currencies and increased currency volatility
- Falling government revenues from tax

Global Economic Outlook (2)

Snapshot

- **August 2007:** Emerging liquidity crisis
- **January 2008:** Stock market volatility
- **February 2008:** Nationalisation of Northern Rock
- **March 2008:** Collapse of Bear Stearns and Federal takeover of Fannie Mae and Freddie Mac
- **July 2008:** Peak of oil prices at \$145 per barrel
- **September 2008:** Global financial crisis and bankruptcy of Lehman Brothers; sell of Merrill Lynch to Bank of America Corporation; partial nationalization of Fortis Holding
- **October 2008:** Nationalization of Iceland's major banks
- **November 2008:** Stimulus plan of China
- **December 2008:** Stimulus plan of the Australian Government; Madoff Ponzi scheme scandal

- **January 2009:** Proposal of Federal Spending Bill approaching \$1 Trillion in value by US Government; US House of Representatives passed the aforementioned spending bill
- **February 2009:** Stimulus package of Canada; announcement of a temporary moratorium on residential foreclosures by JP Morgan Chase and Citigroup; sign off the \$787 Billion American Recovery and Reinvestment Act of 2009 into law by US President Barack Obama; rise of Eastern European financial crisis
- **March 2009:** The worst opening of the S&P Index to a March in NYSE history; the Federal Reserve announced that it will purchase \$1.15 Trillion in US Assets (\$750 Billion in MBS, \$300 Billion in Treasuries, \$100 Billion in Agencies); announcement of the Public-Private Investment Program by US Government to leverage \$75-\$100 Billion of Tarp Funds with Private Capital to purchase \$500 Billion of legacy assets

Global Economic Outlook (3)

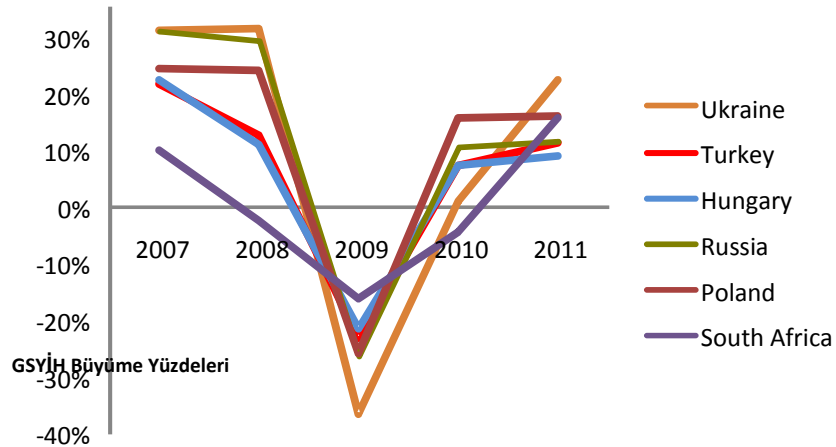
Future Prospects

	Current Forecasts	
	2009	2010
Real GDP Growth - World	-1.3	1.9
High-income countries	-3.8	0.0
Euro Area	-4.2	-0.4
Japan	-6.2	0.5
United States	-2.8	0.0
Developing Countries	1.6	4.0
East Asia and Pacific		
China	6.5	7.5
Indonesia	2.5	3.5
Thailand	-3.0	1.0
Europe and Central Asia		
Russia	-6.0	0.5
Turkey	-5.1	1.5
Poland	-0.7	1.3
Latin America & Caribbean		
Brazil	-1.3	2.2
Mexico	-3.7	1.0
Argentina	-2.0	0.0
Middle East / North Africa		
Egypt	3.6	3.0
Iran	3.2	3.0
Algeria	2.1	3.9
South Asia		
India	4.5	5.6
Pakistan	2.5	3.5
Bangladesh	5.0	5.4
South Africa		
Nigeria	2.9	2.6
Kenya	3.0	4.0

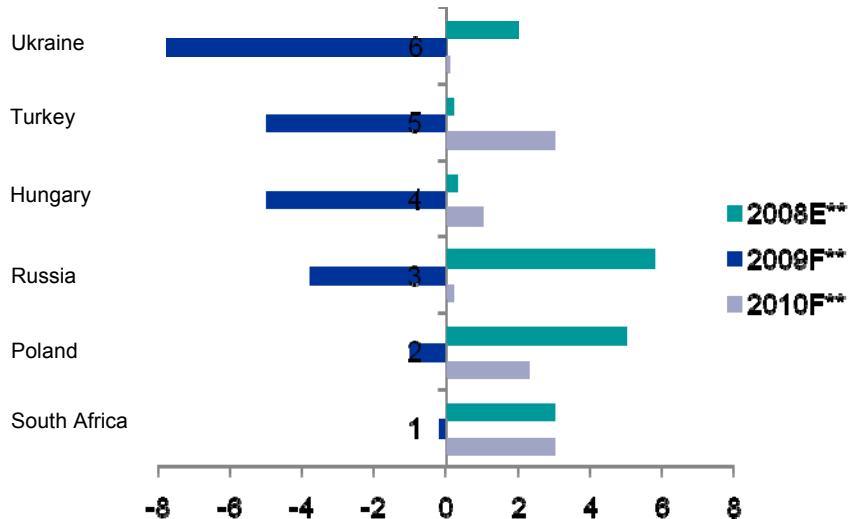
- Global GDP is expected to contract by 1.3% in 2009, the first decline in world global output on record.
- Developed countries' economies are likely to contract by 3.8% this year.
- GDP among developing economies is expected to expand 1.6%. Only two developing regions, Europe and Central Asia, and Latin America and the Caribbean are likely to witness GDP decline in 2009.
- Volumes of world trade in goods and services are expected to drop 11.0% in 2009, with a significantly sharper contraction in trade volumes of manufactured products.
- Oil prices are expected to remain 46.4% below 2008 levels, while the decline in non-oil commodity prices is forecast to remain in excess of 27.9%.
- Global unemployment rate is expected to rise to 7.1% in 2009.
- Fiscal deficits may widen sharply due to weaker revenues in 2009.

Global Economic Outlook (4)

GDP Percentage Growth by Country



More recovery in 2010 for less levered countries



**E estimated, F forecast

Source: Economist Intelligence Unit, Barclays Capital

Key medium-term risks for economies in the CEEMEA

- Heavy dependence on the performance of developed economies mainly due to exports
- Relatively high levels of external debt and poor public finances
- Damage on banking sector balance sheets due to insolvency problems and global de-leveraging
- Heavy dependence on oil prices, with a 10 dollar price rise/fall, for example, resulting in a respective 1.1% of GDP deterioration of the current account, and a 2.2% of GDP expansion in budget deficit

Opportunities for economies in the region

- Use of new flexible credit lines for EU member states and more IMF support after increases in IMF and EU resources as committed in London G20 gathering
- Relatively flexible labour markets
- Less of a systemic risk as banks in the region are not so exposed to toxic assets
- Strong growth potential after global economy stabilizes

Domestic Economic Outlook (1)

Overview

- Prudent economic policy and extensive structural reforms between 2001-2008
- Businessmen and government institutions experienced with crisis management
- Relatively high capital ratios and margins for banks in the region
- Less of a systemic risk due to lack of toxic assets



**One Of The Least Affected Economies
From Global Financial Crisis**

	2007	2008
GDP (billion \$/in current prices)	647.1	730.0
GDP Growth Rate (%)	4.7	1.1
GDP per Capita (Nom.\$)	9,090	10,150
FDI Inflow (billion \$)	22.2	18.2
FDI Outflow (billion \$)	-2.1	-2.6
Unemployment (%)	9.9	10.7
Consumer Price Inflation (%)	8.61	10.54
Export (billion \$)	115.4	140.7
Import (billion \$)	162.0	193.9
External Debt (billion \$)	247.2	276.8

- Diversified economy and integration with global markets
- A young, dynamic and entrepreneur work force
- Strong growth potentials and investment opportunities in many sectors after the crisis
- Accelerating structural reforms particularly in taxation and regulatory environment such as amendments in Banking and Insurance laws and Corporate Income Tax legislation.



**Relatively Fast Recovery Is Likely As
One Of The Most Powerful Economies In The Region**

	2009	2010
GDP (billion \$/nominal)	571.5	609.5
GDP Growth Rate (%)	-5.1	1.5
GDP per Capita (\$)	7,870	8,310
Inflation (%)	6.0	5.3
Export (billion \$)	104.9	109.0
Import (billion \$)	121.0	131.9

Source: TurkStat, Central Bank of Turkey, IMF "World Economic Outlook, EIU Forecasts

Domestic Economic Outlook (2)

According to Goldman Sachs...

"...TURKEY, THE NINTH LARGEST ECONOMY IN THE WORLD AND THIRD LARGEST ECONOMY IN EUROPE AFTER RUSSIA AND THE UK BY 2050, OVERTAKING ITALY BY THE EARLY 2030s, AND GERMANY AND FRANCE BY THE LATE 2040s..."

Reasons

- We strongly believe that Turkey has the capability and motivation to achieve this goal in the long term for following reasons:
 - A leading emerging market economy with a GDP of 741,8 billion USD in 2008 and an average growth rate of 7% over the last 27 quarters
 - Player of scale in the region with substantial economy
 - Latent potential in skilled labour and revenue generation
 - Low cost of doing business
 - Under-penetrated financial markets
 - Compelling long-term investment opportunities for foreign investors after the global financial crisis

Arguments of the study

- Global credit crunch poses challenges for Turkey but long-term growth and catch-up potential are strong
- Turkey's relative per capita income could be as high as any other EU member state at time of membership, by 2030
- Turkey's demographic transition is maturing, but population growth will continue to drive the economy over the next few decades
- Turkey's growth environment is more favorable than that of many developing economies
- Turkey's institutional set-up is sound but needs improvement
- Turkey has not used its demographic advantage fully
- EU membership might not happen, owing to political and cultural factors but Turkey's growth and catch-up potential would still be strong

Key Factors for Achievement

- Regulatory, institutional, cultural and income level convergence to EU states
- Improvement of the education of the labour force
- Improvement of the governance structure
- Strengthening civil society
- Addressing endemic poverty and regional inequality problems

Strong Long-Term Growth is predicted for Turkey

Contents

1) Context & Executive Summary

2) Developments in the international financial services environment (global and domestic)

- Macro-economic developments
- **IFC strategies**
- Taxation
- Regulation
- Products and services

3) Changes in Istanbul's position relative to selected competitors

4) Financial model update

5) Key performance indicators

Global Developments in International Financial Jurisdiction Strategies (1)

General Background

- Recent experience of more than 20 financial centres in all major regions around the world shows that the level of discussion, the awareness of the value created, and the appreciation of the global nature of competition between financial centres, continues to rise. Current market flux is unlikely to diminish this, rather it has begun to accelerate it. On the contrary, competition for the capture of 'IFC market share' is increasingly intense. The long-term success of an individual financial centre then becomes highly dependent on getting the strategy right 'today', applying national assets efficiently to that strategy and making sure it is actually implemented .

The Global Debate

- There is currently a fierce global discussion, driven by the OECD, G7 and IMF/World Bank, about the role of financial centres in stabilising the macro-economy. It has been widely quoted that "Financial centres are not part of the problem (of the macroeconomic collapse) but will be part of the solution".
- There are now many concrete signs of this:
 - Obama's vociferous 'Stop Tax Haven Abuse' bill
 - The Turner review (addressing governance, risk management, remuneration, liquidity requirements, macro-prudential requirements, accounting standards, international coordination etc.)
 - Multiple ad hoc Finance Minister level summits etc.
 - The G20/OECD Global Forum in Implementing Internationally Agreed Tax Standards (largely focused on forcing smaller nations to declare tax information at the behest of dominant economies) etc.

The Global Debate (Continuing)

- However, under the intense pressure of the economic crisis and calls from the public for 'revenge' on the banking fraternity, much of the global debate remains "politically charged rhetoric" rather than well considered, logical debate. The release of the G20/OECD 'Black list' in April 2009 is a prime example of this, where, for example:
 - Powerful trading nations who do not comply to the OECD tax standards are simply omitted from the list (e.g. KSA)
 - Small but strategically important nations who are not complying with Tax Information Exchange Agreement requests are benignly omitted (e.g. Panama, who is of prime importance to the Americas)
 - States or regions within larger OECD countries who display much more harmful tax behaviours, are given "Special Administrative Region" exemption or are omitted altogether (e.g. Hong Kong, Delaware)
- Clearly, there is much 'economic jockeying for position'. This strongly suggests that for large nations who are developing their financial jurisdiction there is a need to: maintain a strong voice in support of their intended strategy in the face of stiff competition; be clear about the financial services strategy that is to be employed going forward; combine all financial jurisdiction negotiation with broader trade agreements (as there is much bargaining to be done, especially for countries outside the EU/G7).

Global Developments in International Financial Jurisdiction Strategies (2)

The Global Debate

- Perhaps most importantly, this increasingly intense globalisation of financial regulation, taxation and operations will force major trading nations (such as Turkey) to implement world-class financial services practice domestically and internationally upon its participants and regulators. Indeed, it is essential that Turkey play a leading role in this, as it becomes a dominant regional force.

Governmental Pressure

- This global debate and current market discontinuity is putting strains on governments' finances, combined with more hostile public attitudes to tax planning by business and the wealthy given squeezed personal incomes. This is creating more pressure from 'onshore' regimes to combat and undermine the tax advantages of offshore centres.
- It is also forcing many governments to reconsider hastily their current approach to offering (what is perceived to be) excessive tax breaks or harmful tax information practices. There is also an emerging 'forced' global consensus amongst leaders that a stable, competitive (i.e. not necessarily zero) and largely transparent tax environment may offer the prospect of a more secure long-term revenue base and political acceptance.
- This strain on governments' finances comes at a time when, to take advantage of the markets, there is a need for investment on the part of financial jurisdictions to develop rapidly in order to capture value, before it is lost to competitors or re-consolidated into existing major centres as markets re-stabilise.

Nature of Strategic Responses

- We observe and imply that a common factor in most of the IFC strategies being discussed around the world, there is a need to be flexible and responsive to the changing demands of the macroeconomic climate and market participants. Whereas one year ago there was a greater emphasis on "serving and encouraging the participants" as a jurisdiction, there is a shift towards greater oversight and control, but the appreciation of the need to encourage market participants has not been lost.
- In such changeable markets, strategic flexibility is akin to the "pursuit curve behaviour" of a dog chasing directly towards a rabbit and we recognise, through multiple government level conversations, that this element of strategy is deemed to be a necessity in the near term, but without losing sight of longer-term developmental goals. (One may ask, "why not anticipate ahead more?" However, in such a hard-to-manage environment it may be unwise to anticipate too far ahead, and adopting a "reactive strategy" would seem preferable).
- But such strategies require real agility on the part of the pursuer and successful IFCs are likely to be those who can design-in flexibility and market responsiveness, balanced against the absolute need to maintain stability and insure against systemic risk. Achieving such flexibility may take a mindset change for some regulators who will need to moderate their approach from 'risk minimisation at all costs' to "balancing risk and return appropriately and accepting a non-zero-failure regime" reacting governments and commentators who are clamouring for 'zero failure' regimes.

Global Developments in International Financial Jurisdiction Strategies (3)

Nature of Strategic Responses (Continued)

- It is likely that flexibility will come from four main design principles:
 - Highly effective two way communications and consultation - between IFC bodies (such as regulators, tax authorities, lawyers etc.) and market participants (both new and potential)
 - Reduced complexity of regulation and administration - optimising regulatory organisation structure and a pro-business culture
 - Improved clarity and certainty of the tax system - dealing swiftly with business and environmental needs
 - Improved general ease of doing business - ensuring red-tape is eliminated and necessary services are made available
- Smaller offshore financial centres are already using their inherent nimbleness to good effect, but they will also have to understand the sectoral (product) needs of global financial companies and build a regulatory, tax and legal environment that encourages growth in these specific products by meeting those needs.
- However, flexibility is not the only thing that determines where banks and insurers choose to undertake business. Even though some jurisdictions may provide highly attractive and flexible environments for the establishment of new business, not all business will immediately flow to those centres. This is because existing centres will have established themselves as the natural choice for each class

of business, having built the community, processes and brand. It is then difficult for new jurisdictions to usurp this position unless the established centres make mistakes or do not spot new developments in the market. For larger, well established IFCs with large domestic/regional economic hinterlands, building-in flexibility should provide a more enabling environment within which financial services institutions will feel more able to compete for local, regional and international business, ultimately allowing the markets to choose which products will grow fastest in the fertile ground.

Global Developments in International Financial Jurisdiction Strategies (4)

Selective Competitive Activity

- It is clear that most regional and global financial centre competitors to Turkey have been working hard over the past year to develop their strategies in response to the crisis. Pertinent examples include:
 - London and New York have set many processes in place to offset the decline in business. London in particular is seeking to change corporate, transaction and ex-pat personal taxation rules to retain business. These activities, however, do not appear best coordinated, with the involvement a confusion of advice from political, industry and regulatory bodies.
 - Israel has developed its outline strategy for developing its financial jurisdiction under the auspices of the Ariav committee, and is seeking next stage approval from the newly appointed prime minister. (It is interesting to note that, given approximately 50% of senior hedge fund managers around the world are Jewish, there have been numerous discussions in Israel about how to facilitate the local growth of this industry as other jurisdictions become fiscally attractive).
 - Dubai continues to seek advice on developing the DIFC in certain areas (e.g. next phase building of a unique Sharia-product exchange), but is rumoured to be struggling to maintain momentum in the face of declining property prices (49% decline over the last year) and de-registering banks.

- Qatar Financial Centre activity and progress remain steady. Qatari GDP is still set to grow at 9% in 2009 despite hydrocarbon price falls, and the Qatari government has taken measures to support the local banking sector so as to ensure the financial sector is not undermined by falling asset values. It remains to be seen whether the QFCRA will be called upon to provide a unified regulatory function, as many expect to happen by 2010.
- Beijing and Shanghai continue to compete for improvements to their global financial positioning.
- Singapore, under pressure from OECD/US etc. has made radical concessions in its tax positioning, which will require a major rethink to maintain its strong strategic advantage.
- Many Caribbean nations, who currently serve the US markets, are seeing their private wealth asset management business threatened greatly (due secrecy rule changes and the continued on shoring of business by the US, Canada, Brazil etc.). This is forcing them to develop much broader financial strategies for employing their considerable financial expertise in winning emerging business from BRIC countries etc. Activity here is very vigorous and strategic responses are developing fast (e.g. Cayman, Panama, Bahamas).

Contents

1) Context & Executive Summary

2) Developments in the international financial services environment (global and domestic)

- Macro-economic developments
- IFC strategies
- **Taxation**
- Regulation
- Products and services

3) Changes in Istanbul's position relative to selected competitors

4) Financial model update

5) Key performance indicators

Global Tax Developments (1)

Overview

Key recent global trends in tax are:

- The focus on tax competition as a means of enhancing competitive positioning, creating both opportunities (for example, where countries have managed tax reform poorly or have been slow to respond to pressure for change) and threats (since a number of countries are now targeting aggressive growth in their FS sectors) has been renewed.
- Heightened concerns regarding loss of tax revenues through tax avoidance have resulted in an increased emphasis on identifying and encouraging best practices in taxation, and on forcing adoption of improved tax information exchange mechanisms.
- Countries are now targeting particular industry sectors through specific tax incentives.
- Improvements in tax administration, including giving taxpayers greater certainty are being realized.
- Governments are struggling to balance economic stimulus against the pressure of falling tax revenues.

Tax Competition

Tax rates:

- Countries still view tax rates as a key mechanism to attempt to enhance their competitive positions: e.g. Singapore is to cut its corporate income tax rate prospectively from 18% to 17%; Israel is reducing its tax rate on companies' net income in phases from 27% (2008) to 25% (2010); the UK main corporation tax rate is now 28% (from 30%); and Ireland has recently reaffirmed its commitment to preserve its 12.5% rate, despite severe budgetary constraints.
- Despite the above comments regarding governments' desire to maintain the competitiveness of their corporate tax regimes, the recent UK and Irish Budgets both announced substantial personal income tax increases.
- OECD has now formally acknowledged its acceptance of the practice of competition on the basis of tax rates.
- Tax rates have been a significant factor in a succession of corporate re-domiciliation (relocating tax domicile), including Shire and New Business Media, illustrating that companies are capable of taking extreme action in some cases to avoid unfavourable tax environments.

Global Tax Developments (2)

Tax Competition (Continued)

Other opportunities and threats:

- The negative publicity arising from the changes to the taxation of non-domiciled individuals in the UK has illustrated the importance of carefully managing tax policy and its implementation.
- In addition to those companies which have already moved their tax domicile, a number of high-profile UK companies have stated that they are considering changing tax residence in response to what they increasingly consider to be a business-unfriendly tax environment.
- Projected shortfalls in government tax revenues have also been the catalyst for a marked stepping-up of efforts to counter what is perceived to be a significant erosion of domestic tax revenues through tax evasion and avoidance.
- Conversely, the recently renewed pressure from the OECD and G20 on no- and low-tax jurisdictions has prompted many of them to begin to formulate aggressive and ambitious plans to grow their FS businesses.
- The UK has recently introduced a risk-based approach to prioritising government resource allocation in dealing with taxpayers, and Israel has focused significant effort on improving the administration of its tax rulings system.

Best Practices and Information Exchange

- The claimed link between the causes of the financial crisis and the activities carried out in so-called “tax havens” has resulted in an increased focus on transparency and information exchange, highlighted by tax scandals in Liechtenstein and the US case involving UBS. This has resulted in the publication of a new blacklist of countries that have not implemented sufficient tax information exchange mechanisms. This list includes established financial centres such as Singapore, Switzerland and Luxembourg.
- The US “Stop Tax Haven Abuse Act” and Senator Baucus’ rival Bill have created enormous uncertainty among low-tax jurisdictions which have extensive dealings with the US, and the unprecedented attacks on Switzerland have led to a massive loss of self-confidence in that country, and to significant capital outflows.
- These jurisdictions (which have historically had high levels of bank privacy) are facing increasing pressure to reform and introduce changes to comply with the OECD models of transparency. This gives Istanbul a competitive advantage over some of these jurisdictions, since it will probably not face the same scrutiny as the “greylisted” financial centres.
- At the same time, new benchmarks in transparency and information exchange are being set – e.g. discussions regarding extensions of the EU Savings Directive and US Qualified Intermediary reporting regimes. There is also evidence of a likely renewed focus on defining and encouraging “best practice” criteria in terms of taxation, including for example further discouragement of formal discrimination.

Global Tax Developments (3)

Targeting Industry Sectors

- There is evidence of countries continuing to use targeted tax incentives to encourage investment in particular industry sectors:
 - Singapore has recently announced an extension of its tax exemptions for foreign investors and qualifying resident funds.
 - Recent UK and Irish Budgets have both announced measures aimed at stimulating Intellectual Property investment and R&D activity (there is speculation that the UK intends to position itself as an intellectual property “money box” location, to tighten its grip on this expenditure).
 - Israel’s recent changes to its tax code for immigrants and returning citizens may also fit into this category, given Jewish strengths in hi-technology and hedge funds industries.

Domestic Tax Developments (1)

Overview

- The Turkish rule makers have made considerable progress in recent years to improve the Turkish Tax System and in this context, new laws, communiqués and rules have been introduced in this period.
- One of these laws and maybe the most important one was the new Corporation Tax Law which was introduced in the second half of 2006. The aim of this law was to simplify the tax structure, broaden the tax base and increase overall efficiency within the tax collection system, reduce unrecorded economy and create a transparent and stable tax environment.
- The major articles of the law are:
 - Corporate income tax rate has been decreased from 30% to 20%.
 - Withholding tax rate to be applied during the profit distribution has been increased from 10% to 15% to attract re-investment rather than dividend distribution.
 - New thin capitalization rules have been introduced in line with the international practices.
 - New transfer pricing regulations have been defined to align the Turkish System with the OECD Transfer Pricing Guideline.
 - Dividends received from foreign subsidiaries have been exempted from corporate income tax upon fulfillment of some conditions.
 - Capital gains derived from sale of participation shares and real estate have been exempted from tax.
 - As another mechanism for securing the collection of the corporate taxes, the concept of “Controlled Foreign Corporation (CFC)” has been introduced.

- New cost allocation rules have been defined regarding the taxable income of non-resident corporations generated from their branches established in Turkey.
- Within the context of the new law, income retained from securities and other financial instruments are taxed at a single rate with the aim of achieving uniformity in the tax system. However, some amendments on this single rate have been realized in the last 2 years to attract more foreign portfolio investments into Turkey.
- With regard to recent global trends in tax, it has been more important to make a thorough assessment of the competitive position of the headline tax rates and total tax burden imposed, and to reassess this regularly.
- It is essential that any changes made to the tax system in Turkey are carefully managed and their impact properly evaluated and communicated.
- Given the global shift in the “balance of power” between governments and corporates (not least because of the substantial publicly-funded bailout payments), it would be valid to question whether the objective of the Turkish Government should still be to give priority to enhancing certainty of treatment for taxpayers? The evidence still supports the conclusion that certainty is one of the key criteria on which multinational groups base investment location decisions, and enhancements to certainty are therefore highly desirable.

Domestic Tax Developments (2)

Targeting Specific Sectors

Turkey has also introduced a number of recent tax measures targeted at specific industry sectors. The implication is that Turkey should continue to monitor the relative competitiveness of its tax regime going forward not merely at the macro level, but at the level of industry sector.

Key capital market developments with regard to tax are:

- Income withholding tax applied on the share gains (except the ones of securities investment trusts) reduced from 10 % to 0% for fully tax payers without a time limit.
- Corporate withholding tax applied on the portfolio management activity gains has been defined as 0% for gold and precious metal funds trading in Turkish gold and precious metal market.
- Withholding tax applied on derivative contract gains (except the ones based on shares or share indexes) has been increased from 0% to 10% for fully taxpayers trading in Turkish Derivatives Exchange.
- Withholding tax applied on the eurobond interest gains (which was exempted from the withholding tax) has been re-defined as 0 %.
- Withholding tax applied on dividend gains, in order to encourage capital increases instead of dividend distributions, has been increased from 10% to 15%.
- Withholding tax applied on dividend gains has been reduced from 15 % to 0% for securities and real fulfillments trusts.
- Securities Investment Funds and Securities Investment Trusts have been exempted from Banking and Insurance Transaction tax.
- Tax rate on FX sales transactions has been reduced to 0 %.

Key housing finance developments are:

- Capital gains of housing finance funds and asset finance funds have been exempted from corporate income tax.
- Withholding tax applied on the capital gains arising due to portfolio management activities of housing finance funds and asset finance funds has been defined as 0%.
- Issue premiums gained by mortgage finance corporations and all housing finance related transactions/documents of mortgage finance corporations, housing finance institutions and housing finance funds have been exempted from Banking and Insurance Transaction tax exemption .
- All issued documents and conducted transactions related to mortgage finance activities have been exempted from stamp tax, value added tax (for executive proceedings) and title duty.

Key R&D developments are:

A new law supporting research and development activities passed in Parliament in 2008 introducing incentives and supports for investors who want to make research and development investments, regardless of sector or industry, by 2024. Key tax points of the new law are:

- Companies are allowed to deduct their research and development investments from their tax base.
- Employees engaged in R&D activities are exempted from withholding tax (i.e. 90% for Ph.D, 80% for ordinary R&D employees).
- Documents issued regarding R&D activities are exempted from stamp tax.

Domestic Tax Developments (3)

Targeting Specific Sectors (Continued)

Other tax related developments are:

- VAT rates have been decreased in some sectors including but not limited to food, tourism, hotels etc., but also increased to 18% from %1 for financial leasing transactions.
- VAT and SCT rates have been reduced for a temporary period on automobiles, furniture, computer equipment etc.
- Qualified precious metal producers have been allowed to deduct VAT from tax base.

Tax Competition

Opportunities and threats:

The possible opportunities that Turkey will encounter after the effects of the global financial crisis have diminished are;

- Turkey may benefit from other jurisdictions mistakes in terms of ill-conceived policy changes in tax legislation.
- There is also a great opportunity for Turkey to focus on making its tax system as competitive as possible but also compliant and presented as a 'best practice' tax system to attract out-moving money flows from black-listed jurisdictions such as Singapore, Switzerland and Luxembourg that have not implemented sufficient tax information exchange mechanisms with regard to tax transparency given special importance by the OECD and G20 in light of the financial crisis and tax scandals in some countries.

Tax Competition (Continued)

- Within this context new benchmarks in transparency and information exchange need to be taken into consideration in formulating Turkey's IFC plans.

On the other hand, there are also some threats for Turkey:

- Tax rate cuts in some comparator jurisdictions (e.g. UK, Singapore, Israel) to stimulate the economy after the economic downturn.
- Increased competition in some of Turkey's target FS markets due to aggressive plans of no- and low-tax jurisdictions to grow their businesses after the pressure from global world.
- Huge effort on improving the administration of the tax system by selected comparators.
- Tendency to product-based taxation in selected competitors.
- Falling tax takes as a result of the economic situation.
- High level of transaction costs and taxes such as BITT and RUSF and stamp taxes.
- Any major changes to Turkey's tax regime that could impact significant existing tax revenues may meet robust resistance, and again should be reviewed carefully.

Contents

1) Context & Executive Summary

2) Developments in the international financial services environment (global and domestic)

- Macro-economic developments
- IFC strategies
- Taxation
- **Regulation**
- Products and services

3) Changes in Istanbul's position relative to selected competitors

4) Financial model update

5) Key performance indicators

Global Regulatory Developments (1)

Overview

The G20, IMF, FSB and the UK FSA have all documented how the crisis arose. The consensus of what has occurred is that:

- The inter-connectedness of the global financial system and macroeconomic imbalances driving low interest rates, helped create a credit boom and sustained asset price inflation and promoted more risk taking.
- These issues then played a crucial role in reinforcing the severity of the financial crisis and in transmitting financial system problems into real economic effects.
- The shock to the banking system has been so great that its inability to extend credit to the real economy has played a major role in the economic downturn.
- The regulatory reform agenda being debated by international policy makers therefore plans to address:
 - the initial over-extension of credit
 - the regulatory, accounting, disclosure and market failures which increased the severity of the crisis.

Poor control led to:

- The growth and increasing complexity of SIVs and inadequate trading books capital requirements leading to unsustainable growth in both households and corporate credit .
- Falling asset prices have rapidly affected bank profitability and perceptions of their credit worthiness creating a collapse in bank liquidity .
- High levels of leverage which increased the vulnerability of the system because asset price falls had an amplified impact on system capital adequacy.
- A misplaced reliance on sophisticated mathematics in pricing and risk management contributing to a collapse in confidence in credit ratings, uncertainty about appropriate prices, and a lack of confidence that published figures captured the reality of emerging problems.
- Pro-cyclicality exacerbated the scale of the downturn.
- Lack of adequate capital buffers as a result of which commercial banks losses have driven falling confidence in the banking system impairing the ability of the banking system to extend.

Global Regulatory Developments (2)

How regulation is likely to respond to these challenges:

Liquidity	Capital – big picture	Capital - detail	International relations
<ul style="list-style-type: none">• Basel and EU proposals on table – essentially qualitative• Individual Country Regulators will put forward own regimes• Central banks and governments will continue work on role as liquidity provider and guarantor	<ul style="list-style-type: none">• Higher levels needed. Basel minimum of 4% tier 1 is recognised as too low• Capital needs to be “put away” in good times to cater for bad times• Risk measures need to be less pro-cyclical – better modelling needed	<ul style="list-style-type: none">• Higher requirements for credit risk in the trading book• Higher requirements for structured products• Interaction with IFRS important	<ul style="list-style-type: none">• Regulatory Colleges and international co-operation much more important. UK FSA have proposed a European Oversight Body• Important Colleges need to be small enough to be effective• Possible enhanced IMF\FSF stability role
Risk Management and Governance in banks	Special resolution regime and depositor protection	Rating agencies	Transparency and valuation
<ul style="list-style-type: none">• Need for better Contingency planning and Stress testing• Senior management responsibility for failure• Appropriate use of remuneration	<ul style="list-style-type: none">• To allow “zombie” firms to be sorted effectively• Need to speed up repayments• Need for international co-ordination	<ul style="list-style-type: none">• Improvements in the IOSCO code of conduct• Greater clarity in the ratings themselves• Robust systems to manage conflicts of interest• Stronger enforcement of standards	<ul style="list-style-type: none">• Wide variety of additional disclosure measures proposed• Important tweaking to the valuation rules, arguably to bring these closer to “fair” value rather than to “fire sale” value

Global Regulatory Developments (3)

How regulation is likely to respond to these challenges (*continued*):

<p>Rebalance supervision</p>	<p>Systemic firms</p>	<p>Increased National Focus</p>	<p>Re-examine Regulator staffing</p>
<ul style="list-style-type: none"> • More emphasis on prudential regulation: less on conduct of business issues • Be more prepared to dig into specific sectors (e.g. commercial property) and topics (e.g. valuation) • Emphasis of Principles Based Regulation reduced 	<ul style="list-style-type: none"> • Big firms may matter because they have many retail depositors, or because they have many wholesale creditors • Systemic firms may be subject to greater constraints on their business models 	<ul style="list-style-type: none"> • Desire for more control of branch entities • Increased national focus and use of existing powers on liquidity and entity capital requirements 	<ul style="list-style-type: none"> • Case for more market-savvy regulators. • Recalibrate salary/status of regulators to attract and retain good people • Make staffing flexible (to deal with e.g. temporary surge in financial crime)
<p>Governance</p>	<p>Regulatory reporting</p>	<p>Self-righting mechanisms</p>	<p>OTC clearing and settlement</p>
<ul style="list-style-type: none"> • Greater expectations on non-executive directors, shareholders and auditors • Greater challenge to Firm's Senior Management • Greater challenge of business models by Regulators • Focus on effectiveness and clarity of risk management arrangements 	<ul style="list-style-type: none"> • Reporting needs to be faster, more efficient and better harmonised • Regulatory reporting will be much more demanding and the challenge much more exacting • Much more intrusive regulatory approach 	<ul style="list-style-type: none"> • Devise mechanisms that encourage firms to be different, rather than herd • Broader range of analysis tools to encourage effective management 	<ul style="list-style-type: none"> • An analysis of the benefits and cost of reform • A route map on how to make significant improvements rapidly, to reduce global systemic risk

Domestic Regulatory Developments (1)

Overview

- The Turkish regulatory authorities have made important changes in recent years to improve the Turkish Regulatory Environment and within this context, both new regulations and rules have been introduced and amendments in existing laws have been realized. Major ones include:

Housing Finance Law and related Communiqués:

- Main objects of the law include housing finance via capital markets, providing more affordable debt conditions, introducing new capital market instruments, increasing the housing supply and revival in construction sector and sub-sectors. In this sense:
 - The scope has been defined (loans extended for acquiring houses including houses under construction, home equity loans, loans extended for refinance, leasing of authorized houses to the consumers through financial leasing).
 - Housing finance institutions have been determined (banks and approved financial leasing and finance companies).
 - New capital market institutions (mortgage finance corporations, housing finance fund, asset finance fund etc.) have been identified.
 - New capital market instruments (both covered debt instruments and securitisation tools) have been introduced.
 - Amendments in various laws including Consumer Protection Law (new rules on creditor's and assignee's liabilities); Capital Markets Law (definition of new instruments); Law of Foreclosure (measures simplifying and fastening the process on mortgagor defaults); Financial Leasing Law; Mass Housing Law and several tax laws (exemption from BITT, VAT, stamp duty and title duty) have been realized.

New regulations regarding Banking Law:

- Following rules easing establishment and operations of banks have been introduced:
 - Amendments subject to permission and indirect shareholding.
 - Amendments on procurement of support services by banks and authorization of such service providers.
 - Amendments subject to authorization and activities of independent audit companies, valuation companies and rating agencies.
- Amendments on corporate governance rules have been made with regard to:
 - Internal systems of banks (IT security, data storage etc.)..
 - Principles to be taken as basis in Information Systems Management in banks.
 - Procedures for declaration of assets by top executives and maintenance of case-books of resolutions
- New regulations on protective provisions have been introduced with regard to:
 - Credit operations.
 - Measurement and evaluation of liquidity adequacy (measures for **alleviating** impacts of the liquidity crisis).
 - Measurement and evaluation of capital adequacy (capital requirements for operational risk etc.).
 - Increase in provisions rate for receivables (but declining provisions for some activities).
- Amendments on financial reporting rules have been made in line with IFRS.
- Regulations on non-bank financial institutions have been introduced regarding provisions to be set aside for the receivables

Domestic Regulatory Developments (2)

Overview

New Insurance Law:

- To address market developments and comply with EU regulations, Turkey enacted the Insurance Law (IL) in 2007. The main objectives of IL are to develop the insurance sector, protect the rights of the parties concerned and ensure a secure, stable and effective insurance environment by closing previous gaps in the insurance sector with regard to incorporation and activities of insurance and reinsurance companies, suspension of activities, liquidation process, a sound auditing and financial reporting system, dispute settlement mechanisms, incorporation of insurance training centre and calculation methodology of risk-based capital adequacy. Major changes introduced with the law include:
 - Bureaucratic barriers to new investments (laying down objective criteria for the rejection of license applications) have been removed.
 - A precise manual for monitoring sector participants has been prepared.
 - Imposed sanctions on rules about the measurement and assessment of capital adequacy of insurance, reinsurance and pension companies, regulations regarding provisions and financial structure.
 - Detailed preventive measures that may ultimately lead to government intervention have been introduced.
 - An arbitration process for an accelerated and less burdensome dispute resolution has been introduced.
 - In addition to internal auditing, independent audit of financials become mandatory.
 - Executive committees established under the TOBB for agencies and experts in order to found a more organized and disciplined structure for their contribution to the sector.
 - Insurance Education Center established for preparing exams and meeting education demands about specialized insurance issues.

New regulations regarding capital market activities:

- New rules and communiqués in accordance with corporate governance rules and EU norms have been introduced including:
 - Public disclosures with regard to insider information, permanent information and periodical information.
 - Ease of rules on issuing of private sector debt instruments.
 - Restriction of the validity time with 5 years for reaching maximum amount of registered capital.
 - Amendments on non-voting share rules (eased rules for companies to raise funds in capital markets by issuing non-voting shares).
 - Necessity of establishment of the investor relation unit in public companies.
 - Valuation with regard to related party transactions.
 - Re-definition of asset backed securities as an off-balance sheet item.
 - Harmony with international financial reporting rules.
 - New independent audit rules fully compatible with international auditing standards.
 - Update of the rules on rating agencies.
 - Alignment of regulations regarding rating agencies with international standards
 - 50 % deduction in payments to Investor Saving Fund
 - New rules on storage, monitoring and conduction of orders provided by customers.
 - New rules on money laundering with regard to intermediary agencies.

Domestic Regulatory Developments (3)

Overview

Other issues regarding regulatory environment are:

- Draft laws on Turkish Commercial Code and Financial Leasing, Factoring and Finance Companies have been prepared.
- New rules on individual pension system (terms of agreement and related parties of the individual pension policy, enlightenment of participants, processes after retirement, transfer of savings etc.) have been defined.
- New rules for cheque transactions (termination of payment restraining direction execution, invalidation of cheque submission to the counterparty before the date of issue stated, deletion of central bank records of customers drawing bad cheques etc.) have been introduced.
- New rules for financial restructuring program (making it possible to restructure the unproblematic loans as well) have been defined.
- New regulations on account openings and loan issues related to precious metals and precious metals loan funding by precious metal intermediary agencies have been determined.
- New rules on freedom of transactions denominated in foreign currencies (other than those currencies that have been specified by Central Bank of Turkey) have been defined.
- Bank and Credit Card Law enhancing efficiency of payment systems has been introduced.

Domestic Regulatory Developments (4)

Opportunities and Threats

- Turkey has relatively independent and effective regulatory and supervisory bodies.
- Turkey has realized major primary and secondary regulations in the process of compliance to EU aiming to improve its financial market regulations and controls.
- New legislations and regulations which will be coming into effect shortly are aiming to align Turkish standards with EU standards in terms of risk management, monitoring and corporate governance .
- On the other hand, lack of specialized courts to resolve financial disputes, flaws in transparency and institutionalization and application discrepancies of same regulations on different sectors are still some of the important threats for Istanbul.
- Another threat for the regulatory environment is the fact that different players in the financial markets can be applied different taxations regarding the same transactions. For instance;
 - According to notice of BRSA, although specialized tax provisions can be recorded as expense in corporate tax basis, Finance, Leasing and Factoring companies can not record them as expenses.
 - 75% of the earnings from the sales of Finance, Leasing and Factoring companies' immovables which were attended at least two years in the companies assets are exempted from taxation, however banks benefits from this exemption without a time constraint.
 - Although the bank loans, borrowed from associative institutions, are out of the hidden capital, Finance, Leasing and Factoring companies can not benefit from this application.

- Although banks are exempted from the credit charges, Finance, Leasing and Factoring companies are obliged to pay the charges.
- Although bank's immovable and subsidiary shares assignment and consignments, which are received from debts against receivables, are exempted from VAT, Finance, Leasing and Factoring companies can not benefit from this application.
- While Earnings from the sales of Finance, Leasing and Factoring companies' immovables which were attended at least two years in the companies assets can be excepted from VAT, banks' immovable sales are exempted from VAT.
- The RUSF rate of 3% that is applied to leasing and factoring companies on their foreign currency denominated short-term loans and import transactions with acceptance credits should be terminated.
- Factoring companies are subjected to BITT rate of 5% both on their interest and commission fees income and also on interest payments on domestic loans. In this context factoring companies are subjected to double taxation.

Contents

1) Context & Executive Summary

2) Developments in the international financial services environment (global and domestic)

- Macro-economic developments
- IFC strategies
- Taxation
- Regulation
- **Products and services (global)**

3) Changes in Istanbul's position relative to selected competitors

4) Financial model update

5) Key performance indicators

Global Developments in Financial Products and Services (1)

Overview

- Current difficult market conditions will undoubtedly cause a greater intensity of competition for global and regional financial services business as those 'new' centres who are well advanced in their jurisdictional development begin to implement their plans for capturing market share. This includes powerful economic centres like Istanbul and Beijing as well as more focused centres such as Tel Aviv and established 'tax neutral' platforms, such as The Bahamas, seeking to refine their regulatory frameworks and services in response to market changes. In addition, we are already witnessing the self-(re)assessment of the competitiveness of leading financial centres such as New York, London and Switzerland.
- Public and political reaction to the recent credit crunch, bank failures and share price declines will strengthen the existing perception that product regulation must be tightened. We have already seen this in the United Kingdom with the Treasury Select Committee focus on offshore centres following Northern Rock's employment of structured securitisation vehicles, and the ongoing Foot Review. This will likely increase the pressure on all centres to be well regulated. But the arguments of what 'well regulated' means, who is well regulated and who is in a position to opine, will be a very long and critical debate, with arguments logically flowing both ways. However, it is certain that ill-considered and inappropriate product regulation will impose unnecessary costs and stifle innovation, so there will be a competitive advantage in getting regulation right, and making it responsive to industry's needs.

- From a product perspective some activities will become less profitable - and therefore less attractive - as sectors on which to focus, both for existing and emerging financial centres. For example, securitisation markets in the US and Western Europe are likely to remain weakened for a period. But the picture is complex and we see the same markets performing better in emerging markets, so this activity may well still be a valid focus for developing centres in those regions. We might also note that private placement is still reasonably active, demonstrating further complexity and fragmentation of securitisations into sub-markets. Those centres willing take a role in resuscitating and developing these markets may gain significant competitive advantage. But speed-to-market and responsiveness of an IFC wishing to capitalise on these opportunities will be important here since hard-pressed London and New York based teams will be prepared to go further afield to capture business.
- Furthermore, emergent IFCs may choose to focus on sectors that will be boosted in current refractory markets. For example, the demand for derivatives may be strengthened as the cost and difficulty in raising finance will make it harder for some businesses to 'ride out' mismatches in cash-flows and the risks relating to them.

Global Developments in Financial Products and Services (2)

Evolving major themes and implications for product classes

- Any consideration of global developments in financial products and services is necessarily somewhat speculative during these highly turbulent market conditions. Nevertheless, by focusing on those broad classes of product that are likely to be pertinent to the 'build-decisions' for a financial jurisdiction, and by trying to identify the macro-trends that lie behind the development of certain product classes, it is likely that useful patterns and conclusions may be drawn.
- Most importantly, it is necessary to consider the long-term underlying macroeconomic trends that will drive financial services activity, and draw from this the impact on major classes of business. The necessity of taking this long-term view cannot be understated, as it is essential to align decisions today with the goals and environment of 2013 (secondarily) and 2023 (primarily).
- The following assessment of global developments in financial products and services has been developed through employing a comprehensive review of extant public domain economic literature supported by in-house research and experience. It identifies the following themes:
 - There is likely to be a shift of financial activity and influence away from the West through the readjustment of world balance of trade and the realignment of capital accumulation/borrowing imbalances.
 - Internationalisation (or globalisation) of financial services will continue and products that facilitate flow and access to capital and management the risk of that capital will continue to develop apace.
 - A greater portion of the world's financial capital will be 'seen' by the regulators, and hence will need to be managed under regulatory regimes that are robust and recognised to be so. Accordingly, products that are well regulated but that maintain benefit of existing non-regulated products will grow.
 - The drive for efficiencies in managing the world's financial assets is unlikely to abate. Services that support this need will continue to develop.
 - The financial services industry has a key role to play in managing the world's environmental ("Green") issues. Product classes that support this have not really begun to mature, and there is a window of opportunity for jurisdictions and institutions to capture 'more than their fair share' this market
 - Islamic products are likely to grow, either by substitution or via the development of innovative lines of business.

Global Developments in Financial Products and Services (3)

Macroeconomic considerations and implications for Turkey

- The world economy is in a position of stark imbalance. The United States, as a borrower of last resort, has reached the limit of its net borrowing and the rest of the world (largely emerging major nations, large transitioning countries and oil producers) needs to grow its domestic demand faster than the US for the foreseeable future. This will reverse the current “illogical” flow of capital from poorer to wealthier nations – as measured by GDP per capita.
- This implies a future normalisation (not removal) of national current account deficits, with capital flows to countries in current account surplus. But this flow must, by all the laws of logical and prudential investment, only be to those countries with good investment opportunities. Turkey stands possibly uniquely in this regard, as it has indeed begun to offer the world distinct investment opportunities - in the area of real commercial activity and manufacture, not just financial product - yet has a distinctive standing with the IMF as its last remaining large borrower.
- To facilitate this essential capital flow there must be:
 - A financial system that is increasingly global, harmonised, liberal and market focused
 - A promotion of net importing of capital into developing and transition nations
 - Facilitation of more robust risk reduction mechanisms between different jurisdictions and supranational entities – including more certainty over a nation state stability and that of its financial jurisdiction
- Greater control over volatility, speculation and overall risk in foreign exchange transactions and international trade
- Application of floating exchange rates regime
- These requirements are necessary, but may not be sufficient to alleviate all current economic pressures or prevent future collapses. One may also speculate on the need to better employ international bodies such as the IMF to additionally shore-up and facilitate certain countries towards meeting these requirements.
- This would suggest that financial jurisdictions such as Turkey would then need to pursue the following activities (with vigour and speed) if it is to reap the rewards of a changing financial services macro-environment. Each of them has distinct implications for the development of an environment supportive of various evident product classes:
 - Develop a financial environment that is primarily supportive of export-led growth ; certainly growing at a rate faster than the aggregate growth of Europe, the UK and the US. However, given the pressures from China, Brazil, India etc. this may be difficult to sustain, or indeed control, since these competing nations may choose to maintain high levels of foreign currency thereby falsely creating favourable exchange rates to the advantage of their own national exporters. However this emerges, competitive commercial lending products will presumably be increasingly in demand.

Global Developments in Financial Products and Services (4)

Macroeconomic considerations and implications for Turkey (continued)

- Liberalise inflows of foreign direct investment - which is by far the most stable form of domestic investment due to its illiquid nature. Product implications here are, of course somewhat market led, and require a facilitative approach by the Turkish financial authorities.
- Encourage, promote and manage equity investments - which is a little less stable but allows Turkey to share in both the losses and gains of equity investors – both through profits/losses and through developing the infrastructure and services to support the industry as it grows.
- Continue to issue instruments equivalent to domestic currency bonds with long maturities (bearing no foreign exchange or devaluation risk). Such a maturing domestic bond market would inevitably improve confidence in Istanbul as a financial jurisdiction if it is well regulated and tax efficient, and inevitably will increase access to world capital markets, thereby driving down the cost of funding of for industry. In addition this is likely to continue the encourage belief in Turkey's economic stability and act as a necessary precondition for the growth in long term pension funds and diverse insurance classes.
- Increase the pace of 'gaining trust' of the world's financial community. This will come primarily through developing those elements of the financial jurisdiction that encourage: transparency and predictability of the fiscal system; credibly low inflation; and products that help, manage currency mismatches.

- With regard to 'currency-led' solutions to the existing financial crisis, the emergence of a global monetary system is very unlikely to emerge in the next 20 years, due both to the ability and the willingness of world governments to do so. However, it is quite plausible that regional (or trading bloc) baskets of currencies may emerge and longer-term products to take advantage of such a system might be considered for the future.
- Finally, there will certainly be continuing supra-national attempts to manage the current crisis and the emerging financial economy of the future. Turkey should anticipate these and attempt to be seen as a co-leader in the development of solutions. Turkey should also attempt to take distinct advantage of these moves including:
 - International stimulus (even coercion) to grow domestic currency markets – essential in reducing future reliance on the dollar as the global currency, and improving cross border trading
 - Harmonisation and simplification of 'global legislators', supra-national banks etc. (i.e. IMF, WB, BIS, BCBS, FSF, IOSCO, AIS, IASB)
- Given the above discussion of the general environment, the emerging themes and the longer-term macroeconomic developments, the remainder of this section will limit comment to developments with respect to:
 - Derivative instruments
 - Insurance products
 - Emergence of regional asset servicing centres
 - Growth in Islamic products
 - Environmental 'green' financing

Global Developments in Financial Products and Services (5)

Derivative instruments and implications for Turkey

- Two primary features of the financial services industry have conspired to cause the current difficult market conditions and economic downturn. Namely, the presence of considerable imbalances in current account deficits/surpluses, combined with the explosion in use of complex derivative instrument classes. In order to bring the global economy back to a position of normality, both the imbalances and the deployment of derivative products will need to be modified.
- Given this, it becomes necessary to understand the future growth and constraints likely to be placed on derivative products by international bodies when considering the degree to which Turkey should develop their financial jurisdiction as a centre these products.
- Firstly, derivative products are here to stay, and their complexity will likely continue to grow within the boundaries of international regulation and law. It is not possible to put them back inside “Pandora’s Box”. Indeed, they have been present as a fundamental part of the global banking economy since the inception of large scale mortgage backed securitisation in the US during the 1930’s.
- Furthermore, even during the collapse of LTCM, the run on the Australian Dollar or the Mexico crisis - where hedge fund managers taking inordinate ‘bets’ equivalent to 3-5% of national GDPs and showed signs of manipulating market sentiment - no one has called for their cessation or seriously doubted the intrinsic use of these products, only the degree of control that was placed upon them.

- However, it is now evident that the proliferation of derivative products (in number, complexity and scale) is a prime cause of the current financial instability and there is no doubt that their usage will be far more strictly regulated. Given that over 40% of the world financial assets (with \$17 trillion in derivative instruments by 2007) are “not seen” by the regulator, the principal of “comprehensiveness” has been breached and will undoubtedly be better addressed in the future. The implication for Istanbul as a financial jurisdiction is that there must be a proportionate effort to accommodate and facilitate the growth of these products.
- It cannot be doubted that there is, and will continue to be in the near term, a reduction in volume of derivative volumes. Nevertheless, there is likely to be distinct future growth for the following reasons:
 - Interest rates are likely to remain low in the near and mid-term, forcing institutional fund managers amongst others to seek alpha-returns that are just not available on standard products
 - There is a short-term oversupply of highly skilled professionals, who will seek to develop and distribute these products
 - There is, and will remain, a demand from corporates for solutions balance sheet and cash flow pressures
 - Historic growth has been strong and this pattern is likely to resume beyond the current global downturn

Global Developments in Financial Products and Services (6)

Derivative instruments and implications for Turkey

- There would then appear to be two important questions for Istanbul: *“Which specific products?”* and *“How much should we encourage and invest?”*.
- However, both of these questions are difficult (if not impossible) to answer directly. Rather, the financial authorities in Turkey must ensure that they provide a highly competitive, and globally integrated, regulatory and legal platform, which will encourage market participants to develop derivative business in Turkey in a cost effective and safe manner. Foremost, this will include the development of:
 - Leading-edge legal environment that gives clarity, certainty speed and confidence to participants. For example, it has now become clear that insolvency/bankruptcy law is woefully inadequate to give market confidence with regard to derivative assets and liabilities.
 - Comprehensive regulatory oversight, with the skilled personnel to address emerging issues, and a clear linkage between authorisation/monitoring activity and broad macroeconomic/systemic impact
 - A leading Turkish contribution to global solutions to: liquidity, capital adequacy, originate-and-distribute criteria, classification/separation of product risk classes and bank/near-bank/non-bank entities, on/off balance sheet reporting and executive incentives.

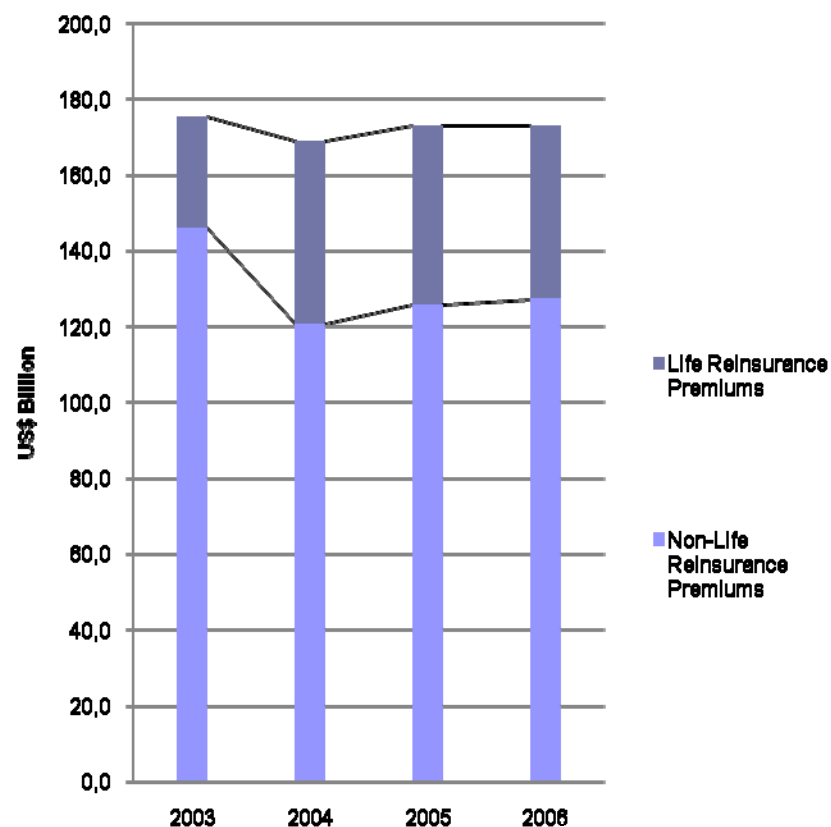
- it is apparent that many jurisdictions do not, and will not, wish to encourage the establishments of (say) hedge funds too readily, given their high-profile, personal tax divisiveness and aggressive image unlikely to suit a maturing commercial economy like Turkey. But each of the developments in any individual product area (RMBS, ABS, CDOs, covered bonds, etc.) must be reviewed on its own merit, and individual cases be developed in the light of broad economic policy, systemic risk/stability, and perception considerations.

Global Developments in Financial Products and Services (7)

International reinsurance

- Reinsurance is an attractive and growing business, growing at a compound annual growth rate of 5.5% from 2003 to 2007. Datamonitor reported that global reinsurance premiums grew by 9.7% in 2007 and are forecast to reach a value of \$223.5bn USD by 2012, growth of 33%.
- The Americas region accounts for approximately 56% of the global reinsurance market with Munich Re being the largest reinsurance group with nearly 18% of total premium.
- New reinsurers tend to be formed following major market dislocations such as 9/11 or Gulf of Mexico Hurricanes. These formations have historically been centred around London and Bermuda. However, with several new regional insurance hubs growing in prominence (e.g. Singapore and Dubai), opportunities may exist for emerging domiciles to capitalise on the next wave of reinsurer formations.
- Reinsurance rates are increasing in response to reductions in investment returns, a deteriorating claims environment due to the global economic downturn, and a reduction in capital to support the business. Unlike in previous hardening markets caused by catastrophes, capital has not entered the market to take advantage of increasing rates via new reinsurer start-ups due to a global shortage of capital and general investor risk aversion.

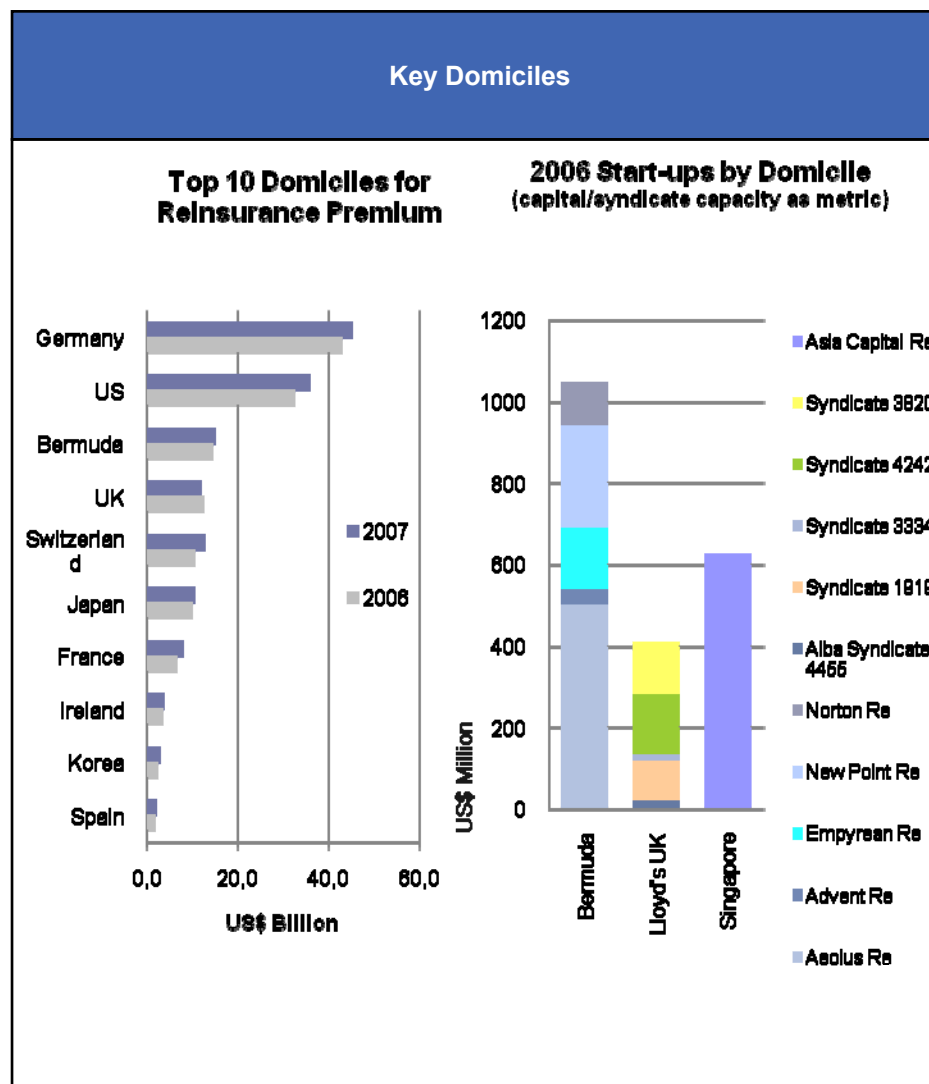
Reinsurance Premiums



Global Developments in Financial Products and Services (8)

International reinsurance (continued)

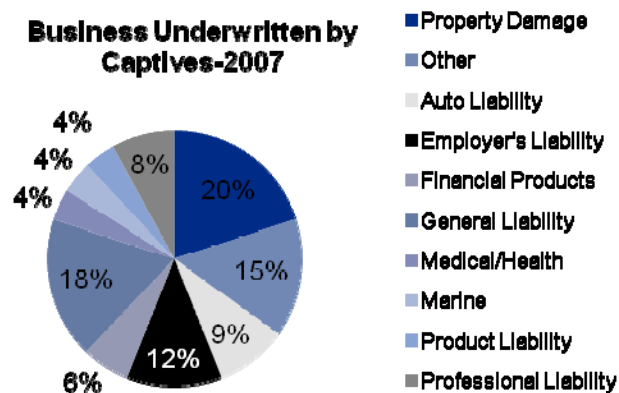
- The MENA region has experienced large increases in premium volume and insurable assets in recent years due to economic growth, a growing population and the introduction of compulsory insurance classes in many countries. Turkey's proximity to this growing market presents it with a good opportunity to serve as a regional reinsurance hub for the growing domestic insurance markets with the MENA region.
- Regional (re)insurance hubs have started to develop in response to the growth in emerging markets. Lloyd's of London have established regional offices in the major regions but are yet to enter the Middle East (see over)
- The economic impact of a thriving insurance market on a domicile's economy may be significant through growth in higher-paid insurance jobs, increased tax and regulatory fee revenue, employment growth in support industries, and the subsequent development of a more substantial financial centre.
- Solvency II regulation within the EU will mean capital requirements are set based on risks specific to the insurers, who will have to calculate an Individual Capital Assessment. The new regime may result in insurers freeing capital to invest in developing new markets, such as MENA and Turkey.



Global Developments in Financial Products and Services (9)

Captive insurance

- The global opportunity for captive insurance development is significant. The benefits to a financial jurisdiction go well beyond simple financial considerations, with substantial value to be gained from the presence of global branded companies and the impact of support services.
- Interest in alternative jurisdictions is increasing across the insurance sector. With the heavy regulatory burden associated with traditional jurisdictions, insurers and captives are looking to take advantage of more favourable environments. As new capital enters the market and insurers develop their risk management profiles, efficient regulatory and tax environments are increasingly becoming the destinations of choice for many insurers.



- Corporations are developing their risk management profiles. Increasingly insurers are setting up special purpose vehicles, in the form of Sidecars and Cat Bonds.
- Market trends are positive:
 - Significant growth in captive formations is expected to continue in the PCC market with more jurisdictions allowing PCCs. Indeed, Aon predicts that the number of captives for the world's top 1,500 companies by revenue will reach 1,200 by 2010.
 - The International Association of Insurance Supervisors has adopted a guidance paper relating to the regulation of captives. The aim is to set more globally consistent standards for the regulation of captives.
 - The potential impact of the EU's Solvency II regime may have a negative impact on the growth of EU domiciles and may lead some captives to consider re-domiciling to jurisdictions with more flexible regulation.

Global Developments in Financial Products and Services (10)

Captive Insurance (continued)

- It is also clear that opportunity lies in those countries and those sectors that are currently underpenetrated:
 - Transport & communications, utilities, services and retail etc.
 - Russia, India, China etc.
- But competition is strong, and will demand a well design jurisdiction to capture market share:
 - The rate of growth in on-shore US captive domiciles is predicted to increase into the future
 - Companies are taking advantage of the Single Market in the EU by using an EU/EEA based captive to write into the EU
 - Newer domiciles such as Malta, Dubai, and New Zealand have yet to develop into major captive domiciles. However, the continued emergence of new domiciles suggests competition for captive business may increase

Captive Insurance (continued)

- International life insurance products are distributed using all forms of distribution channels from direct to brokered. Many financial groups use offshore life insurers to insure life product distributed by the parent's distribution channels. The more advanced international life insurers utilize the international banks, brokers, and investment consultants as distributors. The challenge faced in distributing international life insurers is distance and lack of direct contact between the insurer, the intermediary, and the policyholder.
- The key life insurance markets that have been targeted historically are UK, Europe, Middle East, Far East (esp. Hong Kong), and South America, while North America is a major life insurance market.
- It is estimated that the total world market for offshore life insurance premium in 2006 was in excess of USD \$55bn.

Global Developments in Financial Products and Services (11)

Lloyds Markets

- Lloyd's is a specialist marketplace of insurance entities (known as syndicates) which underwrite a portfolio of property and casualty insurance and reinsurance business. There are 80 syndicates at Lloyd's and many of the world's major insurance businesses trade within the marketplace. An entity called The Corporation of Lloyd's supports these businesses with the underwriting platform providing infrastructure, access to strong ratings from the major rating agencies and licences to underwrite in 80 countries worldwide.
- In recent years, Lloyd's has sought to continue to diversify its geographic footprint. This has focussed on obtaining licences in many of the major emerging markets such as China, Singapore and Brazil. The business models and structures adopted by Lloyd's in these countries differ according to the local commercial and regulatory environment and examples of these are shown below.
- Lloyd's developed Lloyd's Asia in Singapore in 1999 to provide an underwriting hub in Asia. Lloyd's license in Singapore enables Lloyd's syndicates to write both local and offshore business from Singapore through the establishment of local service companies. Lloyd's has established an underwriting centre in which service companies transact with local and regional brokers. Lloyd's Asia has seen significant growth and now writes approx US\$250m of business through this hub with expectations that this will continue its strong growth in the future.

- The Brazilian market has gone through a period of deregulation and Lloyd's entered the market through the establishment of an admitted insurer in April 2009. This was the country's first admitted reinsurance company. The rationale for the entry into Brazil was that it is Latin America's largest insurance market and that deregulation within the insurance sector will lead to enhanced opportunities.
- In March 2007, the Chinese Insurance Regulatory Commission approved Lloyd's final application to establish a reinsurance company in China. The licence will enable Lloyd's to write onshore reinsurance business throughout China and will provide Chinese insurers with full access to the Lloyd's market and improved access to the rapidly developing Chinese reinsurance market.

Global Developments in Financial Products and Services (12)

Regional Asset Servicing Centres

- The need to reduce costs, while always important amongst financial services companies, is likely to become increasingly so in the next decade. Consolidation of servicing functionality (not necessarily outsourcing) into reliable, cost efficient and trustworthy jurisdictions is a trend that is likely to increase. Given the economic changes in certain competitive jurisdictions (e.g. economic instability in Eastern Europe, price pressures in Ireland, quality resource constraints in India etc.) opportunities are emerging for countries with lower costs to grab market share.
- The market growth for fund servicing is driven by the growth and proximity of assets to be managed. While both conventional (including pension funds) and hedge fund assets grew strongly to 2007, the future pattern is unclear. No doubt short term activity will decline (led by the advanced economies of North America and Europe) but the underlying need for investments is not likely to decline globally given the emergence of an aging Western demographic and the investment opportunities likely to emerge from the East under a new economic order. Turkish domestic and regional asset management is likely to grow relatively strongly as pension, insurance and equity markets become better established, with the subsequent requirement for servicing from the 'asset management supply chain'.
- Within the AM industry views are divided as to which elements of the supply chain are critical to asset managers (versus keeping activity in-house).

However, technology and data provision, professional services, customer management and recruitment are typically deemed valuable services by CEOs. It is these services that might best be developed in Turkey. Furthermore, major requirements in relation to technology (such as platforms), data and, to some extent, professional services appear to be satisfied by procuring within a global marketplace. Geographical adjacency to a potential buyer may be more beneficial for less significant requirements. Company policy towards procuring supply chain elements clearly controls the scale of opportunity open to potential suppliers, but newer developing AM markets typically.

- The key elements of the AM supply chain that might be considered for primary encouragement include: technology supply (especially fund-supermarket/wrap platform functionality and risk management), legal services, audit services, and actuarial and accounting services and recruitment services.
- Factors that will impact the development of the sector are, of course manifold, but will most immediately include:
 - More intrusive regulation and/or regulatory normalisation (reducing barriers)
 - In/outflow of funds from pension reforms
 - Increase in regional savings in times of duress v. diminishing asset values
 - Changes in risk aversion (corporate and household)
 - Emergence of alternative(web-based) technologies
 - Competitive 'fiscal stimulation' of the sector

Global Developments in Financial Products and Services (13)

Islamic Products

- The shift in financial activity away from the west will undoubtedly take many forms. One of these, however, is very likely to be the further maturation and growth of Islamic financing. This is particularly interesting for Turkey as a regionally dominant jurisdiction - most positively due to Turkey's Muslim domestic population and access and trade with Muslim neighbours, but also challengingly due to the unique secular government status and consequent delicate positioning of Turkey as a dominant force in Muslim finance.
- Growth predictions are notoriously difficult for such a loosely defined and emergent industry. Consequently, we shall comment upon three factors that may enable better insight into the potential opportunity, without recourse to (almost certainly erroneous) value estimates:
 - The potential for increase in the net requirement for financial services by Muslims
 - How the share of the Islamic Finance sector in servicing this requirement could evolve
 - The additional potential demand for Islamic Finance products that may be contributed by non-Muslim corporates and individuals
- *Net requirement for financial products and services by Muslims:* The primary market for Islamic Finance products to date has been Muslims individuals, corporates and governments. We consider the global macro trends in the Muslim community that suggest that the net requirement for financial products could rise substantially:

- The potential for increase in the net requirement for financial services by Muslims
- Growth in global Muslim Population: According to the CIA world fact book, Muslims account for 21% (c1.4bn) of the world population. This is estimated to grow globally to 24%-30% over the next 20 years.
- Rising wealth of Muslims and Islamic Nations: Muslims have historically been concentrated in the developing world and regions which are generally undergoing sustained above global average growth in GDP. Many Muslim nations have significant reserves of natural resources in particular the Middle east with approximately 60% of the worlds remaining proven oil reserves. The recent period of high oil prices generated unprecedented wealth in the region with significant increases in GDP per capita for many of these nations. Between 2000 and 2006, GDP per capita rose by 48-89% in Saudi Arabia, Malaysia and Pakistan. In UAE, Kuwait, Indonesia and Qatar, GDP per capita has more than doubled. In particular GDP was up 252% in Qatar during this period. Naturally this increase in disposable wealth has been correlated with an increasing requirement for financial services including saving, investment and insurance products.
- Shift towards more formal economies: Underdeveloped Muslim nations have accelerated moves towards more formal economic structures. This has resulted in a greater proportion of the population requiring basic financial services.

Global Developments in Financial Products and Services (14)

Islamic Products (continued)

- *Share of net requirement serviced by the Islamic Finance sector:* There is reasonable evidence from recent trends to support the assertion that in the future, Islamic Finance will service an increasing share of the Muslim net requirement for financial products and services. Some key drivers for this phenomenon are detailed below:

- Governments and regulatory support: Governments globally, both within the Muslim world and beyond, are making provisions to facilitate the development of Islamic Finance products and institutions. Additionally traditional financial centres are vying with one another to be regarded as regional hubs for Islamic finance. Non-Muslim Governments view the facilitation of Islamic Finance as a way of attracting capital (particularly from GCC states) to their shores. They are attempting to provide Islamic financial products a level playing field relative to conventional counterparts by making the necessary amendments in their legislative frameworks.
- Greater Islamic product understanding and knowledge: The modern Islamic Finance industry emerged in the 1970's. As such developments in Islamic financial products are in their nascent stages with low public awareness and understanding in target markets. There have been concerted efforts to better educate Muslim individuals and Muslim owned corporates of Islamic Finance services and products. This is beginning to bear fruit with increasing penetration evidenced by the growth in Islamic banking assets and the conversion of conventional banks in the GCC to wholly Shariah compliant operations .

This process is likely to continue as Islamic Finance gains increasing international profile leading to wider public awareness.

- Greater sophistication and competitive product offering: Innovation within the industry is increasing and has led to an increasing sophistication and range of products available in the market place. This has encouraged significant switching away from conventional products where Islamic Finance equivalents provide viable, competitively priced alternatives.
- Participation of conventional financial institutions: With increasing demand for Islamic financial products and services, conventional banks in many countries with significant Muslim populations have also begun to offer Islamic financial services. Through their Islamic banking offerings, conventional banks are not only able to cross-sell a new range of products to existing customers to prevent attrition, but also to reach out to new clients. In wholesale markets the application of western financial institutions such as HSBC and Citibank in innovating Sharia'a compliant structures has helped to develop the industry. The involvement of these institutions has assisted in bringing Islamic Finance more into the mainstream leading to further switching into Islamic Financial products.
- Increasing *religious identity*: Emergence of Islamic finance has benefited from the increasing Islamic identity amongst Muslims in recent years. With Sharia'a compliant financial products, Muslims can choose banking products that do not compromise their faith.

Global Developments in Financial Products and Services (15)

Islamic Products (continued)

- *Demand for Islamic Finance products from Non-Muslims:* A significant source of additional demand for Islamic Finance may come via non-Muslims. The points below examines the possible drivers for this :
 - Competitively priced retail products: As the number of providers of Islamic Finance retail products increase, they will be priced competitively relative to conventional products. This may encourage higher take up from customers primarily concerned with price, irrespective of religious considerations.
 - Ethical retail proposition: Due to its prohibition on investments in non ethical industries as defined by Sharia'a (including conventional banking and insurance, alcohol, non-Halal food, defence, gambling and adult entertainment,), Islamic finance clearly has considerable resonance with the ethical proposition. This potentially broadens its appeal to a non Muslim customer segment.
 - Lower propensity for retail exposure to financial crises: Islamic Financial institutions were not directly involved in purchasing sub-prime mortgage backed assets and have therefore not suffered the large write downs incurred by some of their conventional equivalents. The conservative asset backed investment strategy followed by Islamic financial institutions has attracted considerable interest from risk averse individuals looking to take a more conservative approach to their financial affairs

- Attractive wholesale returns: Some Islamic finance investment products e.g. Sukuks have offered considerably better risk-adjusted returns relatively to their conventional counterparts. This has attracted non-Muslim institutional investors to purchase and hold these asset classes.
- Wholesale diversification: Corporates have been looking towards Islamic funding sources as a means of funding diversification or to explore possible tax arbitrage opportunities in geographies where there are fiscal incentives for structuring in an Islamic manner.
- Strategic option for the wholesale sector: International corporates have been known to fund raise in an Islamic manner to create empathy with Muslim host Governments and consumers.

Global Developments in Financial Products and Services (16)

Environmental 'green' financing

- A responsible investment is an investment on companies, funds, projects or partnerships that aim to reach not only financial and but also social goals. Nowadays, this investment perception became an important part of business strategy. Especially with the increased unemployment rates after the current global crisis, socially responsible investments gained significant importance. When the increased concern regarding the socially responsible investment is taken into account, Turkey should focus on founding socially responsible investment funds and enhancing corporate social responsibility culture.
- It is clear that the financial services industry can play many roles in serving the emerging problems associated with managing the global environment.
- Currently, very little has been attempted or achieved. The nascent attempts at carbon trading, micro-financing and disparate green technology investments are singularly small compared to the challenged faced solving the environmental challenges of our developing world.
- One would assume that placing venture capital managers close to the source of technology developers would yield a 'pricing edge', but this is yet to be proven in any industry sub-sector of scale
- A consideration of some of the financial services considerations that could emerge to assist in this challenge would include:

- Developing products that would protect the future balance sheets of major oil producers or distributors, who are "sure" to face future environmental catastrophe claims beyond the scale of an individual company balance sheet (or indeed the balance sheet of their captive insurer). This may well necessitate a financial solution that pools the assets across an industry/region – assets which need managing on a grand scale.
- Understanding how to encourage venture capital activities that support the high-tech and "green" industries. How these venture capital funds should be managed, valued, risk weighted and located are all critical questions as yet unexplored.
- As water availability becomes more scarce, and the control of water sources becomes more politically sensitive, how will the utilisation of water evolve? Are economic forces the best way of maximising the utility of water supply and demand? It would seem that, within geopolitical constraints, the financial services industry could play a critical role in the pricing mechanisms and market availability of water.
- There is currently no centre in the world (or even cluster of centres) who can claim to have begun to dominate this market place. Only the major insurers, who hire (for example) 30-50 specialist catastrophe actuaries seem to be gathering true capability to serve this market.
- This may appear somewhat 'early' to address as a key investment for a financial centre, but it is clearly one that will eventually be very large indeed and may well be worth 'seeding' now for future value.

Contents

1) Context & Executive Summary

2) Developments in the international financial services environment (global and domestic)

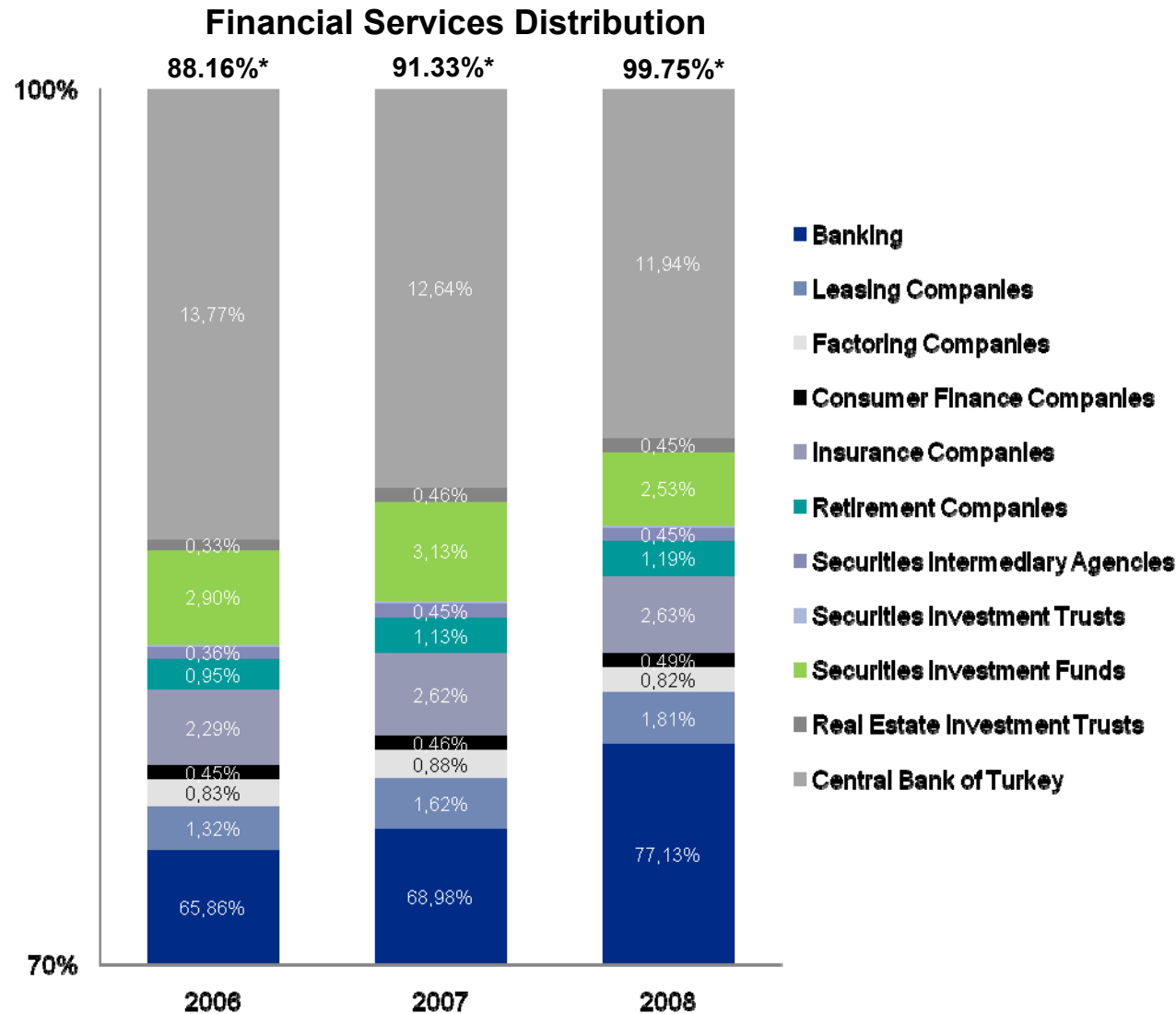
- Macro-economic developments
- IFC strategies
- Taxation
- Regulation
- **Products and services (domestic)**

3) Changes in Istanbul's position relative to selected competitors

4) Financial model update

5) Key performance indicators

Domestic Developments in Financial Products and Services (1)



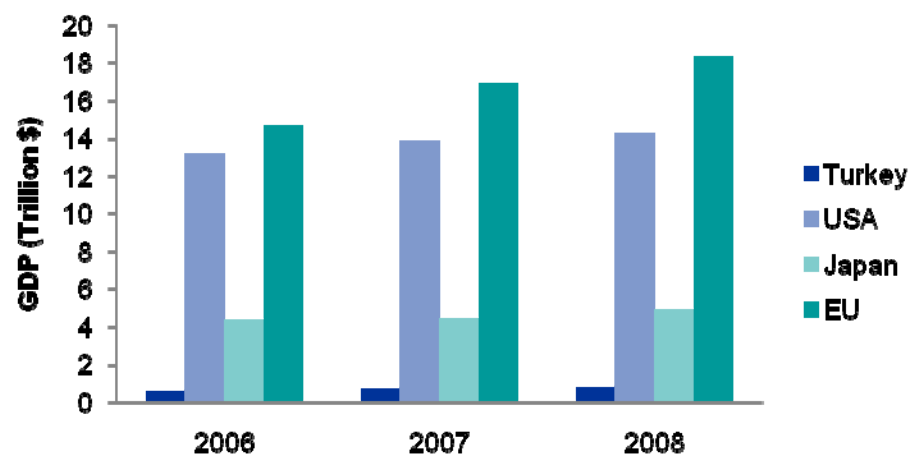
Source: BDDK Report, December 2008

- Financial services industry constituted 99.75% of total GDP of Turkey by the end of 2008. It is expected that the financial sector that is integrated with global markets and that incorporates several sub sectors will contribute positively to the economy in the future. The developments in the sub sectors in 2006-2008 period are summarized below:
- Banking's share in the total financial sector advanced from 65.86% in 2006 to 68.98% in 2007 and to 77.13% in 2008.
- Insurance companies' share also increased over the years. It was 2.29% in 2006, 2.62% in 2007 and became 2.63% in 2008.
- When we look at Securities Investment Funds share in the total financial sector, we see that it increased from 2.90% in 2006 to 3.13% in 2007 and to 2.53% in 2008.
- Looking at the share of the Central Bank of Turkey in the total financial sector, it can be observed that its share has decreased over the years, from 13.77% in 2006 to 11.94% in 2008.

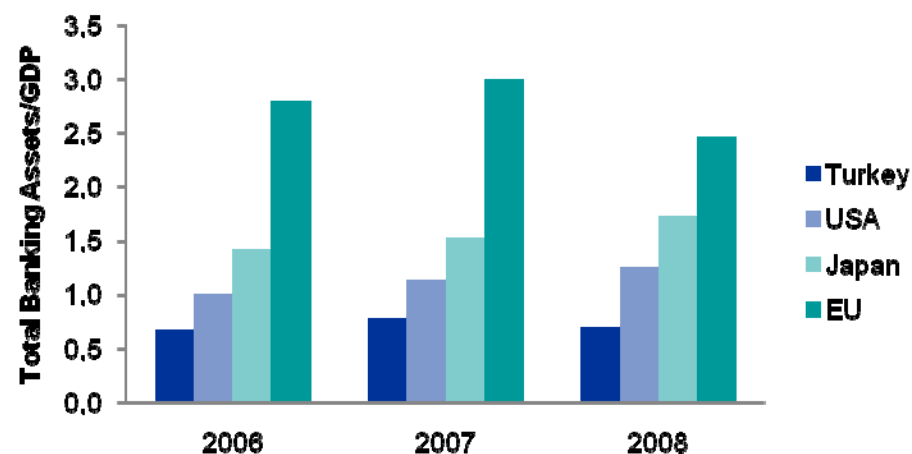
*Total Financial Sector
Asset Size /GDP

Domestic Developments in Financial Products and Services (2)

GDP Comparison



Total Banking Assets/GDP Comparison



TURKEY

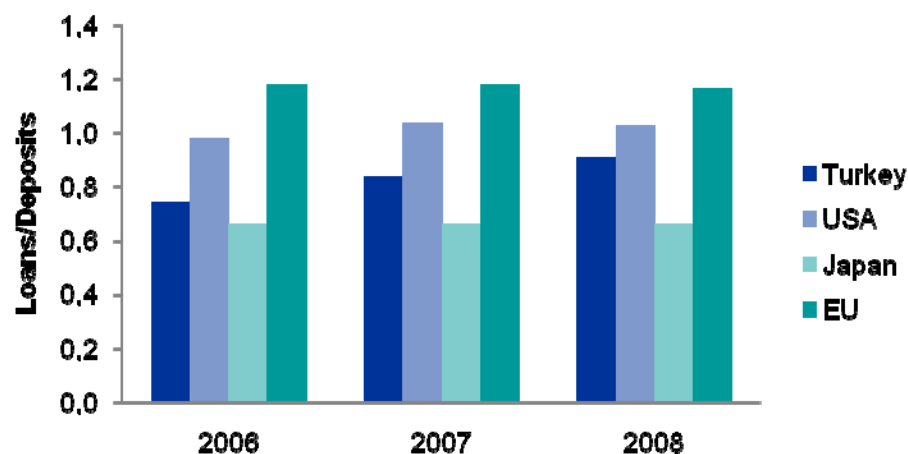
- 17th largest economy in the world with a GDP of 741.8 Billion USD in 2008 and an average growth rate of 7% over the last 27 quarters.
- In the IMF Report, Global Economic Outlook, it is expected that the economy in Turkey will shrink 5.1% in 2009 and will expand 1.5% in 2010.
- Still strong growth potential with its diversified economy and integration with global markets.

BANKS IN TURKEY

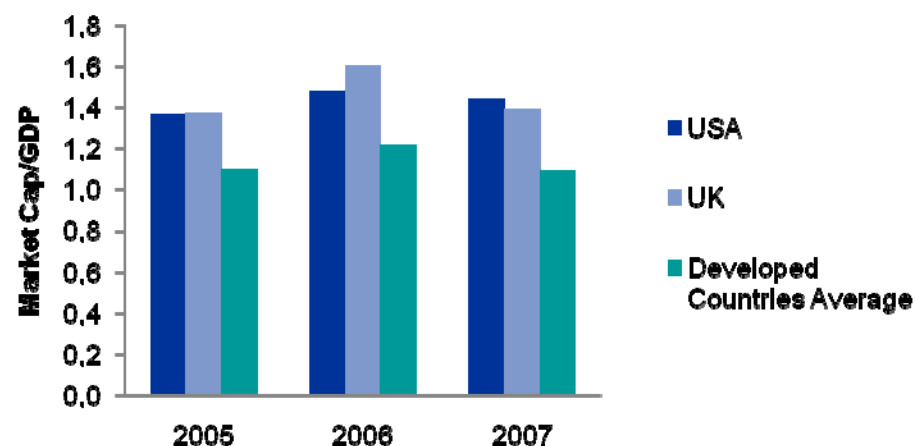
- Total asset size increased by 26% in 2008 and reached to 733 Billion TL.
- Total number of branches within the sector has reached to 9,304, the number of personnel to 182,667 and the number of ATMs to 21,953.
- On the other hand, total assets/GDP ratio equal to 77,1% as of 2008 is still low compared to the ones of developed countries which points out a big growth potential for banks in Turkey in the medium-long term.

Domestic Developments in Financial Products and Services (3)

Loans/Deposits Comparison



Market Cap/GDP Comparison



INTERMEDIARY FUNCTION OF BANKS

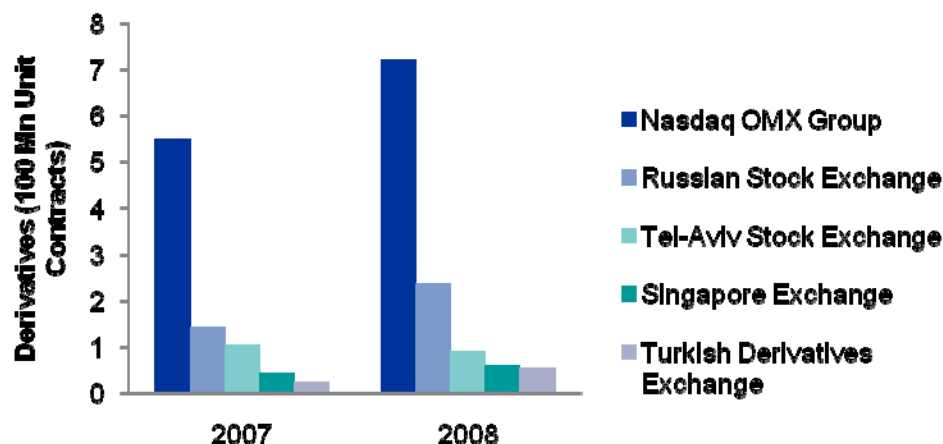
- The ratio of transformation of deposit to loan (one of the measures of the capacity utilisation of the banking system), which was 79.7% in 2007 kept increasing in 2008 and reached to the level of 81%.

SECURITIES MARKET

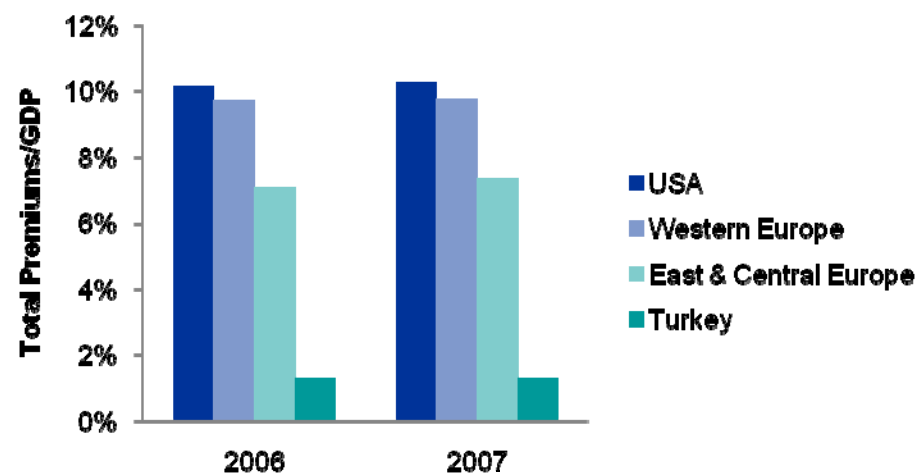
- Market capitalization which was 33% of GDP by the end of 2005 rose up to 43% in 2007 but again declined sharply to 17% due to the global financial crisis.
- Market capitalization in accordance with price movements showed a very steady increase (except 2008) over the last couple of years. The increase in TL terms was 70.4% in 2003, 38% in 2004, 64.7% in 2005, 5.4% in 2006 and 46% in 2007 with a dramatic decrease in 2008 due to the global asset price correction.

Domestic Developments in Financial Products and Services (4)

Derivatives Comparison



Total Premiums/GDP Comparison



TURKISH DERIVATIVES EXCHANGE

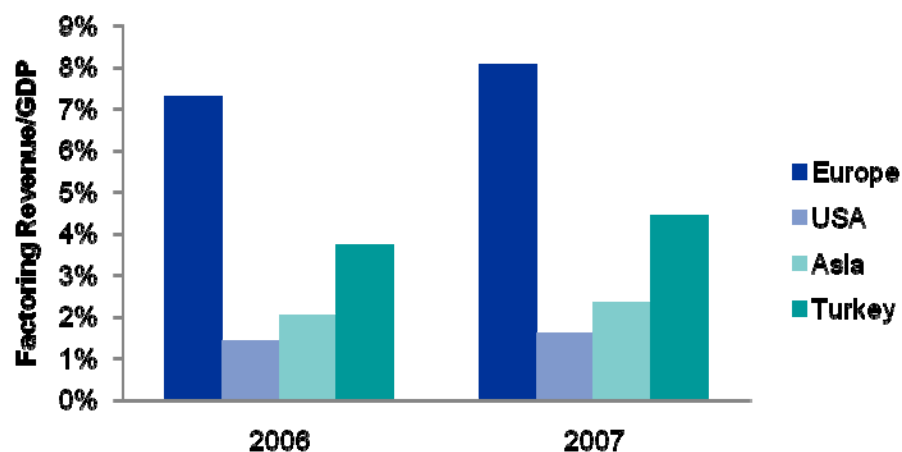
- Tremendous growth in trading volume from 2005 to 2008 at a rate of 8000%.
- According to FIA, world's 20th exchange according to future contracts trading volume, currency futures have the 4th highest trading volume and ISE 30 contracts are the 11th most liquid futures in the world by the first half of 2008.

INSURANCE SECTOR

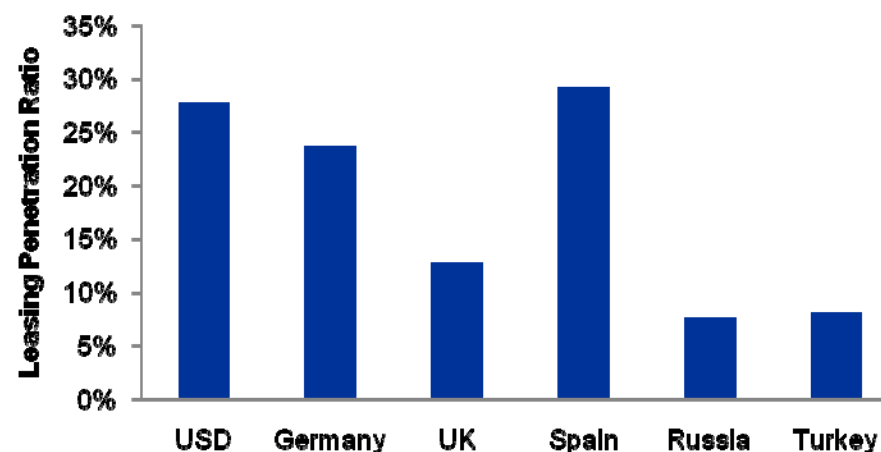
- Low penetration rate promises impressive growth potential.
- Turkish insurance sector is still in its infancy since total premiums as a percentage of GDP remains only at 1.3%, substantially lower than the European average of 8.0% as of 2008.

Domestic Developments in Financial Products and Services (5)

Factoring Revenue/GDP Comparison



Leasing Penetration Ratio Comparison



FACTORING BUSINESS

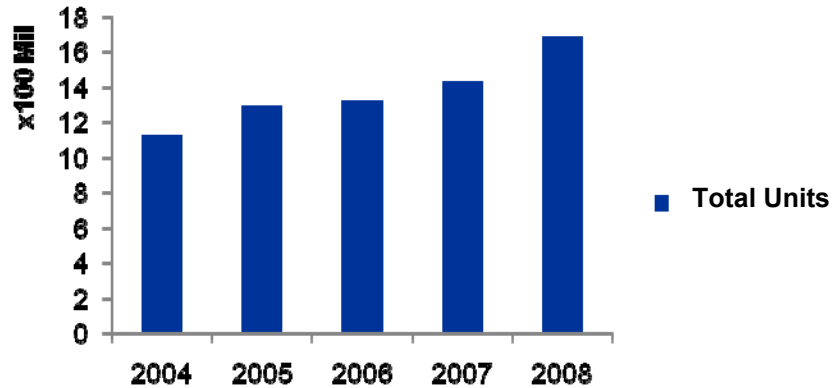
- ROA ratio remained almost at the same level, while the ROE ratio decreased at the end of 2008 compared to the prior year end.
- Factoring turnover/GDP ratio is only around 4% in Turkey whereas it is 15% in England, 9% in Italy and 7% in France, which again demonstrates the big growth potential for the sector in the medium-long term.

LEASING BUSINESS

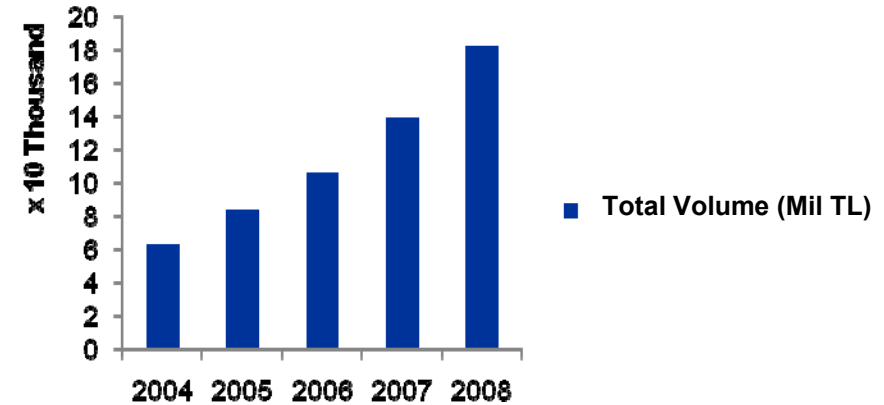
- Both ROA and ROE ratios increased in 2008 and only 4 companies recorded loss, which was 19 at the end of 2007.
- In the same period, total assets of the sector rose up to 20%, but the penetration ratio which is 6.35% by the end of 2008 is still relatively low compared to the European average of about 29% which points to the high growth potential of the sector in the middle to long term.

Domestic Developments in Financial Products and Services (6)

Domestic Credit Card Usage In Turkey

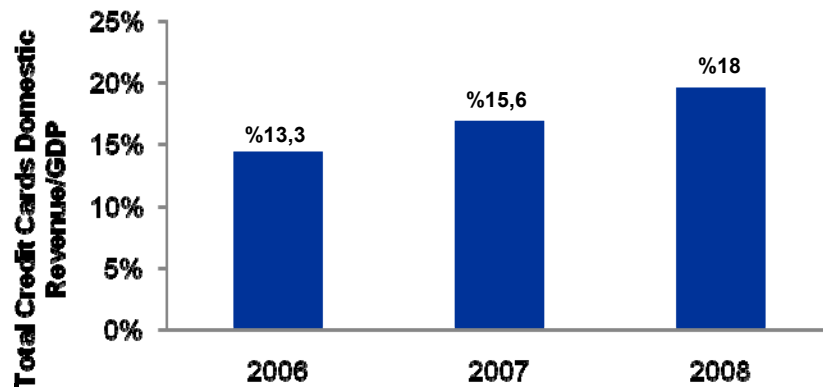


Domestic Credit Card Usage In Turkey



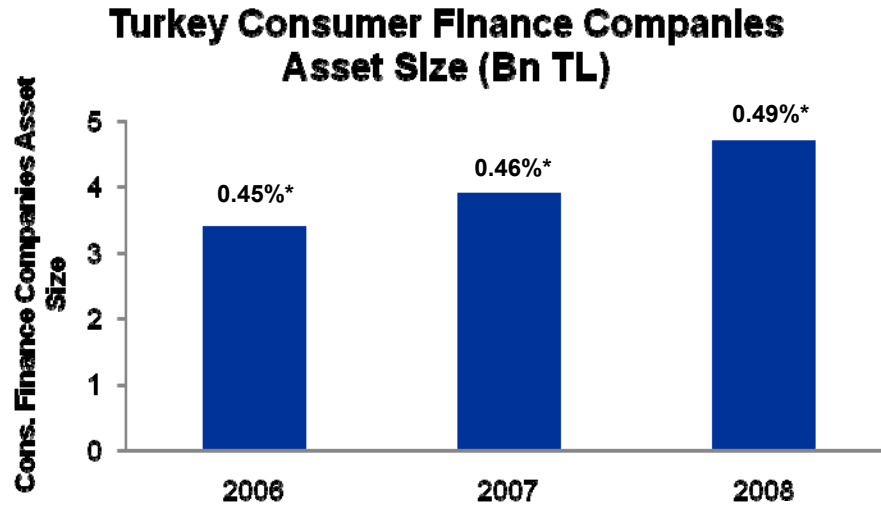
CREDIT CARDS

Turkey Total Credit Cards Domestic Revenue/GDP Trend



- Despite the 13.7% growth in GDP as of September 2008, Turkish Card Payment Sector has grown by 19% in terms of number of credit cards, resulting in 43.4 Million credit cards nationwide, which makes Turkey the 4th biggest market of Europe.
- Domestic and international volume of credit cards have increased by 31% and reached to 185 Billion TL. However the growth rate in Europe was 9% in the same period and as a result of such 185 Billion TL volume in total, the share of entire Card Payment Sector in GDP has increased to 17.37%.
- High inflation has limited banks' consumer credit portfolios making long-term credit less and short-term credit more common. This has resulted in an innovative range of rewards and incentives in the credit card market.

Domestic Developments in Financial Products and Services (7)



CONSUMER FINANCE BUSINESS

- Total assets increased approximately by 20% in 2008, whereas the rise in issued loans remained limited.
- ROA and ROE ratios of the sector decreased significantly in the same period and non-performing loans/total gross receivables climbed up to 7.4%.

*Consumer Finance Companies Asset Size/GDP

Source: BRSA, Financial Markets Report, December 2008

Domestic Developments in Financial Products and Services (8)

Overview

- The approval of the new mortgage legislation by the Parliament in 2007 led to an increased focus on mortgages and in parallel with the introduction of the law, new instruments such as asset finance funds, housing finance funds, mortgage backed securities and mortgage covered bonds have been introduced.
- In order to increase the depth of the market with diversified capital market instruments; the CMB redefined private sector bonds, asset based securities and non-voting shares and introduced equity warrants as a new debt instrument.
- Number of liability and job loss insurance policies have also increased recently due to impacts of the global financial crisis.
- On the other hand, Turkish market witnessed quite successful introductions of new products and services in the last couple of years. Some of them are:
 - New future contracts based on gold and benchmark government debt instruments
 - Fund baskets, hedge funds, guaranteed funds, income indexed debt instruments
 - Diversified investment funds (gold funds, principal-protected funds, environmental investment funds)
 - Diversified deposit instruments (gold deposit accounts, FC denominated deposit accounts, deposit accounts indexed on CPI or government debt securities interest rates)
 - New mortgage products & services (forex indexed mortgage loans, mortgage call centers, web-chat applications)

- Diversified private banking services (Investment Banking branches serving clients who realize high volume securities transactions, customized investment advisory services, certified asset management professionals for managing pension plans of private banking clients, etc.)
- Innovative payment systems and credit/debit card services (paypass technology implemented contactless payment devices such as key-chains, watches and stickers, mobile POS devices, POS devices which generate card slips that can also be used as invoices, commercial loan applications/allocations through POS devices, etc.)
- Innovative services through alternative distribution channels (Mobile internet banking, mobile signature applications in internet banking, life-insurance sales services through ATMs, coin withdrawal through ATMs, menu applications in foreign languages, ATM money transfer transactions where either the sender or the receiver is not a customer of the bank, password assignment services by using speech recognition technologies, video call centre and webchat services, virtual dealing room application, etc.)
- Custody services provided by banks
- E-billing applications (electronic transfer of invoices between companies and customers)
- E-confiscation applications (inquiring customer details by using T.C. Identification Number or Tax Identification Number through banks' databases)
- New applications regarding Credit Bureau of Turkey membership obligations and customer credit limitations

Domestic Developments in Financial Products and Services (9)

On Discussion

- In addition to the recent developments in products and services there are also ongoing discussions regarding new innovative products. Some of these discussion topics are summarized below:
 - FC denominated private sector's government bonds and treasury bills
 - Options and interest/currency swaps
 - Financial warrants (Credit Default Swaps, Collateralized Debt Obligations, Credit Linked Notes, Contracts for Differences, Discounted Certificates etc.)
 - Future contracts based on single equity, bond/bill, O/N rate, TRLIBOR, precious metals, different country indexes, energy prices, carbon emissions etc.)
 - Rent certificates (SUKUK) and structured certificates and funds based on Islamic indexes
 - Diversified commodities for commodity based future contracts and investment funds based on different indexes
 - Give-up application (A customer making a transaction in the futures market is served by different institutions in terms of execution and clearances)
 - Panels targeted to inform potential investors about the investment options-products, especially about derivatives
 - Risk and assurance management
 - Improved payment systems infrastructure that is compatible with new products and services
 - Investments of spreading high technology usage for increasing the liquidity of organized markets
 - New regulations aiming to harmonize organized markets' (e.g. IMKB) transactions with the EU standards

Opportunities and Threats

- Turkey faces numerous opportunities regarding financial products and services:
 - Turkey has low levels of trading volumes/GDP, total assets/GDP and market capitalization/GDP ratios compared to other capital markets in developed and selected IFC's
 - Turkey incorporates organized markets that are well structured, that use high technology and offer world standard settlement services.
 - High level of skilled labour potential in financial services industry is a plus
 - Clearing system enables efficient risk and assurance management
 - Credit Guarantee Fund supports SMEs by providing a guarantee for their financing requirements and consequently increasing their credit usage in general. In this system CGF acts as an intermediary organization and makes it possible for the SME'S with the inadequate collaterals to apply for bank credits
- On the other hand, the main threats Turkey is facing are:
 - Low level of local savings and no quick fix for the problem
 - Undeveloped private sector bonds market
 - Investor's lack of information regarding financial instruments
 - Uncertainty in the transactions regarding stocks of the confiscated companies
 - Undeveloped "best practices" regarding sectoral unions

Contents

1) Context & Executive Summary

2) Developments in the international financial services environment (global and domestic)

- Macro-economic developments
- IFC strategies
- Taxation
- Regulation
- Products and services

3) Changes in Istanbul's position relative to selected competitors

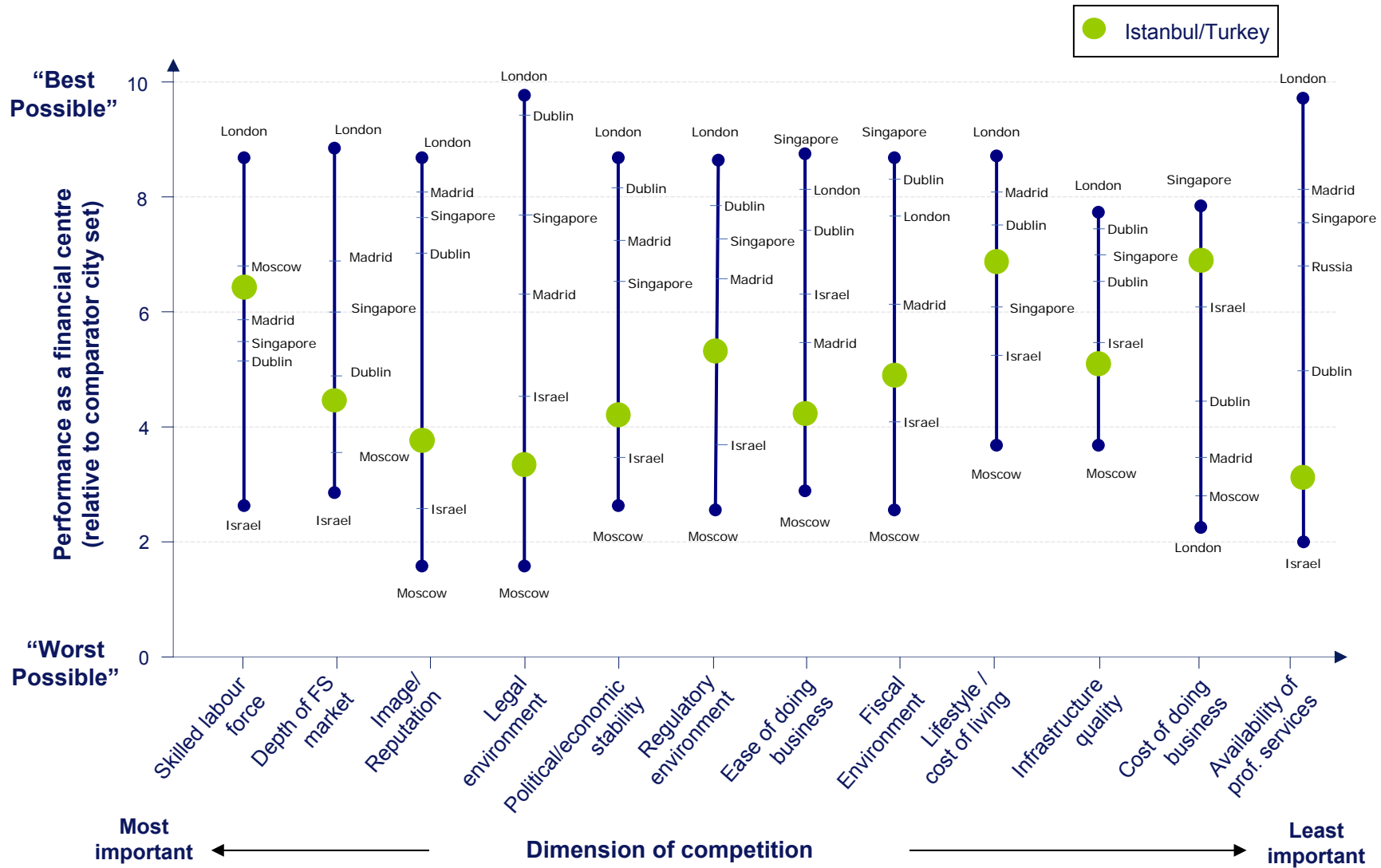
4) Financial model update

5) Key performance indicators

Summary of Istanbul's Current Position

- The primary purpose of this study is to give insight about how other locations became successful financial centres. Therefore it is important to set Istanbul's position within the context of global competition. The relative position of Istanbul as a financial jurisdiction versus each of our six 'case study' comparator financial jurisdictions (London, Singapore, Dublin, Madrid, Israel and Moscow) has been assessed and a high-level comparative summary of competitor profiles has been prepared.
- The recent global financial crisis has resulted in major changes in the overall competitiveness of global financial jurisdictions. Consequently some of the financial jurisdictions who were considered to have similar points and who might be considered as regional competitors for Istanbul are no longer addressed and have been replaced with other financial jurisdictions within the context of this study:
 - Cities seen as world's leading international financial jurisdictions in their class, namely London as a global financial centre and Dublin as a global centre for middle and back office operations especially, were once again included in the new comparison to provide examples of key lessons and best practices for Istanbul.
 - In addition to London and Dublin, Singapore has been included in the comparison, as a leading financial jurisdiction who effectively serves Istanbul's targeted markets and lying on the borders of Istanbul's target geography.
 - Dubai has been excluded from the study, since it currently has significant issues and its position as a regional financial jurisdiction has weakened and its status and situation do not warrant its inclusion as a major long-term comparator to Turkey.
 - Instead of Dubai, Israel has been included in the study. Israel is an important developing financial jurisdiction who is fully supported by the government. Its geographical location enables it to serve the developing Middle Eastern market, moreover due to its ethnical background, Israel has significant potential to attract market share of the global financial jurisdictions.
 - Warsaw has also been omitted from this revised study since it was greatly affected from the global crisis and acts more singularly as a low cost financial servicing domicile.
 - Warsaw has been replaced with Madrid in the context of this new comparative study. Madrid is a high potential jurisdiction, providing full-scope financial service. It is therefore a leading regional competitor for Istanbul and has similar points of development which can be insightful for Istanbul's future strategy.

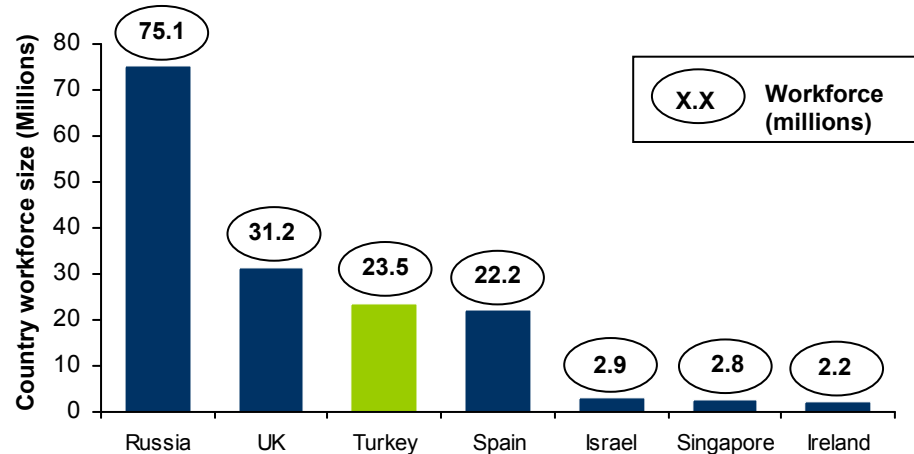
Summary of Istanbul's Current Position



Source: Deloitte IFC case studies, compiled from: interviews with international bankers, lawyers, and key Turkish commentators and stakeholders; of over 200 data sources; experience and observation drawn from the first-hand development of several international financial jurisdictions.

Skilled Labour Force Pool: Turkey has a large, young workforce and growing level of education

Country workforce size, 2008



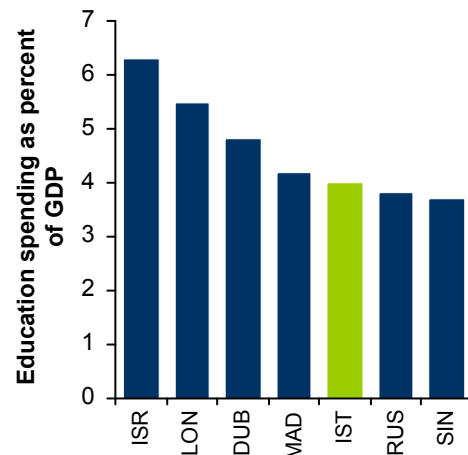
Considerations:

- Availability of human resources
- Quality of human resources
- Training capability of city

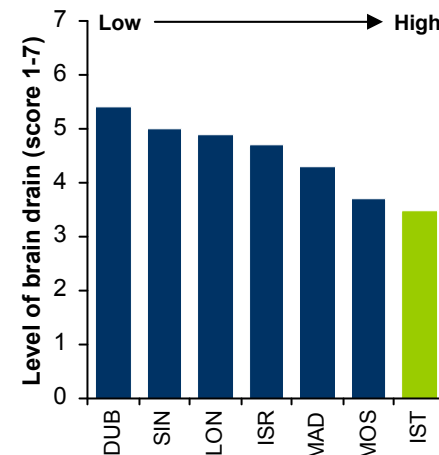
Overall availability of skilled labour:

- Turkey has a total workforce of 23.5 Mn, which is higher than Ireland, Israel and Singapore, but lower than the UK and Russia.
- The financial sector in Turkey employs skilled labour, which usually is occupied with front-office operations. For the middle and back office operations, there is a lack of skilled labour.
- Turkey has significant growth potential regarding the future availability of labour force, as 40% of its total population is under 18 (equivalent to around 30 Mn people).
- Istanbul has the highest level of brain drain within the comparators.
 - Its ability to retain home-grown talent has improved considerably.
- Education expenditure is only 4.2% of the Turkey's GDP. This rate is lower than other competitors.
- Turkey has a total of 118 universities. 373,353 students graduated from universities in 2006.
- Turkish universities actively participate in the Socrates or Erasmus program of the European Commission, aiming to increase student and academician mobility within the European Union, the European Economic Area countries and other EU candidate states.

Public spending on education, 2006*



Level of brain drain, 2008



Financial services professionals:

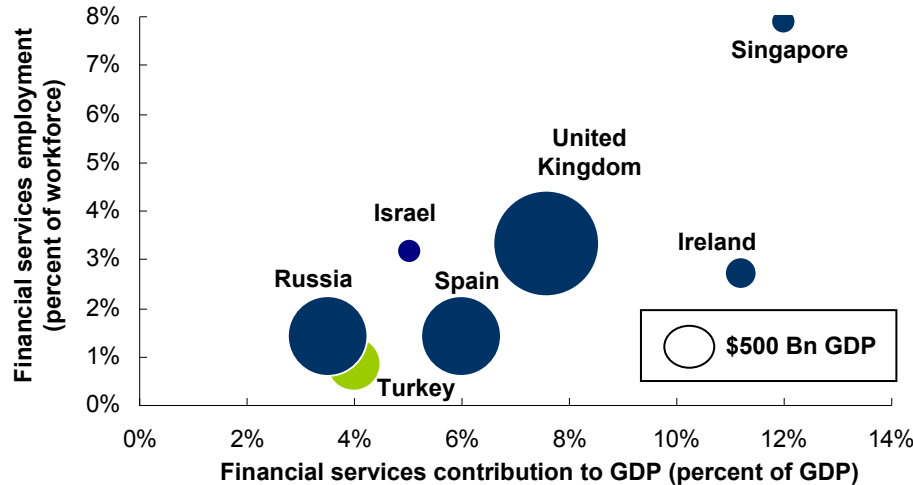
- Around 200,000 employees work in the Turkey FS sector, compared to 1,044,000 in Russia, 300,000 in Spain, over 220,000 in Singapore and 100,000 in Israel. 378,000 people work in the FS sector in London alone, out of more than a Million across the UK.
- Turkey estimates there are around 20,000 Turkish FS professionals working abroad and also the country has a large young workforce and growing education level.
- Israel and Russia also has a significant number of people working in the FS industry in other countries.
- In the last decade, it is observed that the skilled FS employees working abroad return to their homeland - Russia in increasing rates.
- Ireland has built its reputation as a financial centre on its skilled labour pool, through focused investment in higher education. However, it is constrained by its small population, and is saturated.

Source: "Global Education Digest, 2008", UNESCO; "Knowledge Economy Index 2008", World Bank; National statistics offices; "Country Forecasts 2008", Economist Intelligence Unit; Financial Times; Deloitte research, interviews and analysis

*: "Global Education Digest, 2008", UNESCO supplies 2006 numbers of public spending on education

Depth of FS Market: Turkey's FS market is less developed than the comparator set

Scale of economy and the importance of financial services

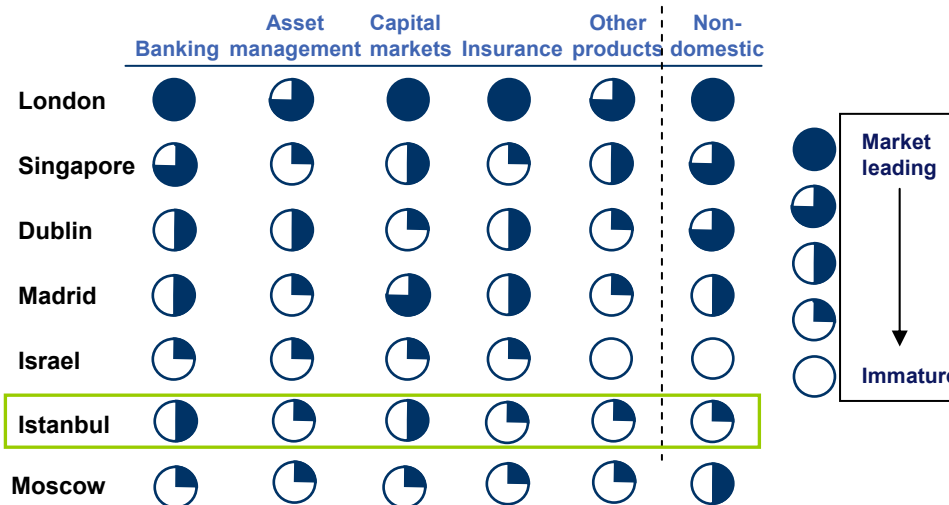


Considerations:

- Scale of domestic economy
- Banking market
- Capital markets
- Other financial services product markets
- Importance of financial services industry

- Turkey's financial services industry is a less important contributor to its economy than the comparator cities (except Russia).
- Istanbul, as Turkey's major financial services centre, holds significant potential as an IFJ, and is likely to benefit from a significant and fast growing domestic economy, strong position in a fast growing region and increasing focus on and government support for the development of financial services.
- In each FS sector, Turkey exhibits potential for growth.
- The insurance sector is object to development with the opportunities it offers.
- Stock market capitalization is relatively weak compared with more mature nations, but consistent with other transition economies.
- Bond markets are relatively developed, and corporate bonds, in particular, are object to development.
- Russia has a large and growing domestic economy, and is Turkey's biggest rival for economic dominance of the region.
- Dublin has grown as a financial centre through attracting middle and back office activities. It offers a limited domestic market, although it does offer access to the large EU market.
- Singapore has developed a financial services industry of more than double the size of Israel's when the countries have broadly similar size GDPs.
- London, as one of the leading IFJs benefits from both a large domestic economy and a significant share of global financial services business.
- Madrid, and Spain, has a significant scale financial services industry (c. one third the size of London) which is to date not as internationally developed as London, Singapore or Dublin.

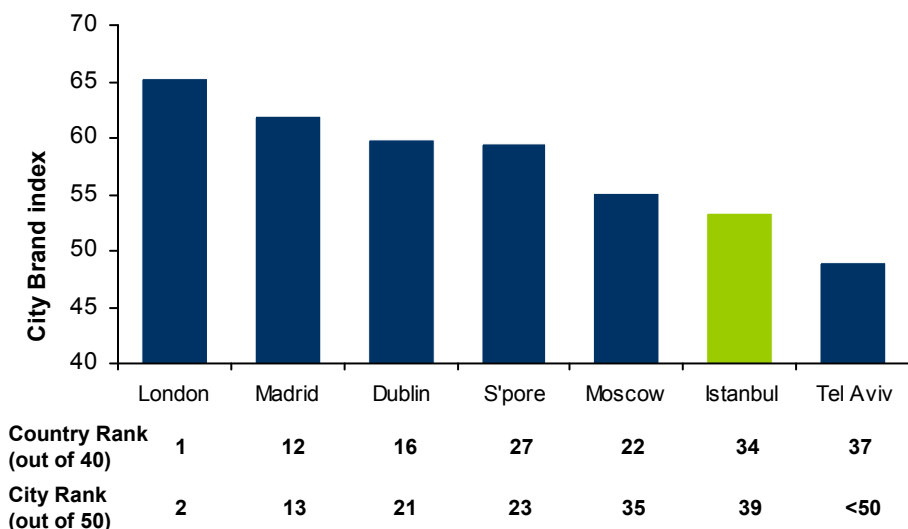
Level of development of key financial services markets



Source: National statistics offices; "Country Finance Profiles, 2008", Economist Intelligence Unit; "Annual Statistics, 2007", World Federation of Exchanges; Deloitte research, interviews and analysis

Image and Reputation: Even though Turkey is not marketed extensively as a financial centre, perceptions of Turkey are improving

Nation and City brand index



Considerations:

- General city brand and reputation
- City business image and reputation

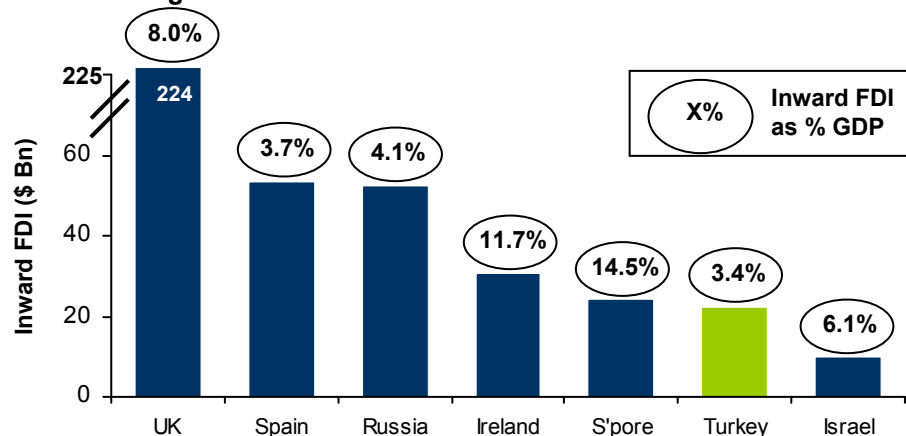
General brand and image:

- Turkey should definitely make an investment for brand and image. In this respect, Turkey should provide a great budget for “2009 IMF and World Bank Meetings” and “2010 Istanbul - Cultural Capital of Europe” events.
 - Istanbul when compared to the selected financial centers scores poorly on the City Brand Index, being 39th out of 50 cities which have been assessed
- Turkey’s national image is greatly affected by political and economic stability.
- The EU accession process is bringing Turkey further attention in Europe, but is resulting in a mixture of positive and negative publicity.
- London, Madrid and Dublin have well developed, strongly positive brands and reputations. Singapore, although less strong, has a robust brand and image as an Asian city state.

Business image and reputation:

- Turkey has seen marked increases in its reputation and image as a business location in recent years, partly driven by the government’s commitment to EU accession.
- It has risen from 29th to 20th in the ranking for FDI confidence between 2004 and 2007.
- Istanbul is emerging as a venue for international conferences. Istanbul is ranked 25th and Turkey 33rd in the world in the Congress Tourism, improving its image among the international business community.
- When compared to Istanbul:
 - London and Singapore have well established reputations with positive perceptions as business, and especially financial services centres.
 - Madrid and Dublin have been building stronger reputations as business and financial services centres over recent years.
 - Russia’s national image can hinder Moscow’s bid to become a regional financial centre, with its connotations of political instability, authoritarian leadership, and the prevalence of organized crime.
 - Israel, although having a limited brand as a financial services centre, does, to an extent, have a brand as a business centre.

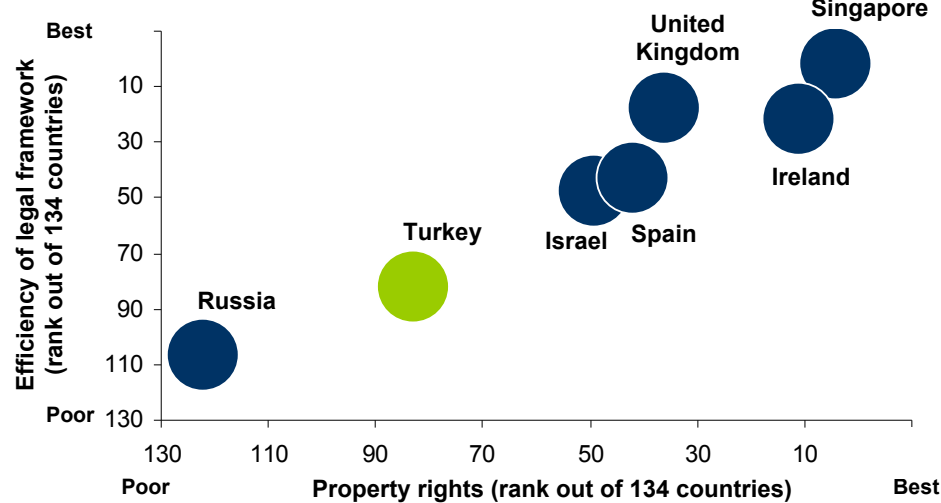
Inward foreign direct investment flows



Source: “Nations Brand Index, 2007”, Anholt-GfK Roper; “Cities Brand Index, 2007”, Anholt-GfK Roper; “World Investment Report, 2008”, UNCTAD; “Country Profiles, 2008”, Economist Intelligence Unit; Deloitte analizleri

Legal Environment: Turkey's legal system lacks specific FS skills which hinders Turkey's position among other financial centres

Legal rights vs. efficiency of legal framework



Considerations:

- Legal rights of businesses
- Legal process and efficiency
- Corruption

Legal rights of businesses:

- The low level of legal rights in Turkey (ranking between 56th and 91st globally) is likely to provide Istanbul with a significant challenge in terms developing an IFJ.
- When Turkey is compared to other financial centre;
 - London offers very high standards of corporate governance combined with strong property and IP rights
 - Singapore has leading property and IP rights, although standards of corporate governance are seen as lower than in London
 - Spain, although being a major EU country, has a weaker base of legal rights than all comparators except Turkey
 - The Russian legal system is perceived to be a key barrier to the development of financial services. Financial institutions are avoiding contact with Russian judicial processes wherever possible

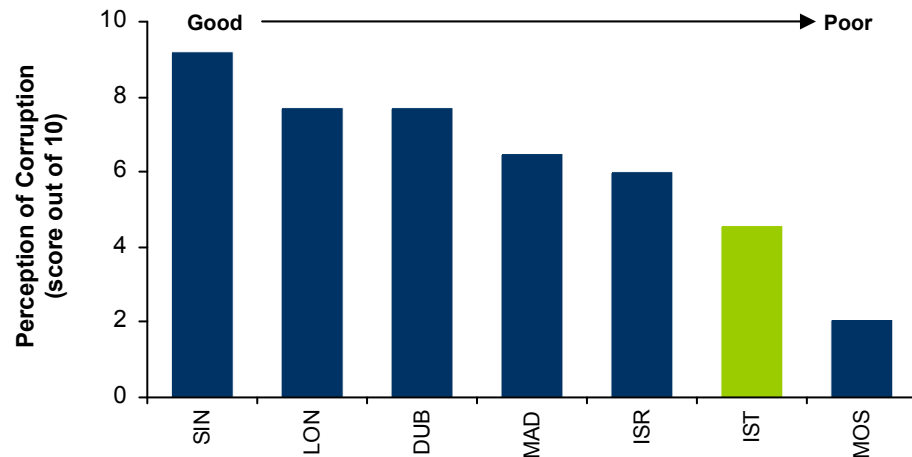
Legal process and efficiency:

- Due to the lack of skilled judges and specialized courts, there will serious issues that have to be faced in the process of executing an IFJ.
- When comparators are assessed it is observed that London, Dublin and Singapore, benefit significantly from common law system being well suited to financial services, with the use of judicial precedent allowing law to keep pace with rapid developments in financial services.
- Independence of Turkish judiciary system is perceived to be low by international bodies. Judicial independence of Turkey is ranked 64th by the Global Competitiveness Report.
- Efficiency of legal framework is significantly lower than comparison group with the exception of Russia, underlining the importance of legal reform in order to succeed as a global IFJ.

Corruption:

- Turkey has higher levels of corruption than the other comparators excluding Russia.
- In the Corruption Perceptions Index measures the degree to which corruption is perceived to exist among public officials and politicians. Turkey was ranked 58th out of 180 countries.

Perceived level of corruption

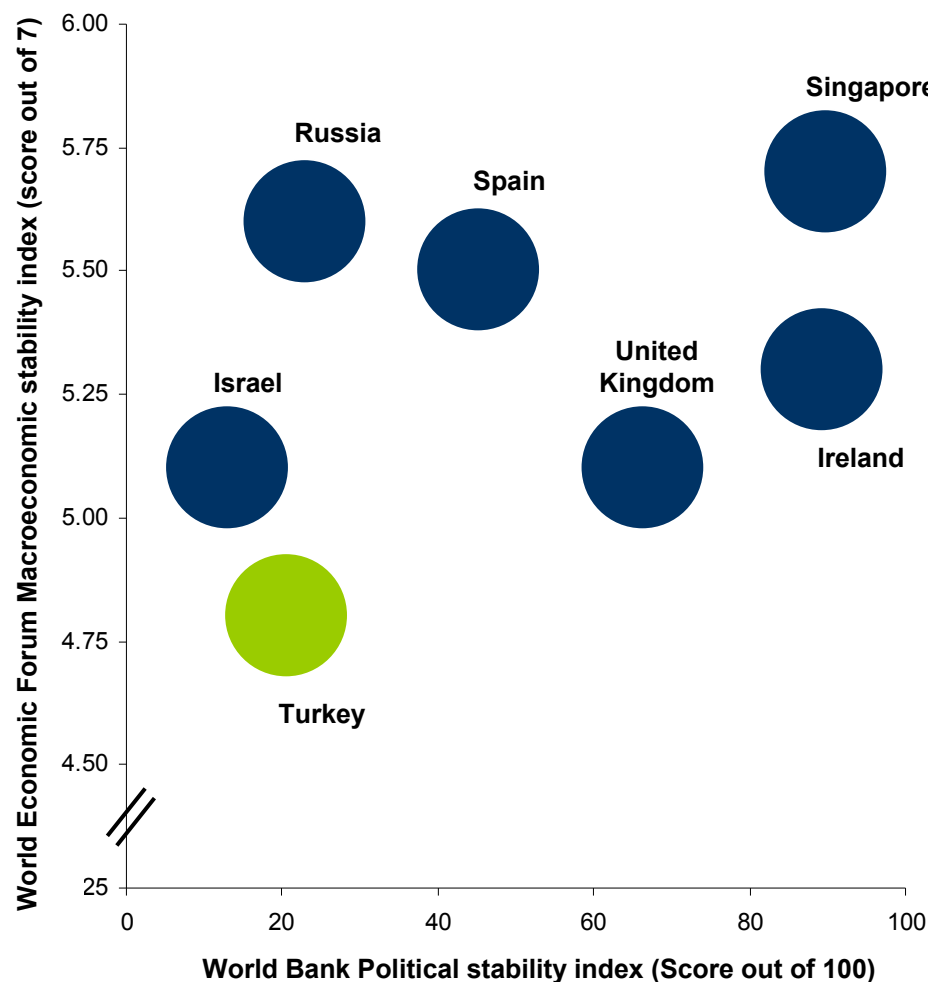


Note: (1) Country ranking out of 134 countries, with 1 being "best" from World Economic Forum "Global Competitiveness Report 2009"

Source: "Global competitiveness 2009", World Economic Forum; "Index of economic freedom 2008", Heritage Foundation; Transparency International; "Governance Indicators 2007", World Bank; EIU Country Profiles; Deloitte research, interviews and analysis

Political and Economic Stability: Turkey's risk ratings are improving

Political stability vs. macroeconomic stability



Considerations:

- Political system
- Political stability and security
- Level of economic freedom
- Economic stability

Political system and stability:

- Stability is a major factor on the success of a developing IFC, because investors mainly focus on interest rates and sustainability, which mainly depend on political and economical stability.
- Turkey's political risk rating has improved steadily from 'D' in 2003 to 'BB' in 2008.
- The increasing political stability caused a surge in foreign entries from 2006 onwards.
- Turkey's commitment to joining the EU, and to making wide-ranging changes to achieve this, has had a favourable influence. EU accession, or even positive signals from the EU, could dramatically impact perceptions of stability.

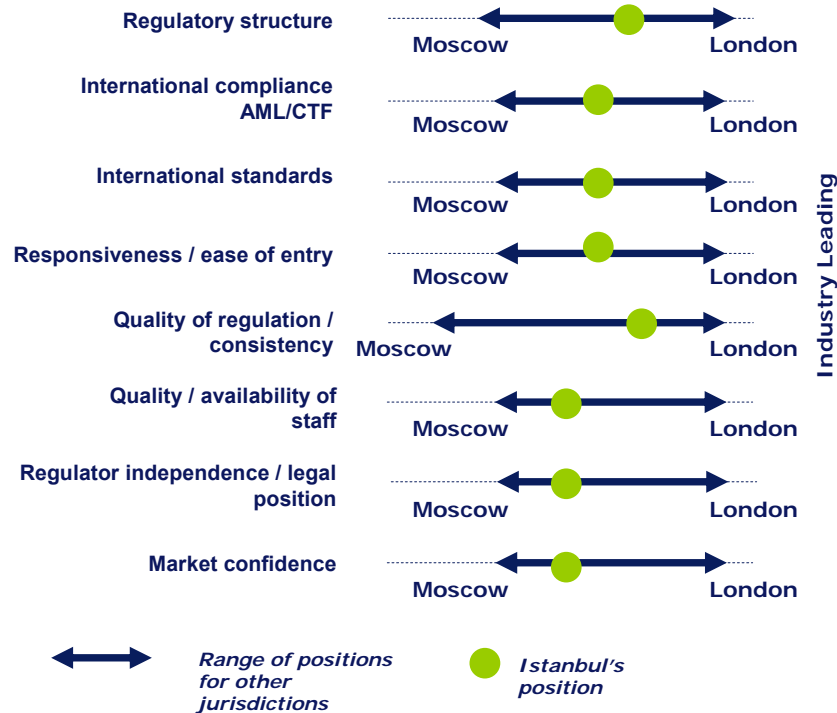
Economic system and stability:

- Turkey's economy is considered as "moderately free" being ranked 75th out of 179 countries. However the level of economic freedom has improved significantly over recent years, Turkey's score increased by 1.6 points over the last year which implies more freedom to trade internationally and reduced government involvement in the economy.
- When Turkey is compared to the other IFJ's:
 - Singapore has the most open and free economy of the comparator city set.
 - Dublin is right behind Singapore, having a global ranking of 4th most free economy.
 - London and Spain also have mostly free economies
 - Israel also scores better than Istanbul, ranking 42nd
 - Among the comparison group Russia has the lowest score, being ranked 146th globally it is one of the least free economies in the world.
- Turkey is the least economically stable country among the comparison group with greater volatility in core economic measures (e.g. inflation, interest rates) and a greater perceived future risk
 - Economic structure risk ratings for Turkey are BB against AAA or AA for the more developed IFJs. Istanbul is seen as riskier than Israel, with typical ratings of BBB.

Source: "Worldwide Governance Indicators 2008", World Bank; "Global Competitiveness 2009", World Economic Forum; "Terrorism Threat Map 2007", AON/ The Risk Advisory Group; "Country Risk Profiles, May 2008", Economist Intelligence Unit; Moody's, S&P, Fitch; Deloitte research, interviews and analysis

Regulatory Environment: Turkey is focused on international harmonisation but the changes have often been delayed

Regulatory environment performance, 2008



This chart is a high level summary of Israel's regulatory position relative to the comparator set. While it is a useful guide, it is merely intended to convey an overall impression and should not be a substitute for the detailed analysis underlying it

Considerations:

- Regulatory structure
- International compliance
- international standards
- Responsiveness
- Quality and consistency
- Staff quality and availability
- Independence and legal position
- Int. market confidence

Overall regulatory environment:

- Turkey has made impressive reforms following the 2001 banking crisis.
- Ireland, Singapore and the UK are all perceived to have stable and business friendly regulatory environments.
- The Spanish regulatory environment is also currently undergoing significant changes as the country moves to a 'twin peaks' structure.
- Israel's regulatory environment has witnessed significant positive changes in recent years, but is still behind the market.
- In Russia central bank still plays a significant role in regulation which goes against international trends, causes doubts over independence from the government.

Regulatory quality:

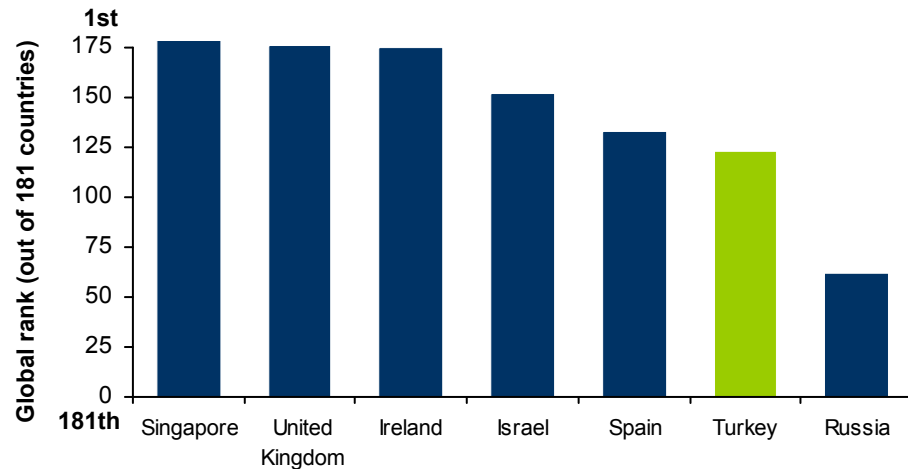
- Turkey may have problems with finding adequately experienced staff for the regulatory bodies.
- Regulators often do not have enough budget to conduct quality inspections or up-skill their staff.
- Istanbul's regulatory quality is constricted by civil service culture and pay structures.
- Regulatory environment suffers from lack of supporting legal infrastructure with the associated expertise it brings.
- The UK's FSA has faced doubts about the depth of knowledge held by the supervisors following the collapse of Northern Rock. Spain has also faced criticisms about insufficient expertise of the regulatory staff.

International market confidence:

- International market confidence in the Turkish regulatory environment has increased in recent years.
- Harmonisation with international standards is developing but a trust deficit exists between the international community and local institutions.
- Both the UK and Singapore are internationally recognised for their high quality and stable regulatory environments.

Ease of Doing Business: Istanbul performs robustly in terms of ease of doing business, although time taken for some key processes is excessive

World Bank "Ease of doing business", 2009



Considerations:

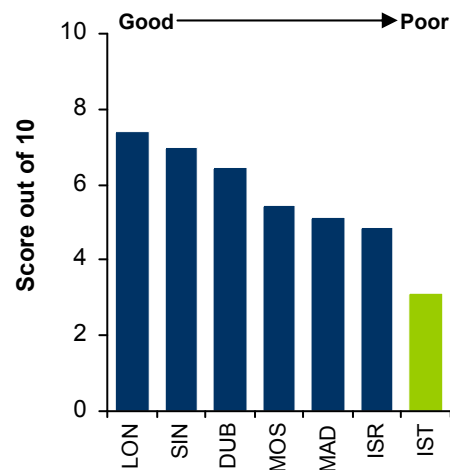
- Ease of completing business processes
- Flexibility and ease of labour processes
- General commercial environment
- Investor relations

Ease of doing business:

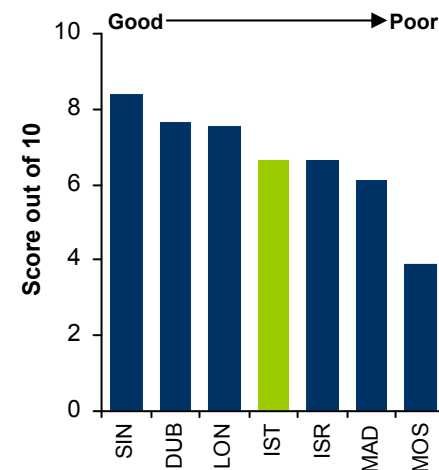
- Although there is a clear margin between the top performers in terms of ease of doing business within the comparator set (Singapore, UK, Dublin) and Istanbul, Istanbul performs better than one of its most important competitor, Russia.
 - Although Turkey is ranked low for ease of doing business, the investment environment is improving constantly, and foreign and domestic investors are subject to the same regulations.
 - The country ranks in terms of ease to enforce contracts (27th out of 181 countries), ease to register property (34th out of 181) and ease of dealing with licences (131st out of 181).
- Russia performs very poorly on the Ease of Doing Business survey, ranked 120th.
 - It is particularly poor on investment freedom and property rights, which could deter overseas FS investors.
 - Perceptions of corruption in Russia have worsened in recent years as the Putin government has nationalised greater swathes of the economy, increasing the power of the bureaucracy that controls state owned enterprises.

Fraser Institute "Economic Freedom of the World", 2008

Labour market regulations



Business regulations

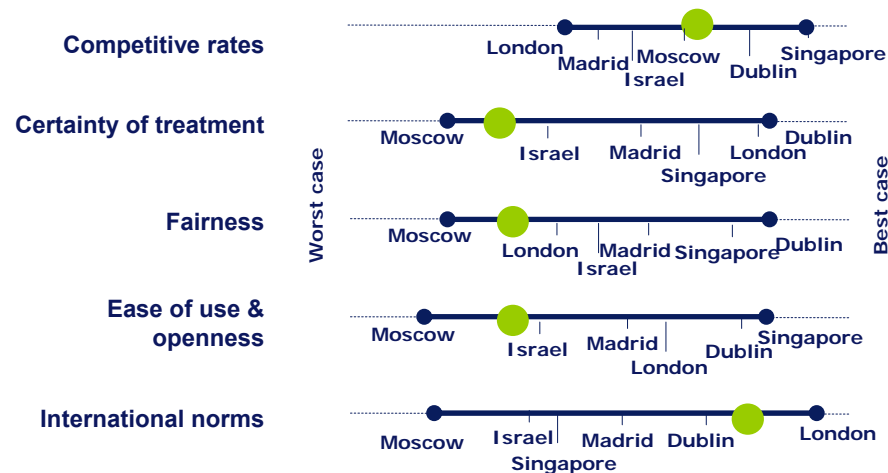


General commercial environment:

- Singapore ranks highly across all measures of ease of doing business. It is ranked the easiest country to do business in the world (World Bank) and second most economically free country in the world (Fraser Institute).
- Turkey scores poorly amongst the comparator set in terms of ease of doing business, however significant reforms are on-going and its performance is considered to be improving by the World Bank. Especially in the recent years, the government has done important business regulations:
 - A specialised directorate has also been established to assist foreign investors looking to conduct business in the country.
 - Privatization activities are the examples.
- Russia has improved its labour market regulations, oppositely the business regulations are poor.
- The UK ranks as 6th easiest country to do business in, although the burden from business regulation, where it ranks behind Singapore and Ireland, is seen as a potential issue. UK also has a great reputation about the labour market regulations.
- Madrid scores relatively poorly within the comparator set, especially in terms of labour related measures; however a number of reforms are currently being implemented which should improve its performance.

Source: "Economic Freedom of the World, 2008", Fraser Institute; "Ease of doing business, 2009", World Bank; Deloitte research, interviews and analysis

Fiscal Environment: Turkey's current tax position is reasonable but opportunities for improvement exist



Considerations:

- Competitive rates
- Certainty of treatment
- Fairness of tax system
- Ease of use and openness
- Adherence to international norms

Fairness:

- Tax legislation that is too voluminous, which can mean that obtaining a fair tax treatment is difficult without appropriate advice (e.g. UK).
- The perception of a fair tax system is important to international business (e.g. some leading financial institutions have considered moving their HQs to Dublin).
- On the whole, Turkish tax law is perceived as relatively complex and extensive, meaning that without appropriate advice taxpayers may be disadvantaged.

Ease of use / openness:

- Low compliance and administrative burdens are important attributes for any successful IFJ.
- Tax regulations in Turkey are considered to be the second most problematic factor of doing business by the Global Competitiveness report.
- Turkey's compliance burden is relatively high for corporations. The corporate tax legislation does not distinguish between small and large companies for compliance matters.
- A significant opportunity exists for Turkey to make targeted tax rule changes to enable the development of particular financial markets (e.g. asset management, securitisation regimes).

International norms:

- International recognition and acceptance of tax systems is vital in securing investors' confidence.
- Turkey has a strong base from which to develop. It generally adheres to OECD guidelines and has an extensive tax treaty network covering c.90% of its import/export market.
- "Controlled foreign company" rules potentially bring the profits of offshore subsidiaries within the Turkish tax net.
- Income of foreign branches (and dividends from foreign subsidiaries) are taxable (with credit for foreign tax including underlying tax suffered).

Competitive rates:

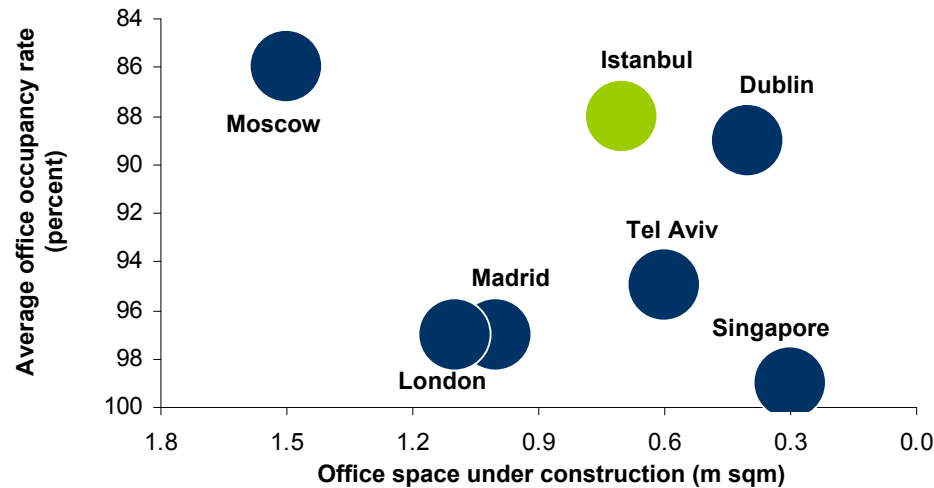
- Turkey has a competitive corporation tax rate (20%), but as a headline rate it does not hold the same appeal as Ireland (12.5%).
- Turkey's BITT (5% tax on banking and insurance transactions) is perceived by financial institutions as a significant drawback of the current tax system in Turkey.

Certainty of treatment:

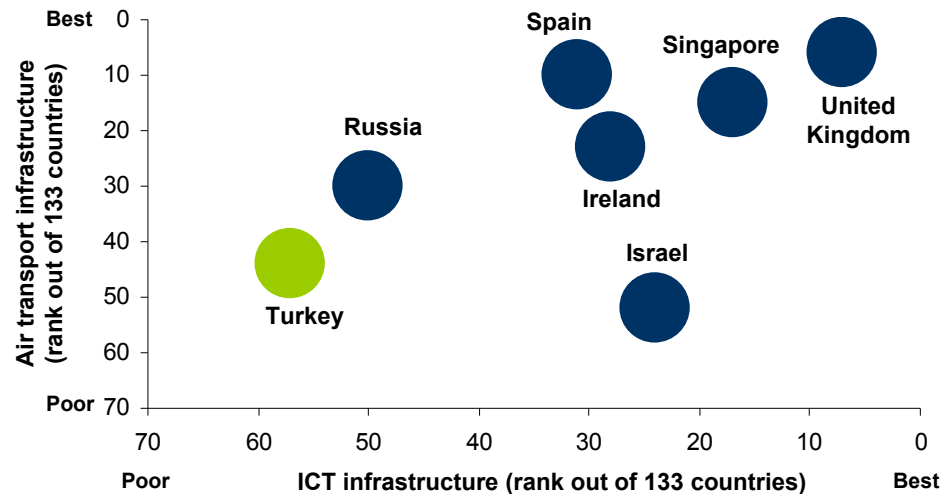
- Despite reform, uncertainty remains in the tax system in Turkey. Historically tax law has not always been upheld by the courts and tax authorities.
- This issue must be addressed to ensure the development of a successful IFJ - a fair and simple taxation system provides a strong base from which to attract foreign investors (e.g. Ireland).

Infrastructure Quality: Istanbul should develop its ICT infrastructure

Office occupancy vs. office space under construction



ICT infrastructure vs. air transport infrastructure



Considerations:

- Office property infrastructure
- Information communications technology
- Transportation network & int. connectivity
- Hotel and visitor facilities

ICT infrastructure:

- Istanbul's ICT infrastructure ranks 57th out of 133 countries in the WEF report.
- In 2007 the Singaporean government launched an extensive island-wide wireless initiative where users can enjoy free indoor and outdoor seamless wireless broadband access for three years at most public places. Furthermore, the latest e-government study placed Singapore 1st among 22 countries.
- Although Turkey scores poorly on the ICT infrastructure, the Turkish IT market is the 2nd fastest growing market in the CEEMEA at 15-20% sales growth per annum.

Transportation infrastructure:

- Istanbul has two modern airports, and is well connected to European financial centres and to business centres in the region; they perform better than Turkey's aggregate score on air transport infrastructure.
- Istanbul is also advantaged on its central time zone and geographic position close to a number of growing markets. Competing centres, such as Moscow, suffer from a lack of proximity to other markets.
- London, Singapore and Madrid are among the top 10 countries for their air transport infrastructure.
- Traffic congestion is the key infrastructure issue in Istanbul. The OECD estimates the economic cost of this at \$7bn p.a. However, several projects are underway to address this, including extension of the new metro system, a 3rd bridge over the Bosphorus and of an undersea rail link beneath it. In addition, Metrobus and new metro stations established and in use now.
- According to WEF, Istanbul's ground transportation infrastructure ranks 62nd, ahead of Russia.
- Israel has a well developed bus network, with buses being the main form of public transport. Israel's largest bus company is the second largest in the world.
- Madrid's Metro is the second largest metro network in Europe, behind London, and is one of the fastest growing networks in the world.

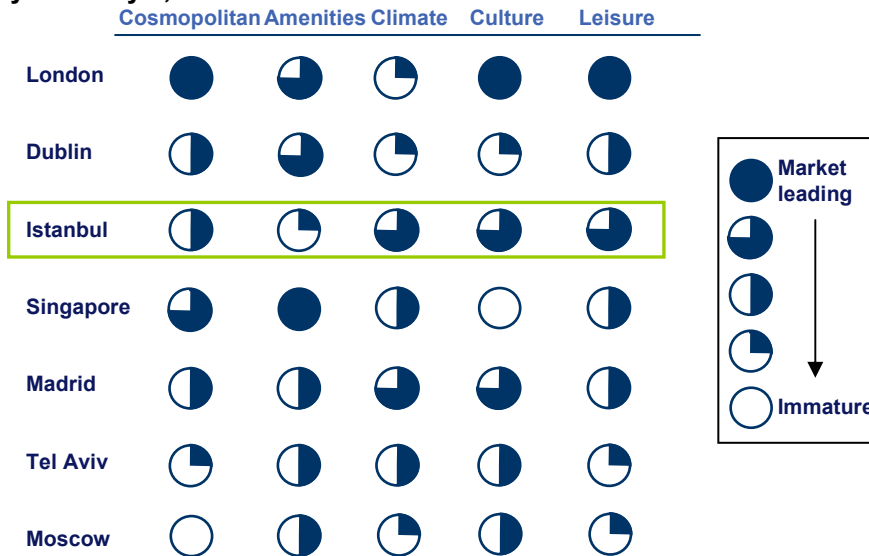
Visitor infrastructure:

- Spain is the second most popular destination for business meeting tourism in the world. Madrid is home to Spain's largest trade fair complex and hosts numerous fairs.
- On the other hand, Istanbul is the one of the leading business meeting tourism center.

Source: UNWTO; "Travel & Tourism Competitiveness 2009", World Economic Forum; Deloitte research, interviews and analysis

Lifestyle: Istanbul has relatively cheap living costs compared to the developed IFJs, moreover the city offers great quality of life

Quality of lifestyle, 2008



Considerations:

- Quality of life
- Cost of living

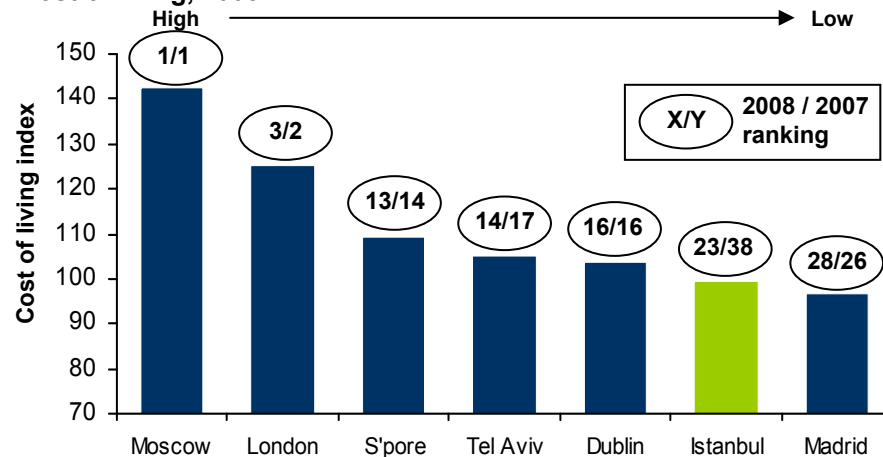
Overall lifestyle:

- Istanbul has a rich cultural heritage and unique natural and historical location. The quality of amenities available is constantly improving, and Istanbul has a vibrant nightlife. It was recently dubbed “one of the coolest cities in the world” by Newsweek.
- London is home to four World Heritage sites, around 200 museums and 6,000 restaurants, as well as the longest shopping street in the world.
- Spain has the second highest number of Human Heritage sites in the world.
- Dublin is near to the sea and offers a vibrant life style. Its population is 2 Mn.
- Moscow is a colorful city with its history, culture, bars and restaurants which serves foreign people and rich Russians.

Quality of life:

- Istanbul has been designated as the 2010 Culture Capital by the EU. In last ten years with the investments, the quality of life in Istanbul increased.
 - There are more than 57 museums, 145 theatres, 124 art houses, 900 restaurants and 1840 bars. Also 1,200 hospitals are located in the city.
 - “The best business hotel of the Europe” award won by the The Conrad Hotel in Istanbul in last 3 years.
 - Istanbul has implemented a large scale CCTV programme.
- Istanbul was ranked 50th in the EIU’s 2005 quality of life survey. In the same survey; Ireland ranked 1st, Spain ranked 10th, Singapore ranked 11th, UK ranked 29th, Israel ranked 38th and Russia ranked 105th.

Cost of living, 2008



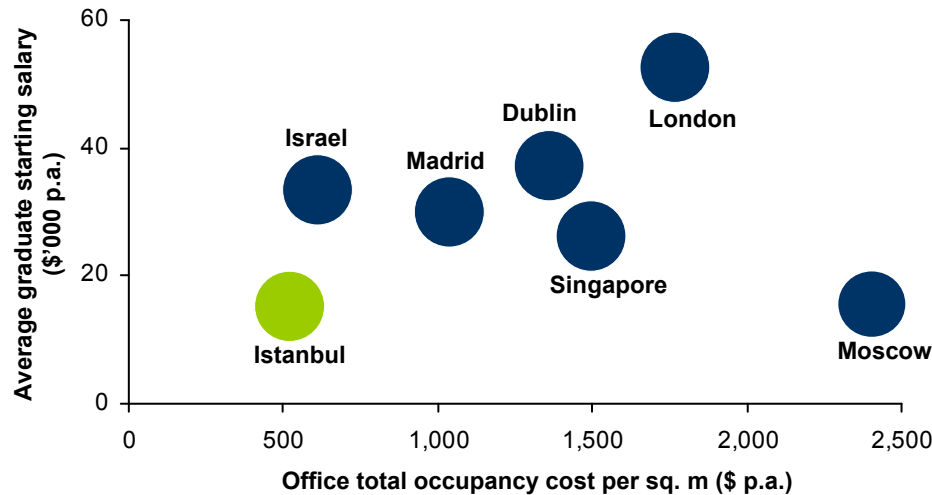
Cost of living:

- Istanbul was 23rd in Mercer’s global cost of living survey 2008. Although it’s big business potential and semi-cosmopolitan structure, Istanbul is highly cheap. It is only more expensive than Madrid.
- The average expenditure on rent is 31.5% and food is 20.6% in Istanbul.
- In 2008, London was 3rd in the Mercer Global cost of living survey down from 2nd place in 2007. Moscow had stayed at the top of the Mercer’s list. Singapore and Tel-Aviv moved up in the rankings from 2007.
- While the cost of dining out, clothing, public transport and entertainment is affordable, Madrid has high property prices.
- In Singapore, the most substantial cost is home rental, with the private rental market concentrating almost exclusively on expatriates. Imported goods are also expensive.

Source: “Quality of life index 2005”, EIU; “Cost of living survey 2008”, Mercer; “HDR 2007/08”, UN; Deloitte research, interviews and analysis

Cost of Doing Business: Istanbul is an attractive location on both the cost of labour and of real estate

Cost of labour vs. cost of office space, 2007



Considerations:

- Labour costs
- Business infrastructure costs
- Cost of carrying out business processes

Overall cost of doing business:

- Istanbul performs strongly in terms of a low cost to do business. One of the most important aspects of Turkey's business environment is that 35.6% of the labor force earn the minimum wage - the highest rate in the EU.

Labour costs:

- Istanbul has the most advantageous labour costs in the comparator set.
- Overall, Israel's labour costs are competitive.
- These costs are much higher in London, Madrid and Dublin.
- Forecast Israel wage growth (+4%) is broadly in-line with the other cities except for Istanbul where wage costs are forecast to grow at twice this level. Specifically within financial services, Dublin is becoming increasingly less competitive.
- Moscow had the highest cost of living of any city in the world, driving up salaries in, with some banking staff reportedly paid more than their equivalents in London.
- Graduate salaries in London is amongst the most expensive in the world.
- Labour costs in Dublin have risen as the labour market has saturated.

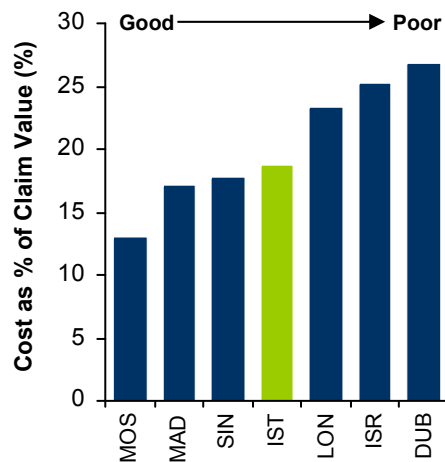
Business infrastructure costs:

- Moscow has seen sharp rises in the cost of real estate, with a shortage of high quality office space.
- Istanbul has the most competitive business infrastructure costs of the comparator cities with relatively low office occupancy costs and cost growth broadly in-line with the comparator set.
- Singapore and Israel have recently seen very high growth in office rental costs due to low availability; however, new capacity is expected to come on-line in the coming years.
- Commercial real estate in London and other infrastructure costs remain some of the most expensive in the world.

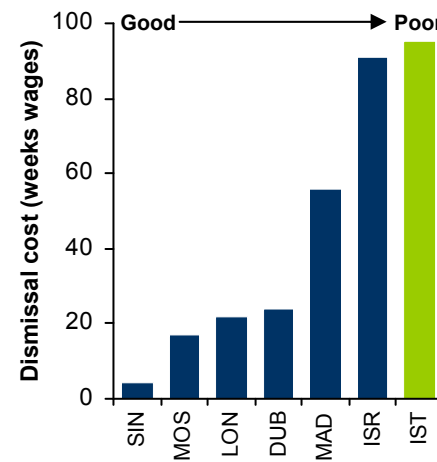
Cost of carrying out business processes:

- The overall cost of common business processes in Istanbul is similar to that in Dublin, Madrid and London.
- Istanbul is competitive than most comparators in the key processes of contract enforcement.
- However costs of employee dismissal is different for Istanbul (95 days wages vs. 4 days in Singapore).
- Singapore maintains a significant competitive advantage across most business process costs.
- Dublin is particularly competitive for starting up a business and obtaining licences.

Contract enforcement cost



Employee dismissal cost

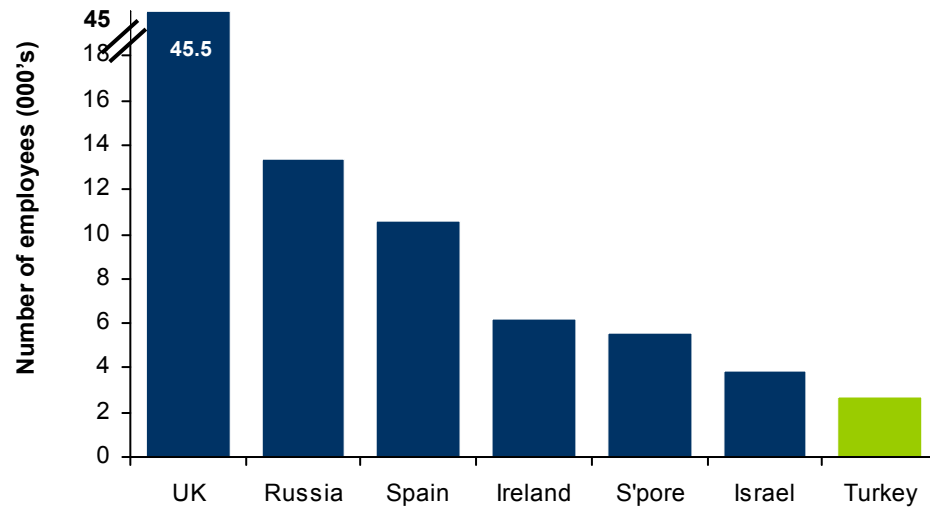


Source: "Global Index of Office Costs, 2007", CBRE; "Doing Business 2009",

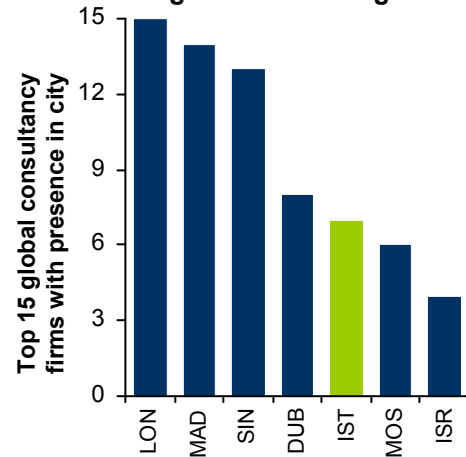
World Bank; National statistics offices; Salary.org; EIU Country Forecasts; Deloitte research, interviews and analysis

Availability of Professional Services: Istanbul has a well developed local market, with significant presence of global professional services firms

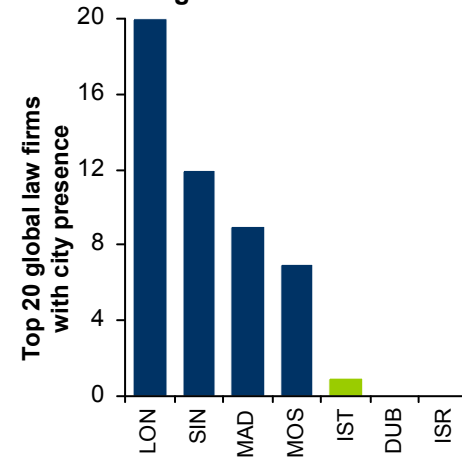
Employees of 'Big Four' professional services firms, 2008



Presence of global consulting firm



Presence of global law firms



Source: National statistics offices; 'Big Four' web pages; Deloitte research and analysis

Considerations:

- Availability of accountancy resources
- Availability of consultancy resources
- Availability of legal resources

Overall availability of professional services:

- All of the "big 4" offices and some of the global consulting firm's offices are located in Istanbul, but lacks big international names, in particular in law.
- Professional services are enjoying robust growth in Istanbul.

Accountancy resources:

- Turkey has around 65,000 accountants, which more than one thirds work in Istanbul.
- Big Four firms in Turkey are reporting some of the fastest growth rates of Big Four firms globally.
- While accountants in Singapore, Ireland and the UK have the option to study for a number of internationally recognised accountancy qualifications, accountants in Spain, Turkey and Israel have less opportunities on offer in their home countries.

Legal resources:

- Only one of the top 20 global law firms have a presence in Istanbul, but the market is well served by local players. However, Turkey, especially Istanbul should increase the sufficient number of suitably qualified lawyers to serve the financial services industry, because "...only 500 of 18,000 active lawyers in Istanbul are able to serve internationally and also only 50-100 are able to serve within IFJ framework" (Partner, leading Turkish law firm).
 - Turkey has a total of 155 law offices, 55 of them are located in Istanbul.
 - Spain's leading law firms progressed from small local players into some of continental Europe's largest and most successful independents.
 - 6 of the world's top 10 law firms are from the UK.

Consultancy resources:

- In Istanbul, the IT consulting market is growing, especially in serving the finance services industry. There are an estimated 3000-3500 IT consultants.

Summary of Key Lessons from Comparator Financial Jurisdictions

London

- Strong domestic players in key sectors are not a prerequisite.
- Deregulatory step change can significantly increase the presence of foreign financial services institutions.
- A flexible regulatory regime plus an attractive asset base equals market growth, making intervention superfluous.
- Direct tax incentives aimed at particular business sectors can accelerate growth.
- Financial services should not break bonds with the real sector, an economic crisis can damage all that has been built in FSI otherwise.

Madrid

- An IFJ can follow the footprint of leading domestic sectors.
- Links with distant regions can also be leveraged.
- Looking beyond the virtual region can potentially bring a number of benefits.

Israel

- More critical for smaller economies to align international and domestic financial policy to eradicate systemic risk.
- “Region” can mean more than a geographic reach, but can extend across the world to other trading partners (e.g. Diaspora Jews).

Dublin

- It is desirable to have a long term action plan.
- IFJ should start modestly and use initial strengths.
- The IFJ strategy can be evolved once sound foundations have been laid.
- Changes in regulation can be effectively carried out by hiring specific sector knowledge.
- An IFJ should focus on areas that are easier to attract from abroad.
- It is important that the IFJ is not uncompetitive on taxes.
- Diaspora could be used to address any skills shortages.

Singapore

- Genuinely welcoming overseas business is imperative.
- IFJs must be attractive to potential expats at personal level (e.g. taxes).
- IFJ must be considered business friendly removing bureaucratic obstacles is vital.
- Up-front investment in education and infrastructure are key.
- IFJ must have a tax system that is well-administered, clear and predictable.

Moscow

- An IFJ cannot develop without an effective rule of law.

Contents

1) Context & Executive Summary

2) Developments in the international financial services environment (global and domestic)

- Macro-economic developments
 - IFC strategies
 - Taxation
 - Regulation
 - Products and services
-

3) Changes in Istanbul's position relative to selected competitors

4) Financial model update

5) Key performance indicators

The Underlying Assumptions of the Financial Model have been Reviewed and Revised

Comments on Model Assumptions

- The assumptions and estimates underlying the model were reviewed and revised in line with the recent economical developments.
- The datasets were updated with available 2007 and 2008 data.
- The financial services market growth estimates was segmented into five financial service areas:
 - Commercial Banking
 - Private Banking
 - Investment Banking
 - Asset Management
 - Insurance
- The market assumptions for these five segments were revised based on the most recent data available.
- Key ratios required to calculate value add include profit margins, and wages as proportion of revenue. These were estimated from global institutions financial statements, often segregated by activity.
- The incremental growth that IFC will drive in Turkey's domestic financial services is based upon these revised assumptions and updated data sets.

Comments on Final Income

- The original model's assumptions and estimates have been reviewed and their prudence has once again been confirmed. The recent downturn in global economy has been compensated by the high growth rate of Turkey in 2007-2008. Consequently the updated assumptions have not altered the original model's outcome.
- Indicative projections based on Istanbul's growth profile still suggest significant growth:
 - The FS contribution to GDP will be 8%, IFC's contribution is an additional 4% in 2025
 - Increase 2025 GDP by \$20 Bn
 - Increase the total FS workforce by 150,000 people
 - Growth in the FS sector will effect positively also related sectors (economy multiplier effect)

The Financial Model Determining Value Add of the IFC was Updated to Reflect the Recent Developments in the Global Economy

Key Facts

- The financial model seeks to quantify the financial and economic impact of the Istanbul IFC over the 15 year period to 2025 (assuming launch in 2010).
- In order to quantify the impact the market size of key financial services (commercial banking, private banking, investment banking, asset management and insurance) in Turkey and surrounding regions were estimated.
- While forming our estimations for the model the total financial services industry was split into five sectors: commercial banking, investment banking, private banking, asset management and insurance.
- The new model includes most recent macro-economic indicators and the updated market information.

Macroeconomic Indicators

- The GDP's of Middle East, EU15, EU12 and surrounding region countries were obtained from most recent IMF World Economic Outlook dataset.
- The GDP growth ratios and growth estimates were also updated from the IMF WEO dataset.
- The expected contraction in the economy for 2009 was reflected in the model through these updated datas.
- The growth and market size assumptions underlying the final outcome of the financial model were revised based on the updated macro-economic data.

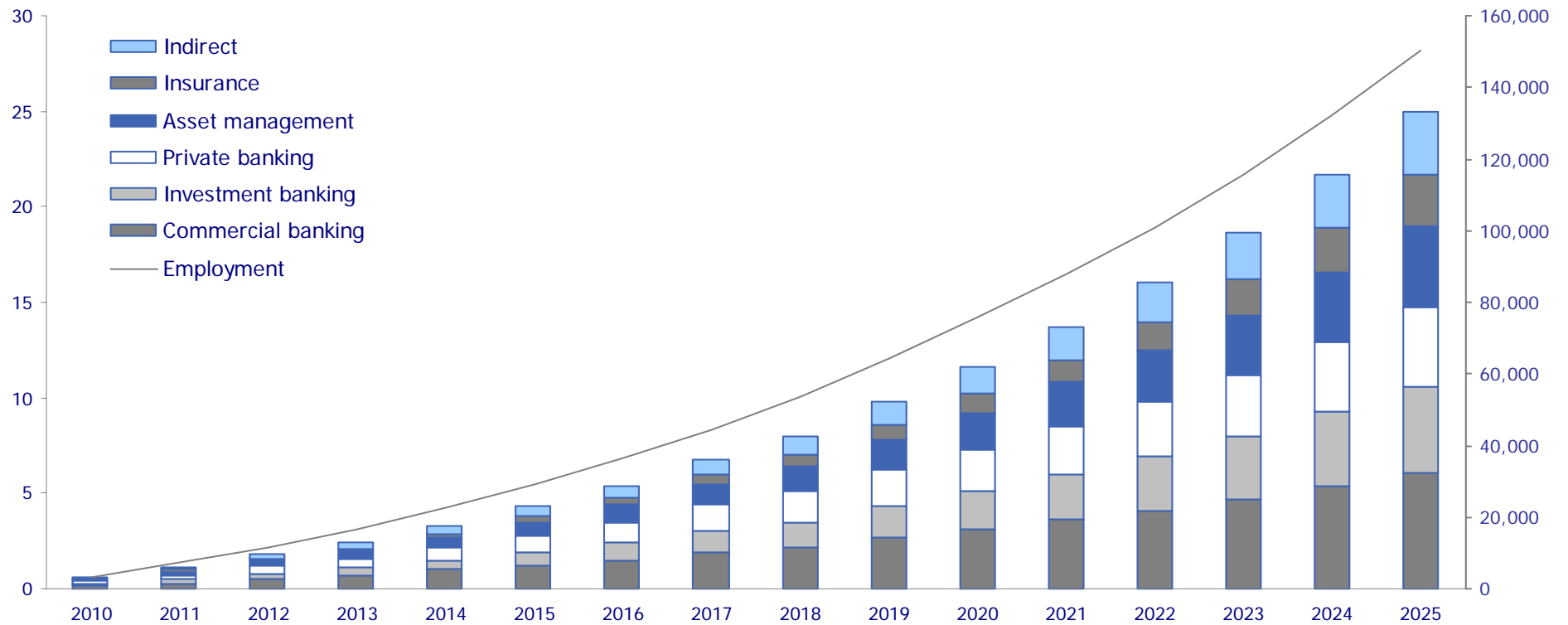
Market Size for Financial Services Industry

- Market size has been determined as an aggregate of five financial markets.
- The market size estimations for Turkey and the surrounding regions are done by using the most recent publicly available market data.
- Market revenues have been forecasted to grow in each region so that penetration and mix of products reach current EU 15 levels by 2025.
- Key ratios required to calculate value add and employment impact for each financial services market are determined by using averages of international financial institutions' financial 2007 and 2008 data.

The Value Add of a Successful IFC Under the Updated Model is Aligned with the Previous Model: IFC could add an extra \$20Bn to GDP and 150,000 jobs by 2025

Incremental value add
\$Billion

Incremental FS employment



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Key Performance Indicators

- As Istanbul matures towards international financial centre status it will necessarily go through two phases:
 - (1) Development: Where each of the dimensions of competition are rapidly invested in and improved
 - (2) Subsequent: Continuing operation of Istanbul as a working, growing centre
- Key Performance Indicators (KPIs) for the development stage should be defined directly within the programme plans developed to improve upon each dimensions of competition. More broadly, the success of Istanbul in achieving international financial centre status, and maintaining this during its ongoing operational phase might usefully include the following:

Hard measures

- Size of the workforce in financial services industry
- Risk ratings and subsequent cost and access to capital
- Contribution of 'exported' financial services to invisible earnings
- Contribution of financial services to GDP, and total financial services assets/GDP
- Level of FDI and foreign equity ownership in domestic financial services
- Number of international market participants
- Market share of global business in chosen markets (e.g. intermediary services, primary listings/secondary trading, securitisations, money market instruments, interbank, repo, forex, investment banking, asset management, insurance classes, Islamic banking etc.)

Soft measures

- Degree of interconnectedness between domestic and international markets
- Level of innovation in emerging financial products
- Authority (or voice) in shaping the global financial agenda

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Istanbul IFC Feasibility Study Update

Volume II Appendices

May 2009

* This Report has been prepared by Deloitte Consultancy on behalf of The Banks Association of Turkey.

Appendices

1) Data sources consulted

2) Detailed comparative study profiles

3) Overview and update of the financial model

Data Sources Consulted

Sources			
AT Kearney	Eurobarometer	OECD	UNDP
Anholt – GFK Roper	Euromoney Yearbooks	Ofcom	United Nations
BAA website	FATF	Oxford Business Group	World Bank
Banking and Regulation Supervision Agency	Fraser Institute	PricewaterhouseCoopers	World Economic Forum (WEF)
Banks Association of Turkey	Financial Times "MBA Rankings"	Royal Bank of Scotland	World Federation of Exchanges
Barclays	Halifax Bank of Scotland	State Planning Organization	www.bddk.org.tr
Bloomberg	HAZINE & BMWI	The Economist	www.byegm.gov.tr
Capital Markets Board	Heritage Index of Economic Freedom	The Financial Times	
CB Richard Ellis (CBRE)	HSBC	The Law Society	www.cma.gov.eg
Central Bank of Turkey	IBFD	The Lawyer	www.cmb.gov.tr
Corporation of London / Z/Yen	ICAEW	The McKinsey Quarterly	www.doingbusiness.org
Corruption Perception Index	IDA (& IDA website)	Transparency International	www.ebi.gov.eg
Deloitte (Commissioned by the Financial Services Practitioners Panel and the FSA)	International Financial Services London (IFSL)	Turkish Treasury	www.fsa.gov.uk
Deloitte Tax team Israel	International Monetary Fund (IMF)	TurkDEX	www.heritage.org
Deloitte Tax team Russia	Istanbul Stock Exchange	TURKSTAT	www.london.gov.uk
Deloitte Tax team Turkey	James R Bath, Gerard Caprio & Ross Levine	UCAS	www.mf.gov.eg
Deloitte Tax team UK	Life Style Index	UK Department for Transport website	www.finfacts.com
Dubai International Financial Centre website	Lloyd's TSB	UK HM Treasury	Economist Guide: The City: A Guide to London's Global Financial Centre
Dublin IFSC online	Mercer Human Resource Consulting	UK Management Consulting Association (MCA)	www.ameinfo.com
Economic Intelligence Unit (EIU)	Ministry of Economics	Undersecretariat for Foreign Trade	

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Contents

Comparative study profiles:

- London
- Moscow
- Dublin
- Madrid
- Israel
- Singapore
- Istanbul



London as a Financial Centre

London is a full service financial centre

Overview
<ul style="list-style-type: none"> • London is the global financial centre and one of world's leading business centres • The headquarters of more than 100 of Europe's 500 largest companies are in London. A quarter of the of the world's largest financial companies also have their European headquarters in London • There are more than 550 international banks and 170 global securities houses have set up offices in London. By contrast Frankfurt has around 280, Paris, 270 and New York 250 • Daily foreign exchange trading in London increased from \$753bn in April 2004 to \$1,819bn in April 2008. London accounts for over a third of global foreign exchange trading.

Historical context
<ul style="list-style-type: none"> • London emerged as a financial clearing house to the British Empire at end of the 17th century, with the growth of the UK as a global trading nation. The Bank of England had been established in 1694, and Edward Lloyd's coffee house, recognised as the place for obtaining marine insurance, and what was to evolve into Lloyd's of London, opened in 1688 • The emergence of the US as the world's leading economic power eroded London's advantage. However, with the emergence of the Eurobond market in the 1970s, London transformed itself from primarily a clearing centre for sterling, to providing international financial services across currencies • An open door policy to international capital flows & foreign ownership and deregulation of London's markets improved its ability to harness growth in global capital flows since the 1980s

Position as a global financial centre
<ul style="list-style-type: none"> • London competes with New York for supremacy as a global financial centre <ul style="list-style-type: none"> – <i>“As a global investment bank we just have to have dealers in both New York and London – we wouldn't be ‘global’ without them”</i> • Most recent studies of financial centres position London ahead of New York, with London increasingly perceived to be the more attractive location for financial services businesses <ul style="list-style-type: none"> – The trend is largely driven by the increased regulatory burden in the US following Enron and 9/11; London is perceived as having a relatively 'light touch' regulatory regime • London is a 'full service' financial centre, hosting a wide range of financial services. It has a particularly dominant position in a number of areas, e.g.: <ul style="list-style-type: none"> • The London Stock Exchange had a 29% share of global foreign equity trading between January and September 2008 and was one of the leading locations for IPOs. • London achieved 9% global share of number of IPOs during the first nine months of 2008. The 69 IPOs in London during this period raised \$82.9bn. • In 2007, 20% of global hedge fund assets were managed in London. At end-2007, four-fifths of the stock of European hedge fund assets totaling around \$500bn were managed in the UK • The UK was the source of 23% of European investment banking revenue in the first nine months of 2009. • London had the leading share of international bank lending (20%) and borrowing (24%) in March 2008. • The London Market is the world's leading market for internationally traded insurance and reinsurance (particularly marine and aviation)

Source: IFSL "IFM in the UK 2008", www.london.gov.uk



London as a Financial Centre (contd.)

London aims to be the full service global centre for banking and insurance

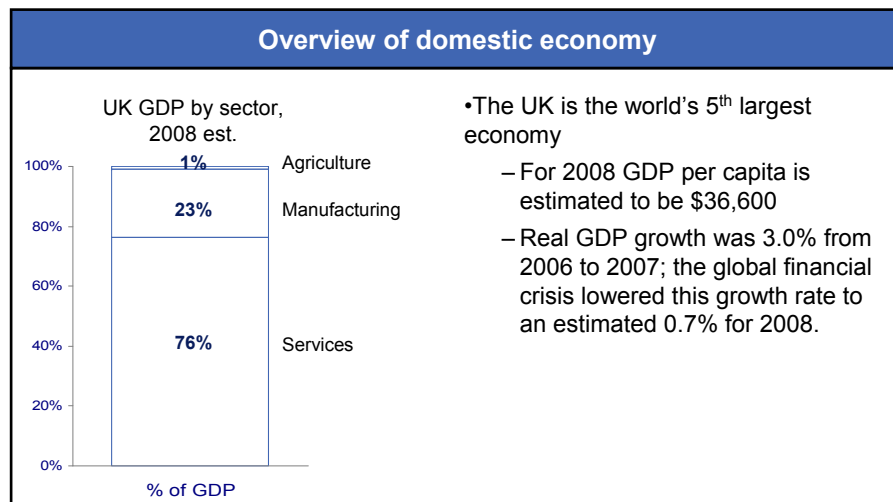
Strategy and vision	Commentary and execution
<ul style="list-style-type: none"> • London markets itself as the banking centre of the world, and Europe’s main business centre. It aims to be a financial centre that is truly international in the markets it serves • London aims to serve the full spectrum of financial services, while preserving its position in the markets it dominates – e.g. FOREX, Insurance, OTC derivatives and capital markets – and continuing to foster innovation • London primarily targets ‘front office’ operations, with ‘back office’ operations increasingly located overseas or in lower-cost parts of the country • London prides itself on its international outlook, and openness <ul style="list-style-type: none"> – <i>“As a global financial centre, London differs significantly from New York or Tokyo where the success of financial services has been built largely on supplying large domestic economies. With a far smaller domestic economy, the success of the City of London has increasingly depended on its global role. London has a long, unbroken record of responding well to global market opportunities, building its success on innovation and openness, (HM Treasury)</i> • London is focused on competing on the basis of its regulatory and fiscal environment, lifestyle and supply of skilled labour <ul style="list-style-type: none"> – <i>“Government and others have a role in delivering a competitive business environment for financial services ... That means ...regulation is proportionate and consistent with wider economic goals; ensuring a supply of skilled labour;... a fair and competitive tax regime... and helping to build a modern, high quality working and living environment...”, (HM Treasury)</i> 	<ul style="list-style-type: none"> • London’s principles-based regulatory regime is viewed favourably in comparison with its key global competitors <ul style="list-style-type: none"> – <i>“...increasingly perceive the UK’s single, principles-based financial sector regulator ... as superior to what they see as a less responsive, complex US system Regulatory enforcement style also matters, with the UK’s measured approach to enforcement seen as more results-oriented & effective...” (GFCI report)</i> – The Financial Services Authority (FSA) has been emulated as a model in emerging financial centres such as Qatar and Dubai, who have also poached senior staff from the FSA • London is recognised as a leading centre for accessing highly skilled staff <ul style="list-style-type: none"> – <i>“We have consolidated our European operations in London because we can always get hold of really good experienced people when we need them and it is easier to ‘downsize’” (Director of Global Equity Operations, major European investment bank)</i> • A relatively unattractive tax regime is the major threat to London’s dominant position <ul style="list-style-type: none"> – Lloyds insurers Omega Underwriting and Hiscox announced their decision to relocate from London to Bermuda last year: <i>“Whatever anyone says, the main reason is the tax regime in Bermuda” (Insurance industry analyst)</i> – In October 2006 HSBC reported that moving its headquarters from London could save it \$750m a year – Former Chancellor Gordon Brown has responded to these concerns with a 2% cut in the basic rate of corporation tax in his budget for 2007

Source: HM Treasury



Financial Services Market

Financial services contribute 7.6% of UK GDP and employ more than 1m people



- Financial services market headcount**
- The UK financial services industry employed around 1.04 million people in 2007
 - 353,000 people were employed in 'City-type' jobs in London at end 2007
 - There are 324 authorized banks and 647 insurance companies in the UK
 - The UK has 250 branches or subsidiaries of foreign banks as of March 2008.
 - UK banking industry represents around 1.5% of total UK employment and around 45% of financial services employment.

UK financial services market size

Banking	
Banking sector assets, 2008	£7,919 Bn
Bank deposits, 2008	£5,402 Bn
Bank loans, 2008	£3,471 Bn
Insurance	
Net worldwide premiums generated by the UK insurance industry, 2007	£218.3Bn
Fund Management	
UK funds under management, 2007	£ 4,118Bn
Derivatives	
OTC average daily turnover, 2007	\$1,093n
Exchange-traded turnover, 2007	6 billion contracts
FOREX	
Average daily UK turnover, 2007	\$1,472Bn

- Financial services market growth and structure**
- Financial services constituted 7.6% of UK GDP in 2007.
 - UK financial services trade surplus reached £21.1Bn in the first half of 2008.
 - Total financial services headcount in London is forecast to grow to 378,000 by 2009
 - General insurance premiums increased by 20% over the past decade to £43.7Bn in 2007
 - Foreign financial institutions are extremely active in the UK banking and capital markets. Foreign banks accounted for 58% of UK banking sector assets in 2007

Sources: IFSL, World Bank, ONS, IFSL (2008), IMF (2007), CIA World Fact Book www.cityoflondon.co.uk



UK Banking Market

The banking industry is an important contributor to the UK economy

Banking Market Overview

Origin of cross-border transactions
% share of total, 2007

Origin	% share
UK	20
Germany	11
US	9
France	9
Japan	7
Cyman Isl.	6
Other	38

UK Banking Assets
£ Billion

Year	Assets (£ Billion)
2003	4000
2004	4800
2005	5500
2006	6200
2007	7000
Sept 2008	7500

- UK holds an important position in international banking:
 - Banking deposits largest in Europe and second largest in the world after the US
 - Largest centre for cross-border banking (~20% of global bank lending)
 - One of the key private and investment banking centres
- According to ECB, the UK banking sector is relatively fragmented with top five banks holding around 36% of total assets, compared to the EU-25 average of 42%
- UK banking industry accounted for around 1.5% of total UK employment

Domestic Banks

- Banking market changed a lot over the past few decades due to consolidation and demutualisation of building societies
- Six domestic banks dominate commercial banking – Barclays, RBS, HSBC, HBOS, Abbey and Lloyds TSB
- Largest building society is Nationwide, which if it were a bank it would be the sixth largest in the UK

Foreign Banks

- As of March 2008, 250 foreign banks were physically present in the UK, with the majority located in the City of London. Foreign banks hold around 54% of UK banking assets
- Most specialise in investment and wholesale banking and M&A's, although some are major forces in retail banking as well (e.g. AIB)

Investment Banks

- Large number of key players have HQs or major offices in London
- UK was the source of around 25% of European investment banking fee revenue in 2008

Number of Banks in the UK

Bank Type	1999	2007	2008
UK owned	121	72	70
Foreign owned (UK inc.) ¹	79	85	86
UK branch of an EEA firm (non-UK inc.) ²	109	90	85
UK service of an EEA firm (non-UK inc.)	/	5	4
Outside the EEA ³	135	79	80
Total authorised banks	444	331	324

Total foreign banks physically located in the UK = 1+2+3

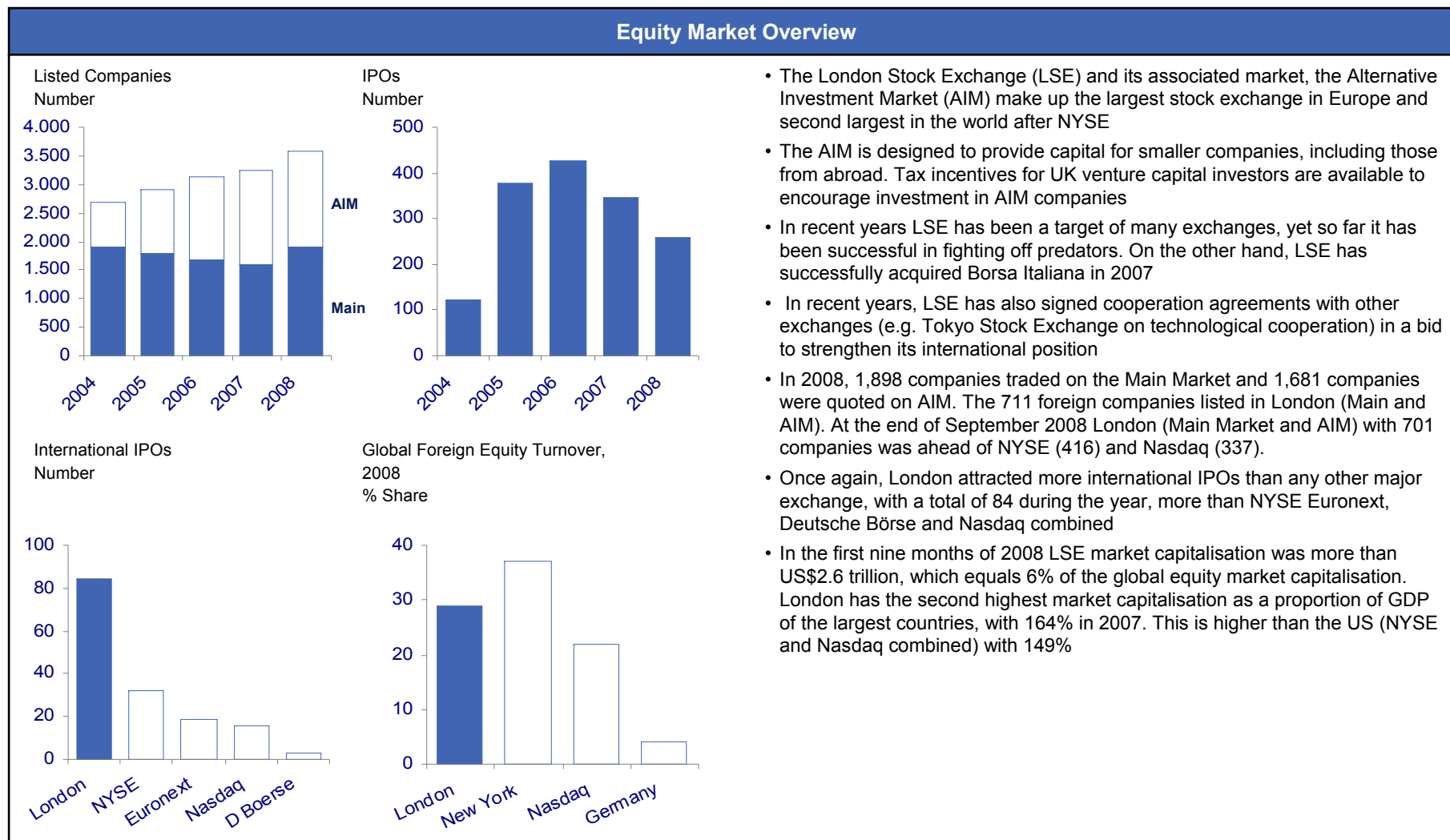
Source: IFSL "Banking 2008", EIU (2007), IFSL "IFM in the UK 2008"

- 8 -



UK Equity Market

The UK has the largest stock exchange in Europe



Source: LSE "Annual Report 2008", IFSL "IFM in the UK 2008"



UK Fixed Income Market

London is an important international commodities, derivatives and Forex centre

Fixed Income Market Overview

Intl Debt Securities – Net Issues by Nationality of Issuer, 2008/Q2
US\$ Billion

Nationality	Net Issues (US\$ Billion)
US	~320
UK	~220
Ireland	~50
Spain	~70

- LSE is one of the world’s major centres for the issuing and listing of bonds
- London is also a leading centre for trading international bonds
- Bookrunners in London are estimated to account for around 60% of primary and 70% of secondary market in Eurobonds
- No annual fees for listing bonds in London, which makes listing longer-term bonds cost-effective
- The outstanding value of bonds of UK-based issuers in 2007 was £1,700bn, triple the amount a decade ago
- Over the past decade there was a shift from government to non-government bonds, with the latter accounting for 66% of total outstanding value in 2007, compared to 32% in the 1990s
- The increase in turnover can be attributed in part to rising levels of gilt issuance, with the pause in growth in 2007-08 reflective of disruption in international capital markets. The effect of the global crisis also decreased the trading intensity (as measured by the turnover ratio) in 2007- 08 which fell from 8.45 to 8.11.

Gilt Market Turnover
£ Billion

Year	Turnover (£ Billion)
2002/03	~8.5
2003/04	~11.5
2004/05	~12.5
2005/06	~13.5
2006/07	~15.5
2007/08	~15.5

Derivatives Market Overview

- Leading global derivatives centre with 43% share of world turnover and 47% share of cross-border derivatives turnover in 2007
- Five derivatives exchanges in operation: Liffe (leader in trading in short term Euro interest rate contracts), London Metal Exchange (transacts more than 90% of international business in non-ferrous metal futures), ICE Futures London, APX Group and EDX London
- Around 10,000 employed in derivatives in central London

Commodities Market Overview

- Largest centre for commodities trading after New York
- London’s three major derivatives exchanges accounted for around 15% of global commodities trade.
- Home to a number of international commodity organisations (e.g. International Coffee Organisation)
- ICE Futures London is the leading energy futures and options exchange in Europe
- London Metal Exchange is the fourth largest commodities exchange in the world in terms of futures contracts traded

Foreign Exchange Market Overview

- Largest foreign exchange market in the world, with 34% of all worldwide FX contracts in 2007 executed in London
- In the year up to April 2008, UK turnover has grown by 32% while turnover in the US is up 16%.
- UK’s international role is underlined by the fact that most transactions do not involve the foreign currency
- In April 2008, average daily turnover on foreign exchange in London was US\$1,819bn. Twice as many dollars are traded on the foreign exchange market in the UK than in the US

Source: IFSL “IFM in the UK 2008”, EIU (2007), IFSL “Derivatives 2007”, IFSL “Forex 2007”, LSE



UK Insurance Market

The UK has the largest insurance market in Europe

General and Life Insurance Market Overview

Net Worldwide Premiums Generated
£ Billion

Year	Long-Term	General	Total
2000	~140	~40	~180
2005	~130	~40	~170
2006	~160	~40	~200
2007	~210	~40	~250

- The UK insurance industry is the largest in Europe and the second largest in the world behind the US. The London Market is the world's leading market for internationally traded insurance
- The UK market accounts for 11% of total global premium income. Furthermore, the industry employs around a third of all UK FS employees (2007)
- According to 2007 data, the ratio of UK total premium production to GDP is 15,7%
- In March 2008 there were 647 insurance companies in the UK – 489 carried out general business only, 133 life only and 25 both. 79% of companies were UK owned, compared to 83% in 1991

General Insurance

- Premium income has been stagnant since 2000, mainly due to stable and declining prices. The key areas of growth in general business over the past few years have been the motor and property markets
- The market is one of the most concentrated in Europe due to strong M&A activity in the sector

Long Term Insurance

- Premium income almost tripled over the last decade
- Insurers were affected badly by falls in equity markets during 2000-2002, as traditionally more than half of the portfolios were allocated to equities. Profitability has since improved due to less exposure to equities, reduced profit participation and cost savings
- Standard Life and Aviva account for over a fifth of the market

The London Market

- Distinct part of the UK insurance industry that predominantly involves high-exposure risks. All companies are located in a small area within London, which produces close ties and facilitates the flow of information (key competitive advantage)
- Three quarters of companies are foreign-owned

Sources of General Premiums, 2006
% Share

Category	IFAs	Company agents	Direct	Other
Commercial	~85%	~10%	~5%	~0%
Personal	~35%	~15%	~25%	~25%

Source: IFSL "Insurance 2007", ABI "UK Insurance – Key Facts", IFSL "IFM in the UK 2008", IFSL "Insurance Update 2008"

Re Insurance Market Overview

- London is the key centre for international reinsurance, in particular for marine and aviation business
- In 2006 London had the largest share of global marine and aviation net premiums (24% and 39%)
- The London Market is estimated to account for around a quarter of internationally available reinsurance
- UK earnings from reinsurance reached a peak in 2003 when they totalled £2.4 billion. However, the buoyant market that arose in the wake of 9/11 has since waned

UK Reinsurance Net Exports
£ Million

Year	Net Exports
2001	~1.0
2002	~1.4
2003	~2.4
2004	~1.0
2005	~0.9
2006	~0.4



UK Asset Management Market

London is a leading global hedge fund centre

Asset Management Market Overview

Assets under Management
£ Billion

Year	Assets under Management (£ Billion)
2003	2.0
2004	2.2
2005	2.8
2006	3.8
2007	4.1

Investment by Asset Class, 2007
% Share of Total Assets Under Management

Asset Class	% Share of Total Assets Under Management
Equities	33%
Bonds	27%
Cash Market	17%
Property	14%
Other	9%

- Assets managed in the UK at the end of 2007 totalled an estimated £4.1 trillion
- It is estimated that the fund management industry generated around 0.8% of UK's GDP in 2007
- The industry directly employs around 50,000 people in the UK
- Insurance-owned asset managers are the largest groups with around 30% of AUM
- The UK asset management industry is relatively concentrated at the top, with the share of top ten asset managers of 48%. However, there are a number of small and medium players in the market
- Recent years have witnessed substantial consolidation in the industry, most notably with the merger of Black Rock and Merrill Lynch
- Around 77% of all assets managed in the UK are invested on behalf of institutional investors (mainly insurance companies and pension funds), while 21% are invested on behalf of the retail sector (around £230 billion of this is domiciled Luxembourg, Dublin and other overseas locations)
- The UK asset management industry is highly international:
 - Assets are managed in the UK on behalf of overseas clients (~34% of total assets managed in the UK)
 - A big proportion of funds are domiciled overseas with asset management taking place in the UK

Hedge Fund Market Overview

- London is the second largest centre for hedge funds after NYC
- London's share of global hedge fund industry more than doubled between 2002 and 2008 and currently stands at 18%
- London is the largest centre in Europe for the management of hedge funds
- At end 2008, four fifths of the stock of European hedge fund assets worth US\$300 billion were managed out of the UK (excl. fund of funds and investments from US managed in Europe – if these are taken into account London is estimated to account for over 90% hedge fund assets managed in Europe)
- There were more than 1,300 European based hedge funds in 2008, of which two-thirds were located in London
- In 2008, UK, together with US, was the leading location for managers of Asian hedge funds with around 25% of Asian hedge funds' assets
- London is also Europe's leading centre for hedge fund services including prime brokerage (accounts for over 90% of European activity), administration and custody

Source: IFSL "IFM in the UK 2008", IFSL "Hedge Funds 2009", IFSL "Fund Management 2008"



Skilled Labour Pool

The UK offers a highly skilled pool of labour, with deep financial expertise

Overview

- The UK has a population of 61 million, growing at 0.3%
 - The UK has an estimated total labour force of 31.2 million in 2008.
 - The median age in the UK is 40.2 years
 - 3.4 million people are employed in London (69% of London's working age population)
 - London has a young population, with 25-34 year olds comprising 29% of London's working-age population
 - Total education spending as % of GDP predicted to be predicted 5.8% in 2007/08

Breakdown of UK employment by sector, 2007

Sector	'000 employed in sector (2007)
Others	2,001
Other services	2,230
Construction	3,199
Manufacturing	6,593
Finance, banking, insurance, business related services	7,070
Distribution, hotels & restaurants	7,980
Public admin, health & education	7,980

Financial services professionals

- UK employment in financial services was 1.03m in June 2008, having fallen by 16,000 in the previous 12 months
- Around 316,000 employees, just under a third of UK financial services employment, worked in London in June 2008
- Based on the latest regional data for 2006, value added per employee in financial services averaged £84,900, more than double the average for the UK economy of £39,400.

Breakdown of UK Financial services employment by sector, 2006

Sector	'000 employed in sector (2006)
Others	62
Broking/fund mgmt	73
Auxiliary activities	80
Life insurance	104
Non-life insurance	143
Activities auxiliary to insurance	513
Banks & building societies	513

Tertiary education

- The UK has 5.5m university graduates in the workforce and 8% of the labour force are currently engaged in degree courses
- 2.4 million higher education students engaged in degree courses in 2006/07, international students make up 13% of all students
- 413,430 new students gained places at UK universities in 2007:
 - 48,645 were overseas students
 - 33,949 for Management/Business Studies, Accounting & Econ
- The UK's higher education system ranks highly internationally with 11% of the World's top 100 universities (2nd highest percentage globally, behind the US with 54%)
- The UK has 16 of the Top 100 Global MBA programmes, with 3 in the top 20 (Financial times, 2007)
- 26.1% of London's working age population has a degree (17.9% for England)
- London, along with New York, offer highly skilled financial services professionals who are driving innovation in complex product areas

- The UK has poor language skills, however this has not hindered the success of financial services due to the prominence of English as 'the international language of business'

Number of languages spoken in addition to 'mother tongue', % of UK population

Number of languages	% of UK population
>=1 language	38%
>=2 languages	18%
>=3 languages	6%
No additional languages	62%

Source: UCAS, EIU (2007), Eurobarometer "Europeans and Their Languages 2005", HEFCE (2007), IFSL "IFM in the UK 2008", HESA



Image & Perceptions

London is perceived to be an International city, diverse & central to the global economy

Brand Strength	Commentary																																
<p style="text-align: center;">Anholt Nation Brands Index, Q2, 2007</p> <table border="1"> <caption>Anholt Nation Brands Index, Q2, 2007</caption> <thead> <tr> <th>Country</th> <th>Ranking (out of 40)</th> </tr> </thead> <tbody> <tr> <td>UK</td> <td>1st</td> </tr> <tr> <td>Spain</td> <td>12th</td> </tr> <tr> <td>Ireland</td> <td>16th</td> </tr> <tr> <td>Russia</td> <td>22nd</td> </tr> <tr> <td>Singapore</td> <td>27th</td> </tr> <tr> <td>Turkey</td> <td>34th</td> </tr> <tr> <td>Israel</td> <td>37th</td> </tr> </tbody> </table> <p style="text-align: center;">Anholt City Brands Index, 2007</p> <table border="1"> <caption>Anholt City Brands Index, 2007</caption> <thead> <tr> <th>City</th> <th>Ranking (out of 50)</th> </tr> </thead> <tbody> <tr> <td>London</td> <td>2nd</td> </tr> <tr> <td>Madrid</td> <td>13th</td> </tr> <tr> <td>Dublin</td> <td>21st</td> </tr> <tr> <td>Singapore</td> <td>23rd</td> </tr> <tr> <td>Moscow</td> <td>35th</td> </tr> <tr> <td>Istanbul</td> <td>39th</td> </tr> <tr> <td>Tel Aviv</td> <td><50</td> </tr> </tbody> </table>	Country	Ranking (out of 40)	UK	1st	Spain	12th	Ireland	16th	Russia	22nd	Singapore	27th	Turkey	34th	Israel	37th	City	Ranking (out of 50)	London	2nd	Madrid	13th	Dublin	21st	Singapore	23rd	Moscow	35th	Istanbul	39th	Tel Aviv	<50	<ul style="list-style-type: none"> • The UK ranked 4th highest in the 2007 AT Kearney FDI Confidence Index, the same ranking as in 2006. This is based on surveys with senior executives at the world's largest companies, with the companies sampled accounting for 70% of global FDI flows • The UK ranked 1st out of 40 countries assessed (1st = best brand perceptions) in the Anholt National Brands Index, which surveys 25,000 consumers from around the world on their brand perceptions of countries • London ranked 2nd out of 50 cities assessed in the Anholt City Brands Index, which ranks world cities according to consumer responses regarding six aspects (e.g. perceptions about the economic and educational opportunities on offer in each city) • Construction of a new financial district, to rival 'the Square Mile' began in the late 1980's to the east of the historical financial district. Phase 1 of 'Canary Wharf' was completed in 1991 and it now houses the UK's 3 tallest buildings and is home to a number of leading financial institutions and approximately 90,000 workers
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Source: AT Kearney FDI Confidence Survey (2007), Anholt "Nation Brands Index 2007", Anholt "City Brands Index 2007"



Political and Economic Stability

The UK benefits from a stable political and economic environment

System of government	
Form of govt.	Parliamentary monarchy
Parliamentary system	Bicameral system; upper chamber – House of Lords & the lower chamber – House of Commons
Electoral system	Universal direct suffrage from age 18. Plurality voting system (candidate with the largest number of votes in their favour is elected)

- Legislative power is vested in both the government and the two chambers of Parliament, the House of Commons and the House of Lords
- The judiciary is independent of the executive and the legislature, and neither the monarchy nor the military play an active role in the formation of government policy

Economic policy
<ul style="list-style-type: none"> • In the 1980s, Prime Minister Margaret Thatcher curbed the powers of the trade unions, reduced the state's involvement in the economy increasing the role of the private sector in the provision of health services and pensions, and opened monopoly sectors to competition, moving the UK closer to a free market economy • The Labour government of the past 10 years established independence of the Central Bank & devolved responsibility for monetary policy, introduced a national minimum wage, and kept the UK out of the Euro • The current Economic policy is almost entirely focused on managing the escalating financial and economic crisis. The measures adopted so far to support the banking sector will have enormous policy implications for years to come, both in terms of the government's mounting financial commitments and the state's increasing role in the economy

Political landscape
<ul style="list-style-type: none"> • The UK is politically stable and received a AAA EIU political risk rating (lowest risk) in March 2008 <ul style="list-style-type: none"> – The centre-left Labour Party has been in government since May 1997, when it returned to office after 18 years of uninterrupted rule by the right-of-centre Conservative Party. Labour has since been re-elected in 2001 and in 2005 – In 2006, under pressure from the Labour Party, then PM Tony Blair announced that he would step down within a year. In 2007 Gordon Brown became the new PM. Prior to this he was UK's longest serving Chancellor since the 19th century • According to the Home Office, terrorism poses a significant threat. Since 2001 over 1,000 people have been arrested under the Terrorism Act 2000

Economic stability																																
<ul style="list-style-type: none"> • The BoE announced the start of "quantitative easing" (QE) programme. Central bank will be buying public- or private-sector assets without the state borrowing to finance these purchases. This will create new money and inject it into the economy thus expanding the money supply, improving liquidity, and boosting the supply of credit 																																
<p>Historical UK inflation & interest rates (EIU)</p> <table border="1" style="margin: 0 auto; border-collapse: collapse;"> <caption>Historical UK inflation & interest rates (EIU)</caption> <thead> <tr> <th>Year</th> <th>Average interest rate (%)</th> <th>Average inflation rate (%)</th> </tr> </thead> <tbody> <tr><td>2003</td><td>4.0</td><td>1.5</td></tr> <tr><td>2004</td><td>4.8</td><td>1.3</td></tr> <tr><td>2005</td><td>4.5</td><td>2.0</td></tr> <tr><td>2006</td><td>5.0</td><td>2.3</td></tr> <tr><td>2007</td><td>5.5</td><td>2.3</td></tr> <tr><td>2008</td><td>2.0</td><td>2.0</td></tr> </tbody> </table>	Year	Average interest rate (%)	Average inflation rate (%)	2003	4.0	1.5	2004	4.8	1.3	2005	4.5	2.0	2006	5.0	2.3	2007	5.5	2.3	2008	2.0	2.0	<p>EIU Country Risk Ratings March 2008</p> <table border="1" style="margin: 0 auto; border-collapse: collapse;"> <tbody> <tr><td>Sovereign risk</td><td>AA</td></tr> <tr><td>Banking sector risk</td><td>A</td></tr> <tr><td>Economic Structure risk</td><td>AA</td></tr> <tr><td>Political Risk</td><td>AAA</td></tr> <tr><td>Currency Risk</td><td>A</td></tr> </tbody> </table>	Sovereign risk	AA	Banking sector risk	A	Economic Structure risk	AA	Political Risk	AAA	Currency Risk	A
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Source: EIU (2008)



Infrastructure

London has excellent air transport links, and good telecoms infrastructure

Air transport
<ul style="list-style-type: none"> • London has extensive air links to other international financial jurisdictions & major regional economies: <ul style="list-style-type: none"> – London Heathrow is the UK’s largest and world’s busiest airport, serving 180 destinations in over 90 countries (around 90 airlines are based at Heathrow) – London Gatwick is the 2nd busiest UK airport & the world’s busiest single runway airport. 90 airlines operate from Gatwick’s two terminals, serving c. 200 destinations – There are also three smaller airports (City, Luton and Stansted), linked primarily to European destinations • The UK scores highly for ‘Quality of Air transport infrastructure’ in the World Travel & Tourism index, with the following rankings; Number of operating airlines – 2nd/133, available seat kilometres – 2nd/133, international air transport network – 14th/133, quality of air transport infrastructure – 27th/133 • London’s Heathrow & Gatwick airports are easily accessible via direct express train services from central London within 15 to 20 minutes and are well served by UK motorways <ul style="list-style-type: none"> – London City airport is located 6 miles from the City (traditional financial district) & 3 miles from Canary Wharf (London’s newest business & financial centre) – with regular services to all major financial centres in Europe • Heathrow’s Terminal 5 was opened in March 2008 to cope with increasing demand • In 2007 a consultation process began for the building of a new third runway at Heathrow. In 2007 a major expansion programme to the existing terminal at Stansted began, and in 2008 BAA also submitted a planning application for the construction of a second terminal • London’s transport infrastructure (particularly the underground network) is considered to be stretched and in need of modernisation

Telecoms & IT										
<ul style="list-style-type: none"> • The UK has an established telecoms & IT infrastructure. UK ranked 7th/133 for Information Communication Technology infrastructure in WEF World Travel & Tourism index rankings, 2009 <p style="margin-left: 20px;">UK penetration of telecommunication services (% of population, 2007)</p> <table border="1" style="margin-left: 20px; margin-top: 10px;"> <caption>UK penetration of telecommunication services (% of population, 2007)</caption> <thead> <tr> <th>Service</th> <th>Penetration (%)</th> </tr> </thead> <tbody> <tr> <td>Mobile Phones</td> <td>93%</td> </tr> <tr> <td>Internet Connection</td> <td>64%</td> </tr> <tr> <td>Broadband</td> <td>53%</td> </tr> <tr> <td>3G Connection</td> <td>11%</td> </tr> </tbody> </table> <p style="margin-left: 20px; margin-top: 5px;">Source: OFCOM, 2007</p> <ul style="list-style-type: none"> • More than half of UK households had broadband by March 2007. The average headline speed in June 2007 was 4.6Mbit/s • Households with a mobile connection (93%) exceeded households with a fixed connection (90%) for the first time in 2006 • 3G moved into the mainstream in 2006, with connections growing by 70% to reach 7.8 million • 1.7% of total TV homes were subscribed to HDTV in 2006. Digital TV penetration broke through the 80% barrier in Q1 2007 	Service	Penetration (%)	Mobile Phones	93%	Internet Connection	64%	Broadband	53%	3G Connection	11%
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Source: WEF (2009), Ofcom “The Communications Market 2007”, BAA, DFT



Ease of Doing Business

The World Bank ranks the UK the 6th easiest country to do business in

Bureaucracy

- The World Bank 2009 Ease of Doing Business report ranks the UK 6th overall out of 181 countries:

Detailed World bank ease of doing business rankings, UK (2009)

Factor	Rank
Starting a business	8th
Dealing with licenses	61st
Employing workers	28th
Registering property	22nd
Getting credit	2nd
Protecting investors	9th
Paying taxes	16th
Trading across borders	28th
Enforcing contracts	24th
Closing a business	9th

181 Global country ranking (out of 181) 1

- The UK ranks relatively highly in terms of ease of doing business
 - It consistently scores in the top 30 for the factors assessed, with the exception of 'Dealing with licenses' where it ranks 61st

Level of economic freedom

UK's ten economic freedoms (*Index of Economic Freedom*, 2009)

Freedom	Percentage
Business freedom	54.0%
Trade freedom	60.8%
Fiscal freedom	78.9%
Government Size	70.6%
Monetary freedom	65.5%
Investment freedom	30.0%
Financial freedom	40.0%
Property rights	25.0%
Fdm fm Corruption	23.0%
Labour freedom	60.0%

Key:
100 = most free
|= world average

- Russia is ranked the 146th most economically free country in the global Index of Economic Freedom and 41st out of 43 countries in the European region, 2009. The UK scored '50.8% free' vs. world average of 59.5%.

Transparency and corruption

- The UK is ranked 16th/180 in the World Corruption Perceptions Index (2008, Transparency International), with 1st being the country with the lowest perceived level of corruption
- However, some recent events may have impacted perceptions of transparency in the UK government:
 - Ongoing police investigation into whether cash has been donated to UK political parties in exchange for peerages (honours)
 - Attorney General's decision to terminate the investigation into allegations of bribery by BAE Systems Plc in the UK-Saudi Arabia Al Yamamah defence contract

Source: World Bank Ease of Doing Business Survey 2008, Heritage 2009, Transparenct International



Lifestyle

London is a truly international city with a good quality of life, but is expensive

Overview
<ul style="list-style-type: none"> • According to PwC, London is the 6th largest city economy in the world. It is also one of the largest centres for finance in the world • As of July 2007, Greater London has a population of 7.5 million people and is the most populous municipality in the EU • London has a rich history dating back to the Romans in 43 AD, and four World Heritage Sites - Palace of Westminster, Tower of London, Maritime Greenwich and Kew Gardens • London is renowned for its diversity. As of 2008, around 40% of the population is from a minority ethnic background, (which constitutes 50% of the UK's total ethnic minorities) and over 300 languages are spoken within the city

Amenities
<ul style="list-style-type: none"> • The UK has a government funded education system, and a wide choice of private schools, particularly in and around London <ul style="list-style-type: none"> – The UK educational system is ranked 17h/133 in World Travel & Tourism rankings (2009) • The UK has a state funded National Health Service (NHS) and an established private healthcare sector <ul style="list-style-type: none"> – The NHS is regarded as struggling to cope with demand with the current resources. – London's bus network is one of the biggest in the world with over 6 million passenger journeys made every weekday. There are five major airports, of which Heathrow is the world's busiest in terms of numbers of international passengers

Leisure
<ul style="list-style-type: none"> • Cultural activities – London is home to around 200 museums, west end theatre district, 5 professional orchestras, Royal Opera House, Royal Ballet and world famous art galleries • Nightlife – There are over 6,000 licensed restaurants in London, (22% of Britain's restaurants), including 36 Michelin star rated restaurants. There is also a wide selection of bars, clubs & music venues • More than 30% of the City is made up of parks and green space • The South East of England offers a high number of world class golf courses, as well as many other sports facilities, easily accessible from London • London is due to host the Olympics in 2012 • London's Oxford Street is the longest shopping street in the world

Cost of living																								
<p>Cities with the highest cost of living index, 2008</p> <table border="1"> <caption>Cities with the highest cost of living index, 2008</caption> <thead> <tr> <th>Rank</th> <th>City</th> <th>COL index (approx.)</th> </tr> </thead> <tbody> <tr> <td>1st</td> <td>Moscow</td> <td>145</td> </tr> <tr> <td>3rd</td> <td>London</td> <td>125</td> </tr> <tr> <td>13th</td> <td>Singapore</td> <td>110</td> </tr> <tr> <td>14th</td> <td>Tel Aviv</td> <td>105</td> </tr> <tr> <td>16th</td> <td>Dublin</td> <td>100</td> </tr> <tr> <td>23rd</td> <td>Istanbul</td> <td>95</td> </tr> <tr> <td>28th</td> <td>Madrid</td> <td>90</td> </tr> </tbody> </table>	Rank	City	COL index (approx.)	1st	Moscow	145	3rd	London	125	13th	Singapore	110	14th	Tel Aviv	105	16th	Dublin	100	23rd	Istanbul	95	28th	Madrid	90
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<ul style="list-style-type: none"> • London was 3rd in the 'Mercer Global cost of living index' 2008, down from 2nd in 2007, 1st being the city with the highest cost of living 																								

Source: WEF Travel and Tourism index (2009), Mercer Global cost of living index (2007), PwC UK Economic Outlook (2007)

UK Taxation System Overview

Not bad but complex...

Rates	Compliance and Administration	
<p>Corporation Tax</p> <ul style="list-style-type: none"> The main tax rate on taxable profits is 28%, with a reduced rate of 21% for small companies (taxable profits less than £300k) UK resident companies are subject to corporate taxes on worldwide profits, regardless of where they arise. The government is currently reviewing the legislation in relation to taxation of foreign profits A company is UK tax resident if <ul style="list-style-type: none"> it is UK incorporated (unless resident in another country by virtue of one of the UK's Tax Treaties), or its place of central management and control is in the UK Companies may generally deduct from gross profits expenditure that is wholly and exclusively incurred for business purposes, although certain capital expenditure goes unrelieved Capital gains are included within taxable income but gains on substantial (over 10%) equity investments are typically exempt Offsetting losses against taxable profits is generally allowed and carry forward of losses is possible, potentially indefinitely. Losses can generally be carried back for one year Group relief of losses is also possible in the current year against profits of other group companies <p>Personal Tax</p> <ul style="list-style-type: none"> 20% basic rate (on most income) rising to 40% for higher rate taxpayers, with top effective tax rate of 25% on dividends Special "non-domicile" regime which benefits expatriates, although £30,000 annual charge to qualify <p>Withholding Tax</p> <ul style="list-style-type: none"> 0% on dividends, 20% on interest payments, 22% on royalties <p>VAT</p> <ul style="list-style-type: none"> 17.5% standard rate charged on sales of most goods and services Some reduced rates/exemptions apply <p>Other</p> <ul style="list-style-type: none"> Stamp duty (0.5% on purchase of shares and up to 4% on purchase of real estate) Employers' national insurance (12.8% social security tax on payroll) Certain employees' national insurance costs (including 1% open-ended charge on salaries) 	<ul style="list-style-type: none"> Companies self-assess their corporation tax liability Tax returns are filed on an annual basis following companies' commercial accounting years Large companies must make CT payments in 4 equal quarterly instalments, based (initially) on the expected tax liability for the year Compliance with and enforcement of tax law is high in the UK Detailed tax avoidance laws exist in the UK and the government recently introduced enhanced measures to monitor and counter some lawful tax avoidance The UK tax system is one of the most detailed and complex in the world (over 9,000 pages of legislation) with a high rate of change and accordingly high compliance costs However, administration is conducted in a professional and generally business-friendly manner 	
	<th data-bbox="1133 868 2020 927">International Aspects</th>	International Aspects
	<ul style="list-style-type: none"> The UK is party to more than 100 tax treaties The treaties often exempt interest, royalties and licensing payments from UK and foreign withholding taxes The UK adheres to OECD guidelines on issues such as transfer pricing Thin-capitalisation provisions are included within the transfer pricing rules to address "excessive" debt of UK-resident companies "Controlled foreign company" rules potentially bring the profits of offshore subsidiaries within the UK tax net Income of foreign branches (and, currently, dividends from foreign subsidiaries) are taxable (with credit for foreign tax including underlying tax suffered) 	



Strengths, Weaknesses and Implications

Key Strengths and weaknesses

Competitive rates

- The UK has one of the lowest corporate tax rates in the G7 and is not uncompetitive globally. However, it is perceived to have lost some competitiveness recently
- Generous interest deductibility rules - and no WHT on dividends - are attractive features for many corporates
- The UK has an attractive expatriate tax regime, although this has lost some of its advantage with the introduction of the annual charge
- Substantial shareholdings exemption & reorganisation relief can allow groups to restructure without incurring significant chargeable gains

Certainty of treatment

- Current tax law is upheld by the courts and tax authorities, so taxpayers may place reliance on it, although as with any sophisticated tax system, there are some areas of uncertainty
- Comprehensive system for taxing debt, derivative contracts, intangible assets and management expenses
- Uncertainty is increasing as a result of frequent law change, often with inadequate consultation or even retrospective, poorly drafted and unscrutinised guidance which is not consistent with law
- Advance rulings are available but are used relatively rarely as the legislation is generally applied consistently

Fairness

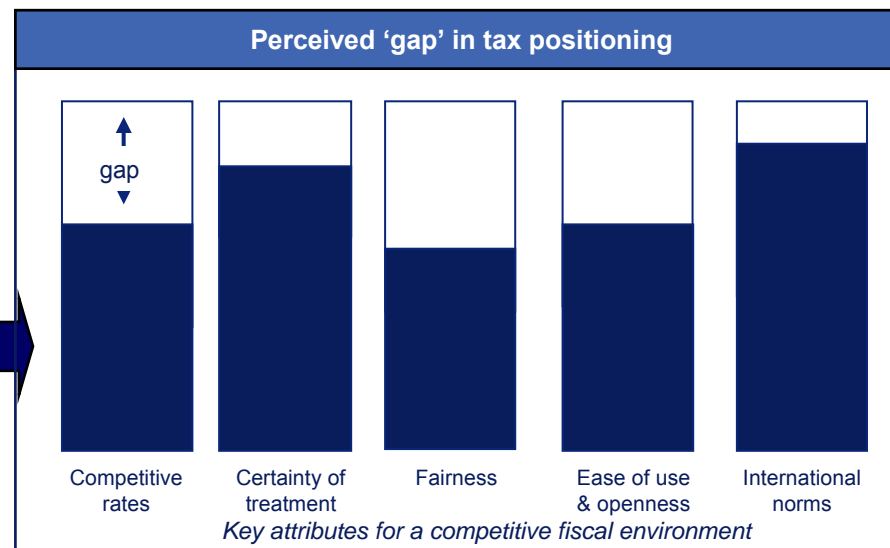
- UK tax law is extremely complex and extensive, so that without appropriate advice certain taxpayers may be disadvantaged
- There is a recent trend by international business to view the UK system as increasingly unfair in its corporate tax treatment

Ease of use & openness

- The UK's compliance burden can be relatively low for those with simple corporate tax affairs, as returns are only filed annually
- However there is increasing complexity, change and uncertainty in many areas of law

International norms

- Most extensive network of double taxation treaties in the world
- Adheres to all OECD guidelines on issues such as transfer pricing



Implications for Istanbul

- Improvements to the certainty of treatment and consistency of application are necessary for Turkey, the level of complexity and volume of UK tax law should be avoided in the improvement process
- The UK's favourable expatriate tax regime is considered a major factor in London's success as a global financial services market leader. Therefore Istanbul should consider the introduction of targeted tax incentives for to attract expatriates
- Follow but improve upon UK's regime directed at particular business sectors (e.g. Securitisation company regime and investment management exemptions). Conversely, poorly conceived tax policies can discourage investors (e.g. changes to taxation of foreign profits)
- Process of any tax law change and consultation should be done in a pro-business manner



Availability of Professional Services

Professional services are widely developed and internationally recognised

Overview	Lawyers										
<ul style="list-style-type: none"> The UK has a well-developed professional services market <ul style="list-style-type: none"> Most major professional services firms are represented in the UK, and many prominent British firms have a presence in other major financial centres British professional qualifications are internationally recognised UK professional services firms carry out assignments for a wide range of international clients The UK has a total of over 450,000 practising accountants, lawyers and consultants, compared with a financial services workforce of c. 1 million The 'Big 4' employ a combined total of 45,500 people in the UK. 	<ul style="list-style-type: none"> There are 104,453 qualified solicitors and 15,022 qualified barristers in the UK <ul style="list-style-type: none"> 33,039 (36.1%) practising solicitors are based in London There are 9,000 solicitors firms in the UK <ul style="list-style-type: none"> 72 of the largest 100 global firms as ranked by The Lawyer have offices in the UK British legal professionals are well regarded overseas, with many British law firms having a large network of international offices, including in most major financial centres 6 of the world's top 10 law firms are British 										
Accountants	Consultants										
<ul style="list-style-type: none"> The five UK chartered accountancy bodies have c.250,000 UK-based members <ul style="list-style-type: none"> London has a significant share of these, with nearly 30% of the largest institute's members based in London There are 140,000 trainee accountants in the UK, with worldwide student membership growing at 6% p.a., promising a steady stream of trained professionals in the future The UK has c.9,000 registered audit firms <ul style="list-style-type: none"> All the 'Big 4' have a substantial presence in London The five UK chartered accountancy bodies have a prominent international presence, with 80,000 professionals and 200,000 students overseas 	<div data-bbox="1142 925 1444 1348"> <p>UK consulting fee income by competency</p> <table border="1"> <thead> <tr> <th>Competency</th> <th>% of fee income</th> </tr> </thead> <tbody> <tr> <td>IT consulting</td> <td>10%</td> </tr> <tr> <td>Systems devt</td> <td>11%</td> </tr> <tr> <td>Outsourcing</td> <td>37%</td> </tr> <tr> <td>Management consulting</td> <td>42%</td> </tr> </tbody> </table> </div> <ul style="list-style-type: none"> The UK Management Consulting Association (MCA) has 60 member firms, with 51,000 consulting professionals The UK consulting market is the largest outside the US with revenues for 2006 estimated at around £8bn MCA members employed 18,000 management consultants in 2006, an increase of 26% on previous year Traditional management consulting increased by 16% to £5.4billion in 2006. The largest industry sector was financial services, increasing by nearly a third to £1.1billion 	Competency	% of fee income	IT consulting	10%	Systems devt	11%	Outsourcing	37%	Management consulting	42%
Competency	% of fee income										
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Source: Management Consulting Association, Professional Oversight Body for Accountancy, ICAEW, The Law Society, The Bar Council, Graduate prospects, The Lawyer, 'Big 4' websites,



Cost of Doing Business

London’s office costs are among the highest in the world

Labour costs																													
<ul style="list-style-type: none"> According to ONS, the average salary of finance and investment analysts in 2008 was £49,732 and of financial and accountant technicians £43,136 However, given the prevalence of ‘front office’ operations in London and the high degree of specialist staff, the average for London is likely to be significantly higher Global ‘ease of doing business rankings’ by the World Bank rank the UK 28th easiest (out of 181) for Employing Workers: <ul style="list-style-type: none"> Average non-wage labour cost = 11% of salary 11th on ‘difficulty of hiring workers’ index 10th on ‘difficulty of firing workers’ index Firing cost = 22 weeks of salary 																													
<p>Example UK Financial services salary benchmarks, 2008</p> <table border="1"> <thead> <tr> <th>Position / Job title</th> <th>Average range of remuneration (GBP 000's)</th> <th>Average Bonus %</th> </tr> </thead> <tbody> <tr> <td colspan="3"><i>Front Office</i></td> </tr> <tr> <td>Graduate – Equities Sales</td> <td>35-38</td> <td>25-50%</td> </tr> <tr> <td>Head of equities</td> <td>150-250</td> <td>200%+</td> </tr> <tr> <td colspan="3"><i>Middle Office</i></td> </tr> <tr> <td>Trade Support – Clerk</td> <td>30-48</td> <td>0-10%</td> </tr> <tr> <td>Trade Support – Manager</td> <td>55-75</td> <td>20-60%</td> </tr> <tr> <td>Settlements – Clerk</td> <td>25-45</td> <td>0-10%</td> </tr> <tr> <td>Settlements – Manager</td> <td>50-70</td> <td>0-60%</td> </tr> </tbody> </table>			Position / Job title	Average range of remuneration (GBP 000's)	Average Bonus %	<i>Front Office</i>			Graduate – Equities Sales	35-38	25-50%	Head of equities	150-250	200%+	<i>Middle Office</i>			Trade Support – Clerk	30-48	0-10%	Trade Support – Manager	55-75	20-60%	Settlements – Clerk	25-45	0-10%	Settlements – Manager	50-70	0-60%
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Office costs																	
<ul style="list-style-type: none"> Rental cost per square metre of office space <ul style="list-style-type: none"> London (West End) and London (City) were 1st and 6th respectively in the global 50 CBRE index of office costs - 1st being the most expensive, (CBRE 2008) CBRE index of office costs (2008), total current occupation cost US\$/annum: <ul style="list-style-type: none"> London (City) US\$1767 per sq. metre London (West End) US\$3224 per sq. metre Costs per sq. metre are ‘gross’ & reflect all occupancy costs 																	
<p>Total office occupancy costs \$'000 per sq. metre per annum</p> <table border="1"> <caption>Total office occupancy costs \$'000 per sq. metre per annum</caption> <thead> <tr> <th>City</th> <th>Global Rank</th> </tr> </thead> <tbody> <tr> <td>Moscow</td> <td>2nd</td> </tr> <tr> <td>London</td> <td>6th</td> </tr> <tr> <td>Singapore</td> <td>9th</td> </tr> <tr> <td>Dublin</td> <td>12th</td> </tr> <tr> <td>Madrid</td> <td>17th</td> </tr> <tr> <td>Tel Aviv</td> <td>>50th</td> </tr> <tr> <td>Istanbul</td> <td>>50th</td> </tr> </tbody> </table> <p>xxth = global rank</p> <p>London cost refers to ‘City’ prices, the West End was most expensive office space in the World = \$</p>		City	Global Rank	Moscow	2nd	London	6th	Singapore	9th	Dublin	12th	Madrid	17th	Tel Aviv	>50th	Istanbul	>50th
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Source: Michael Page Financial Services Salary Survey 2008, CBRE (2008), World Bank (2008), ONS “Annual Survey of Hours and Earnings 2008”



Regulatory Philosophy and Structure

The FSA aims to introduce a ‘more principles-based’ regulatory regime

Regulatory Philosophy

- The Financial Services Authority (FSA) takes a ‘more principles based’ approach to regulation
- It has four strategic objectives, set out in the Financial Services and Markets Act 2002:
 - Maintaining confidence in the financial system
 - Promoting public understanding of the financial system
 - Securing the appropriate degree of protection for consumers
 - Reducing the extent to which it is possible for a business to be used for a purpose connected with financial crime
- The FSA has three strategic aims:
 - Promoting efficient, orderly and fair markets
 - Helping retail consumers achieve a fair deal
 - Improving our business capability and effectiveness

Key Regulatory Bodies

- HM Treasury: Responsible for all policy on the regulation of the UK’s financial services sector
- The FSA: authorised and supervises the majority of financial institutions
- Office of Fair Trading: statutory regulator of consumer credit providers, amongst other duties
- HM Revenue and Customers: registers and monitors money service businesses
- Financial Reporting Council: an independent regulator responsible for promoting confidence in corporate reporting and governance

Regulatory Structure

FSA organisational chart

```

graph TD
    Chairman[Chairman] --> CEO[CEO]
    CEO --> GC[General Counsel]
    CEO --> SR[Strategy & Risk]
    CEO --> Com[Communications]
    CEO --> En[Enforcement]
    SR --> Ops[Operations]
    SR --> RM[Retail Markets]
    SR --> WIM[Wholesale & Institutional Markets]
    Ops --- CFSL[Cross-FSA Sector Leaders]
    RM --- CFSL
    WIM --- CFSL
    CFSL --- HR[HR & Development]
    CFSL --- HR2[Finance & Planning]
    CFSL --- HR3[Information Systems]
    CFSL --- HR4[FSA Services]
    CFSL --- PDR[Permissions, Decisions & Reporting]
    PDR --- MRG[Major Retail Groups]
    PDR --- RF[Retail Firms]
    PDR --- SFC[Small Firms & Contact]
    PDR --- RTP[Retail Policy & Themes]
    PDR --- FC[Financial Capability]
    PDR --- TCF[Treating Customers Fairly]
    PDR --- RMS[Retail Management Services]
    CFSL --- PR[Prudential Risk]
    PR --- M[Markets]
    PR --- WF[Wholesale Firms]
    PR --- WPP[Wholesale & Prudential Policy]
    PR --- FCI[Financial Crime & Intelligence]
    PR --- WMS[Wholesale Management Services]
            
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Key implications for international competitiveness

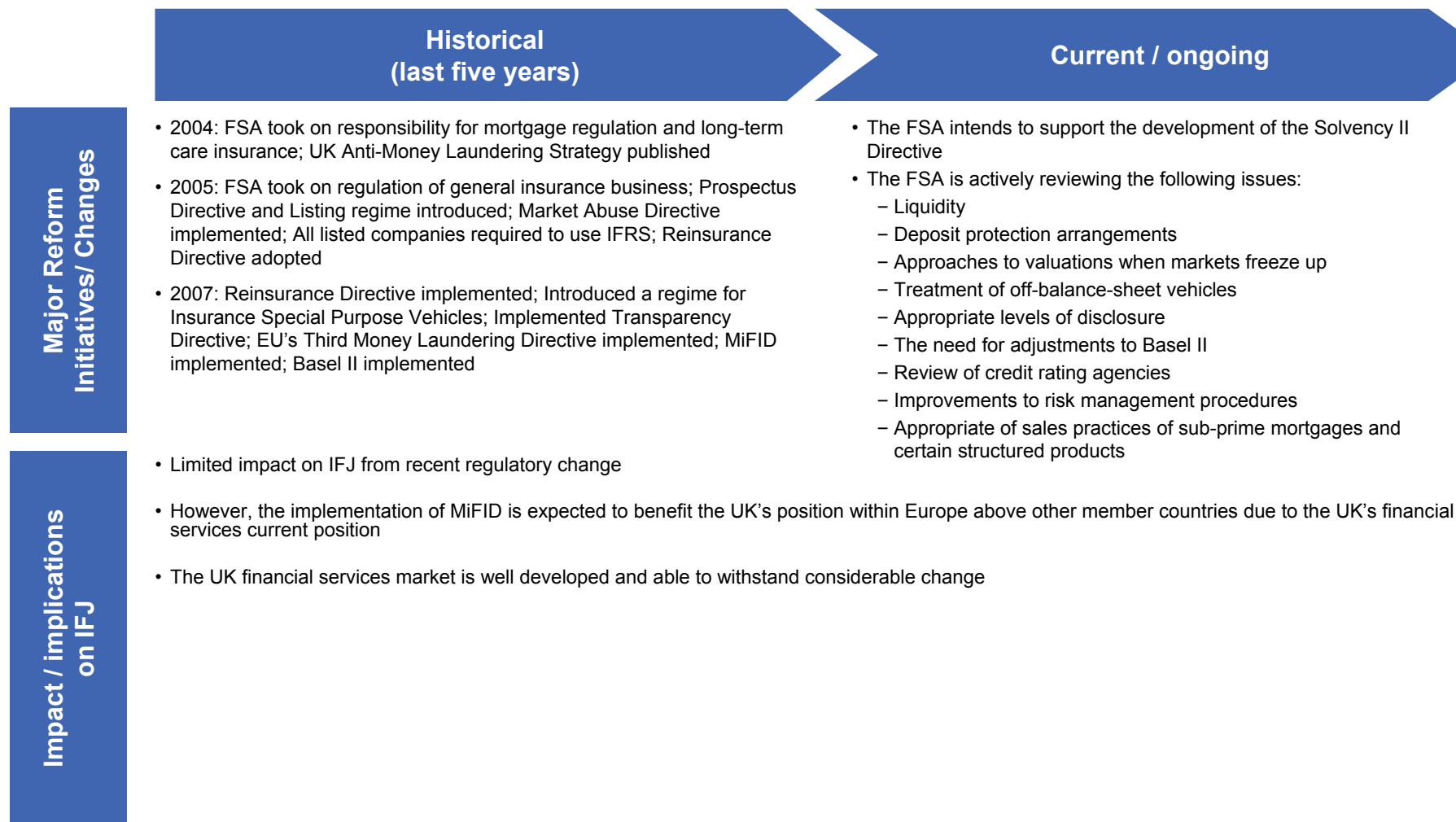
- The FSA is clearly structured and understood by the UK financial services industry
- The principles based approach is highly regarded by many financial services institutions

Source: www.fsa.gov.uk; FSA Business Plan 2008/09; Third Mutual Evaluation Report AML and CFT: UK, FATF; www.frc.org.uk; Deloitte experts



Development of Regulatory Environment

The recent global crisis will have its effects on the regulatory environment



Source: www.fsa.gov.uk; Third Mutual Evaluation Report AML and CFT: UK, FATF, June 2007; FSA Annual Reports; Strategic Business Plan 2008-9, FSA, 2008; Deloitte experts



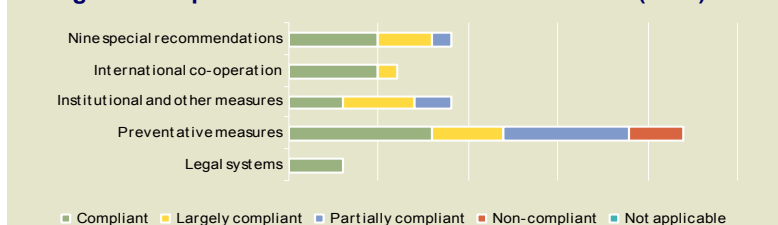
Key Aspects of Regulatory Environment (1/3)

The UK performs well in terms of international compliance and harmonisation

International Compliance (AML/CFT)

- The UK has designated a number of competent authorities to investigate and prosecute money laundering offences, with the central finance investigation unit housed within the Serious Organised Crime Agency
- “The UK has a comprehensive legal structure to combat money laundering and terrorist financing. The money laundering offence is broad, fully covering the elements of the Vienna and Palermo Conventions, and the number of prosecutions and convictions is increasing. The terrorist financing offence is also broad” – FATF, 2007

Ratings of compliance with FATF Recommendations (2007)



Key implications for international competitiveness

- Performs well against FATF standards
- Operates a strong ML and CFT structure

International standards

- The FSA published a policy statement and handbook text finalising its transposition of MiFID for FSA-regulated firms and markets in January 2007, ahead of other EU member states
- The FSA’s final rules and guidance on Basel II came into effect on 1 January 2007. From 1 January 2008, all firms affected by the Capital Requirements Directive (CRD) must have carried out an Internal Capital Adequacy Assessment Programme
- The FSA is working with the Committee of European Insurance and Occupational Pensions Supervisors in relation to Solvency II
- In line with EU legislation, all listed companies were required to use IFRS from January 2005
- The FSA is currently working with the Committee of European Securities Regulators to foster the convergence of International Financial Reporting Standards (IFRS) and US GAAP. Its aim is a consistent interpretation, application and enforcement of IFRS in the EU

Key implications for international competitiveness

- Subject to wider EU regulatory legislation and is active in shaping new rules
- At the forefront of introducing EU legislation into national law

Source: Third Mutual Evaluation Report AML and CFT: UK, FATF, June 2007; FSA Annual Reports; Strategic Business Plan 2008-9, FSA, 2008; Deloitte experts



Key Aspects of Regulatory Environment (2/3)

London is regarded as a good place to conduct business

Responsiveness to market and ease of entry
<ul style="list-style-type: none"> • The FSA developed its hand book of regulations following lengthy consultations with stakeholders and adopts a strongly consultative approach to developing regulations • The FSA authorises financial services firms for activities set out by the Financial Services Markets Act 2000. Key areas to the process include: <ul style="list-style-type: none"> – Meeting threshold conditions (legal status, location of offices, personal relationships, adequacy of resources and suitability) • Applications are reviewed by individual case officers and are granted or refused within six months of receipt of a completed application form • The structure and approach of the FSA is well understood by the local financial services industry
<p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> • Strong consultative approach incorporates industry’s views into new legislation • The FSA’s authorisation process is transparently described

Quality of regulation and consistency of approach
<ul style="list-style-type: none"> • The FSA operates a general principle that similar risks across regulated entities should, to the extent feasible, be regulated in the same way, regardless of the type of institution • It takes a risk-based approach to supervision that focuses on the risks to its statutory objectives, taking into account the seven principles of good regulation that are listed in the Financial Services and Markets Act
<div style="background-color: #E6E6E6; padding: 10px;"> <p>Regulatory Quality - 2007</p> <p>Source: "Governance Matters VII: Governance Indicators for 1996-2007 " by Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi, http://www.govindicators.org</p> </div>
<p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> • The FSA is an internationally respected regulator • However, following the collapse of Northern Rock, a UK bank, questions have been raised concerning the strength of the regulators approach

Source: UK Financial System Stability Assessment, IMF, www.fsa.gov.uk



Key Aspects of Regulatory Environment (3/3)

The collapse of Northern Rock has led to speculation over quality of staff

Quality and availability of regulatory staff

- The average number of FSA employees for 2007-8 was 2,489

FSA: permanent staff numbers			
Business Unit	2008	2007	
Retail Markets Business Unit	750	773	
Wholesale & Institutional Markets Business Unit	555	572	
Regulatory Services Business Unit	734	795	
Corporate Services and Board (exc. Enforcement)	252	273	
Enforcement	198	246	
Total:	2,489	2,659	

- The FSA was listed in *The Times Top 100 Graduate Employers* for the first time in 2006

Key implications for international competitiveness

- The FSA is generally well staffed, however concerns have been raised for a number of years about the quality of junior staff
- Following the collapse of Northern Rock, questions were raised about the depth of knowledge held by key supervisors

Independence / legal position of regulator

- The Financial Services Authority (FSA) is an independent non-governmental body, given statutory powers under the Financial Services and Markets Act 2000
- It is a company limited by guarantee and financed by the financial services industry
- The Treasury appoints the FSA Board, and the FSA is accountable to Treasury Ministers and, through them, to Parliament. However, operationally, it is independent from the Treasury
- “As the independent regulator of financial services, it is vital that the FSA is fully accountable in order to maintain confidence in financial services. Setting up a single financial regulator has great advantages for business and for consumers. The FSA is independent of government, but it is important that the FSA and its Board can be called to account by both the Government and Parliament, and fully recognises the interests of all its stakeholders” – Gordon Brown

Key implications for international competitiveness

- The FSA is an independent legal entity whose objectives are set by statute
- It’s performance is reviewed by external bodies
- The separation of chairman and CEO responsibilities is in line with international best practice

Source: www.fsa.gov.uk; FSA Annual Report 2006-7; The Competitive Position of London as a Global Financial Centre, Corporation of London, November 2005; Deloitte experts



International Market Confidence in Regulatory Environment

London has a strong reputation in the international market

International market confidence													
<p>IMF</p> <ul style="list-style-type: none"> • “The introduction of a risk-based approach to determining capital adequacy has helped to increase awareness by insurers of the risks associated with the products they offer” • “Risks to the UK financial system are thoroughly and systematically reviewed in reports by the BOE and the FSA” • “The framework of tripartite co-operation among the Bank of England, Financial Services Authority and HM Treasury remains appropriate” (2008) <p>FATF</p> <ul style="list-style-type: none"> • “The UK is committed to identifying and interdicting the flow of illicit funds across and within its borders; and to the disruption and dismantling of the money laundering and terrorist finance networks that move such funds” 	<p>General</p> <ul style="list-style-type: none"> • “The FSA listens to and understands our concern. In the USA, regulators develop rules and expect you to stick to them” – Head of Equity Operations, Major USA Investment bank • “The UK has the highest quality regulator...it’s the most sophisticated. Financial Services companies want to look for a credible counter party. London provides a strong regime whilst not being paralyzing” – Regional compliance Officer (Singapore), Large Investment Manager <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p>Risk assessment</p> <table border="1"> <thead> <tr> <th>Sovereign risk</th> <th>Currency risk</th> <th>Banking sector risk</th> <th>Political risk</th> <th>Economic structure risk</th> <th>Country risk</th> </tr> </thead> <tbody> <tr> <td>AA</td> <td>A</td> <td>A</td> <td>AAA</td> <td>AA</td> <td>A</td> </tr> </tbody> </table> </div> <p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> • The UK is considered to have an appropriate light touch approach to regulation that supports its financial services market 	Sovereign risk	Currency risk	Banking sector risk	Political risk	Economic structure risk	Country risk	AA	A	A	AAA	AA	A
Sovereign risk	Currency risk	Banking sector risk	Political risk	Economic structure risk	Country risk								
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Source: UK: Country Risk Service, EIU, March 2008; The Competitive Position of London as a Global Financial Centre, Corporation of London, November 2005; Article IV Consultation - Staff report, IMF, March 2007; Third Mutual Evaluation Report AML and CFT: UK, FATF, June 2007; Deloitte experts; Deloitte interviews

Contents

Comparative study profiles:

- London

- **Moscow**

- Dublin

- Madrid

- Israel

- Singapore

- Istanbul



Moscow as a Financial Centre

Russia has a GDP of \$1.6 trillion and a substantial financial services market

Background & history

- Russia is an undisputed economic and financial leader within former USSR territory. In many major transactions, a Russian Ruble was and is a currency for settlements within CIS countries. All that jointly shall give a chance for Moscow to be a local international financial center within former USSR and partly in East Europe territory.
- Russia has possibilities to turn itself into international financial center. But its successes in this area are lesser than moderate. Due to start delayed, and, in many matters, many necessary reforms and reformatations launched in 90th have not been completed in full, and some of these have not been taken at .
- Russia has to come a long way towards development level of international financial centers in other countries

Capital Markets

- There are two major stock exchanges in Russia: the Russian Trading System (RTS) and the Moscow Interbank Currency Exchange (MICEX).
- The MICEX is the largest stock exchange, accounting for three-quarters of all exchange-based equity trading, and it dominates trading of foreign currency and bonds.
- According to data from MICEX, the combined market capitalization of Russia only listings increased 16% in 2007
- A third important exchange is the Moscow Stock Exchange, which specialises in trading shares of Gazprom, the national gas company.
- There are also several regional stock exchanges, though trading volumes on them are very low. The most significant are the St Petersburg Stock and Currency Exchanges

Strategy and product focus

- The MICEX Stock Exchange is among the world's 20 leading stock exchanges
- In April 2008, 11,855 Bn rubles (\$504.2 Bn) worth of transactions were made in all of the MICEX Group's markets, 21.2% more than in March and 84.6% more than in April 2007.
- The attractiveness of the MICEX markets improved considerably as a result of the launch of new products and services.
- The MICEX focuses its efforts on developing the financial market, improving the mechanisms of attracting capital on the financial market and increasing the possibilities of participants in the financial market to manage their assets.

Current Situation and Progress

- Prime Minister Vladimir Putin last month requested parliamentary approval for \$550 Bn (280 Bn pounds) in infrastructure spending between 2010-2015 and the Kremlin plans to spend at least double that figure by 2020.
- A draft law on infrastructural bonds will be deemed important for development of international market of debt securities.



Financial Services Market

Financial services

Overview of domestic economy

GDP by sector, 2007

Sector	% of GDP
Agriculture	4.1%
Industry	41.1%
Services	54.8%

- GDP of Russia is \$1,671Bn (2008)
 - GDP per capita (PPP) is \$15,790 (2008)
 - Real GDP growth has been 5.6% for 2008
 - The current account surplus is \$98.9 Bn in 2008.
 - Strong economic growth in recent years has been mainly driven by high prices of energy resources

Financial services market work force

- There is substantial potential for repatriation of skilled Russians living overseas, with large Russian communities based in London, the US and Israel, many of whom are employed in financial services and law etc.
- A substantial community of repatriate Russians now exists in Moscow, mostly from the US and Israel, working in financial services, international business etc, e.g. Russia's biggest investment bank, Renaissance Capital, was set up by a repatriated Russian from the US

Financial services market size

Sector	2007
Banking sector assets	61.4% (of GDP)
Total lending by financial sector	39.25% (of GDP)
Domestic equity market capitalisation	85.27 % (of GDP)
Pension-funds' assets	1.43 % (of GDP)
Mutual-funds' assets	2.31 % (of GDP)
Factoring company assets	1.79 % (of GDP)
Venture-capital and private equity financing	0.39 % (of GDP)
Insurance company premiums	2.35 % (of GDP)

Financial services market growth and structure

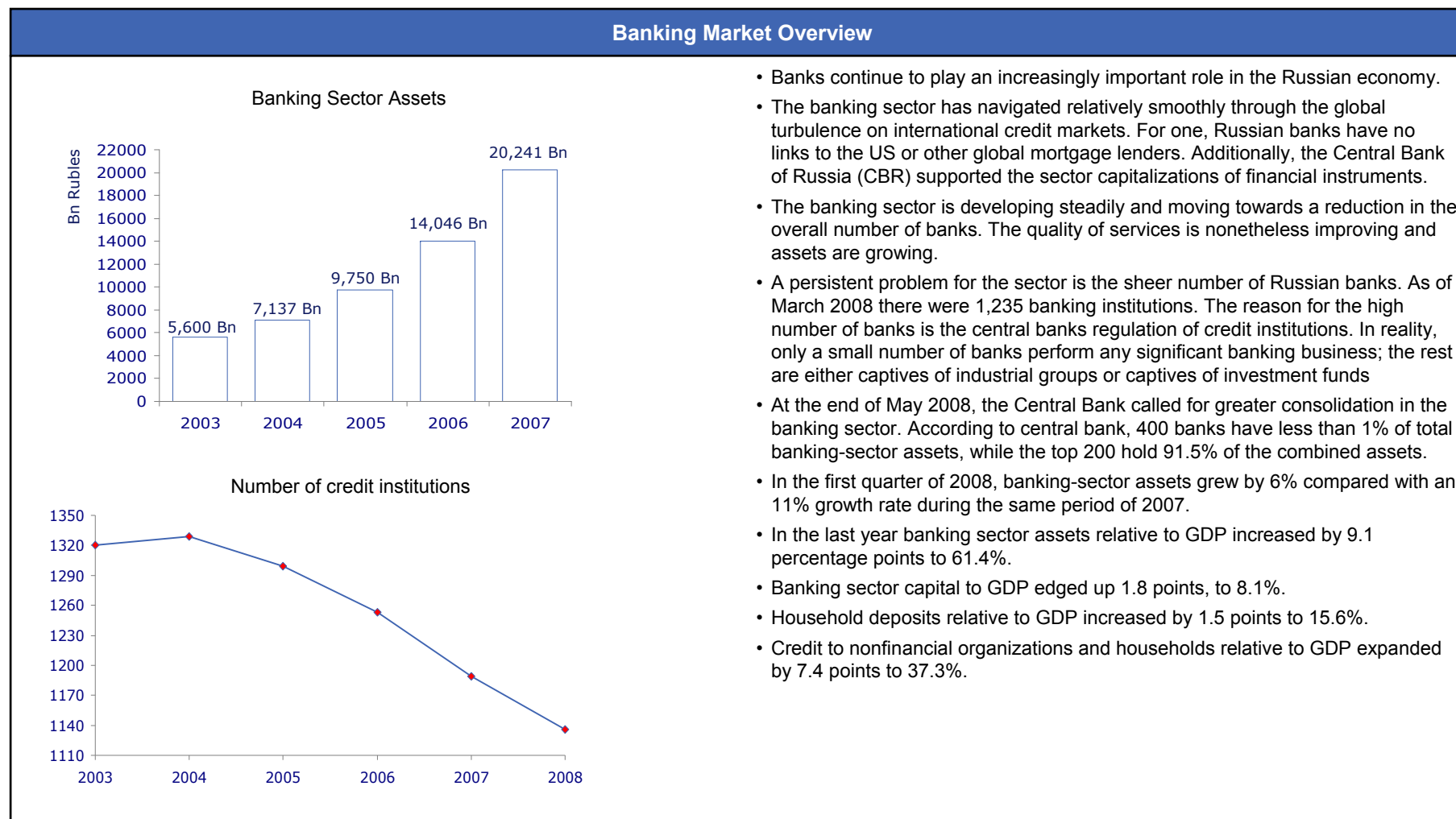
- There are 1,235 banking institutions, 857 insurance companies, 261 non-government pension funds and 360 unit investment funds in Russia
- The pace of growth of banking-sector assets decelerated year-on-year to 44% in 2007, from 57% in 2006, impeded by the slowdown in international credit markets.
- According to central-bank data, assets amounted to Rb20.24trn at the end of 2007, up from Rb14.05trn at the end of 2006. While the banking sector is growing much faster than the economy as a whole, the pace of growth is decreasing:
- Although the Russian insurance market is well behind that of Central and Eastern Europe in terms of its development and product penetration, it has considerable potential for growth, especially in the area of life insurance

Sources: Economist Intelligence Unit, Country Report, Country Profile, Country Finance and The Central Bank of The Russian Federation; Banking Supervision Report



Russia Banking Market

Significant improvements were seen among key indicators reflecting the role of the banking sector in the economy



Sources: Economist Intelligence Unit, Country Report, Country Profile, Country Finance and The Central Bank of The Russian Federation



Russia Equity Market and Fixed Income Market

The Russian equity markets grew at a slower pace in 2008

Equity Market Overview

- The Russian equity markets grew at a slower pace in 2007 than in previous years, with the country's benchmark RTS index rising 19.2% to 2,291 points.
- Domestic equity market capitalization was 85.27% of GDP in 2007.
- In 2007 capital raised by initial public offerings reached 2.39% of GDP.
- Although the pace of initial public offerings (IPOs) slowed in late 2007 and the early months of 2008.
- UralSib bank in Moscow estimate the equity issuance of the 30 companies could total around US\$40bn. Dresdner Kleinworts estimate of those offerings was more conservative, at around US\$30bn by the end of 2008.
- Equity-market participants are generally either large foreign investment banks, domestic investment banks with brokerages, smaller regional brokerage firms or Internet brokerages.
- Internet brokerages have begun to outstrip the traditional companies in terms of sheer trading volume. In 2007, the top five brokerage firms (by turnover) were Finam, Brokreditsevis, Troika Dialog, Broker Dorn Otkrytiye and Alor-Invest. Total turnover of all brokerage firms was slightly above US\$1trn in 2007, according to RosBusinessConsulting (RBC).
- Most major foreign investment banks have at least a minor presence in Russia and offer brokerage and underwriting services. These include ABN Amro (Netherlands), Brunswick UBS Warburg (Switzerland), Credit Suisse First Boston (Switzerland), Goldman Sachs (US), ING Barings (Netherlands), Merrill Lynch (US) and Morgan Stanley (US)

Fixed Income Market Overview

The government bonds market:

- There are two major types of government bonds: GKO, which are zero-coupon bonds with a maturity of less than one year; and OFZs, which have quarterly or semi-annual coupons and maturities of more than a year.
- The majority of government bonds in circulation are OFZs. The main buyers of GKO and OFZs are Russian banks, with domestic institutional investors accounting for the remainder
- Despite their low yields, banks buy the instruments as a means of managing excessive Rouble liquidity. By far the largest buyer of GKO and OFZs is the state savings bank, Sberbank.
- The Central Bank of Russia organizes monthly auctions of GKO and OFZs. Only licensed participants can trade directly. Other investors must buy the bonds on the secondary market.
- In addition to GKO and OFZs, there are also bonds issued by regional and municipal governments.

The corporate bonds market:

- Energy companies were the first Russian borrowers to lure foreign investors back after the government defaulted on US\$40bn of domestic debt in 1998. Rosneft, the state-controlled oil company, was in 2001 the first firm to sell securities to international investors.
- In 2007, the size of the domestic bond market reached about US\$15.3bn and the total volume of external bond market reached US\$45bn.
- One of the attractions for investors in Russian bonds is the steadily improving ratings story, for both state-owned companies and those in the private sector, as issuers anxiously await news of each one-notch upgrade.
- The market is regulated by the Federal Financial Markets Service and, in the case of bonds issued by banks, the Central Bank of Russia



Russia Insurance Market

Insurance market is being reshaped by regulations

General and Life Insurance Market Overview

- The insurance market in particular is being reshaped by tax legislation aimed at eliminating schemes that have developed solely as a means of avoiding taxes
- At the end of 2007, Russia had 857 insurance companies, according to the Federal Service on Insurance Supervision. A significant number of insurance companies goes out of business every year: in 2007 the authorities removed operating licences from 114; about two-thirds of these firms failed to raise their capital to the necessary levels.
- Russia's insurance market is fairly concentrated: the top 50 insurance companies collect about 70% of all premiums.
- The value of insurance premiums increased 27.1% to 767 billion rubles, and indemnities by 36.6% to 481.9 billion rubles.
- Total assets in the insurance sector amounted to around Rb750bn in July 2007.
- The insurance industry is split into two main categories: life and non-life. Life insurance has traditionally been the most popular form of voluntary insurance, in part because of its use in schemes to lower employers taxes.
- Rather than providing insurance, many Russian insurance companies earned commissions of around 10% from companies seeking to avoid payroll-tax payments, such as those to the Russian pension fund, by channeling money to their employees through false policies. This practice had the additional benefit of allowing the enterprises' employees to avoid paying taxes on their income.
- Under insurance-law amendments passed at the end of 2003, foreign insurers can now invest in the Russian insurance market without significant restrictions.
- Non-EU-based insurers must open a subsidiary that in turn opens another uniting Russia; EU companies need only open a Russian subsidiary.

Top insurance companies ranked by premiums (2007)

Company	Premiums (Rb m)	Market share %
Ingosstrakh	35,095	4.60
Reso-Garantia	31,927	4.18
Sogaz	29,618	3.88
Rosno	23,085	3.02
Voyenno-Strakhovaya Kompania	17,656	2.31
Rossgosstrakh-Stolitsa	11,848	1.55
Soglasiye	10,703	1.40
Total market	763,600	100.00

Source: EIU 2008, Country Finance



Russia Asset Management Market

Asset management market is developing rapidly

Asset Management Market Overview

- According to investfunds.ru, there were about 500 different kinds of asset management companies in early 2008. Most of these were established in the past few years.
- The top ten companies had a total market share of about two thirds and managed about 100 funds.
- Along with the Russian stock market, the number of domestically oriented asset management firms has been growing rapidly over the last few years.
- These companies are regulated by the Federal Financial Markets Service (FFMS) and are subject to the Law on Investment Funds. In general, they manage non-state pension funds and mutual funds.
- New types of funds such as indexed funds, venture investment funds and real estate funds have appeared since 2003 and are now being sold to retail clients, but are not well known. Some asset managers have started investing in more exotic asset classes than equities and fixed income, with real estate an area of particular interest.

Top asset management firms (March 2008)

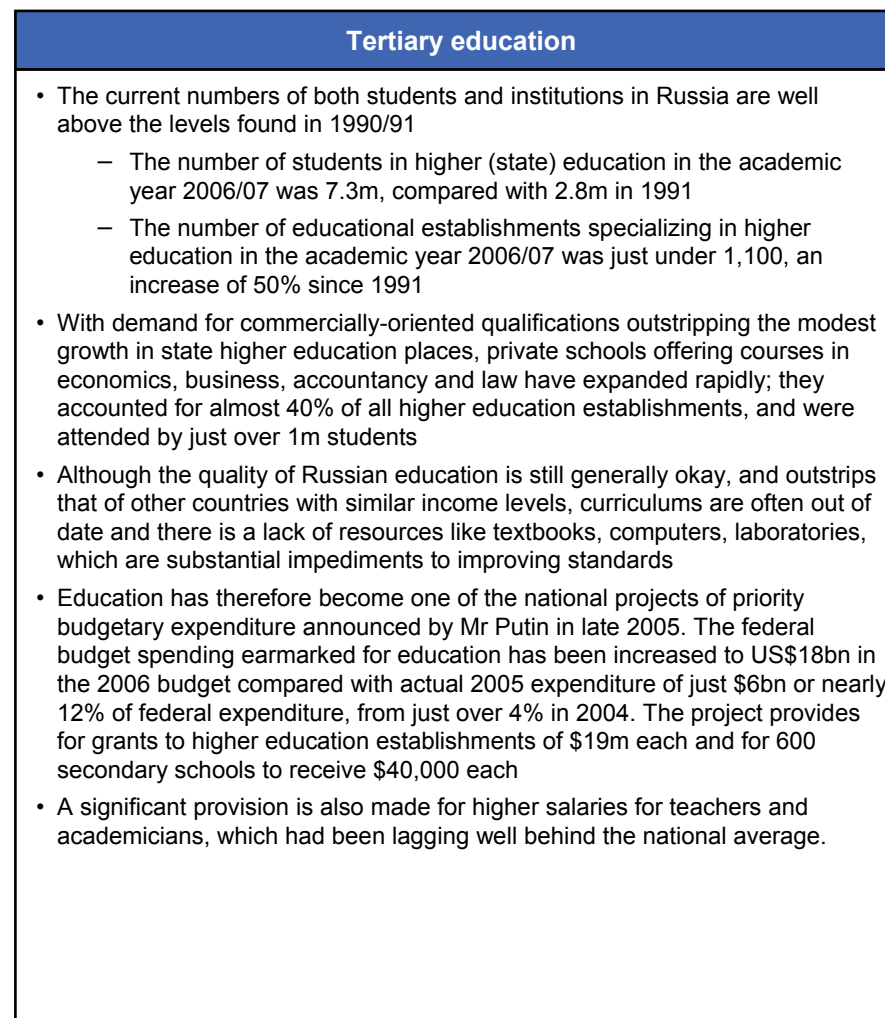
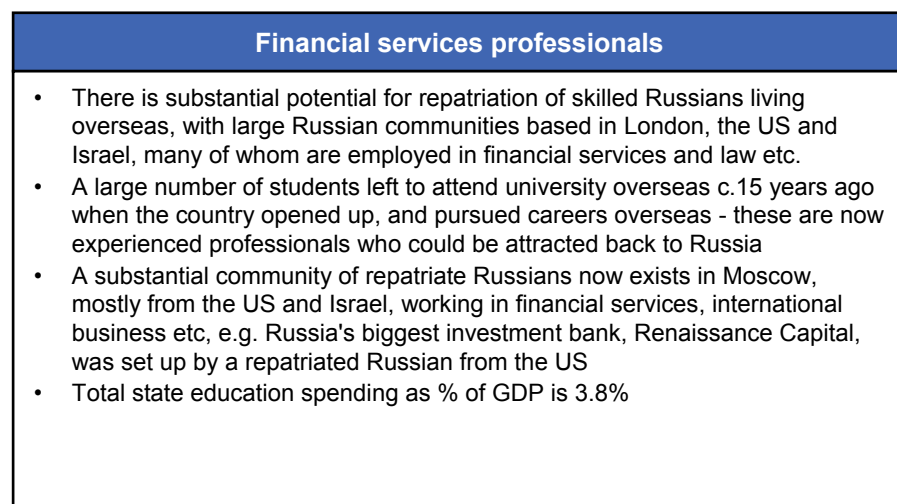
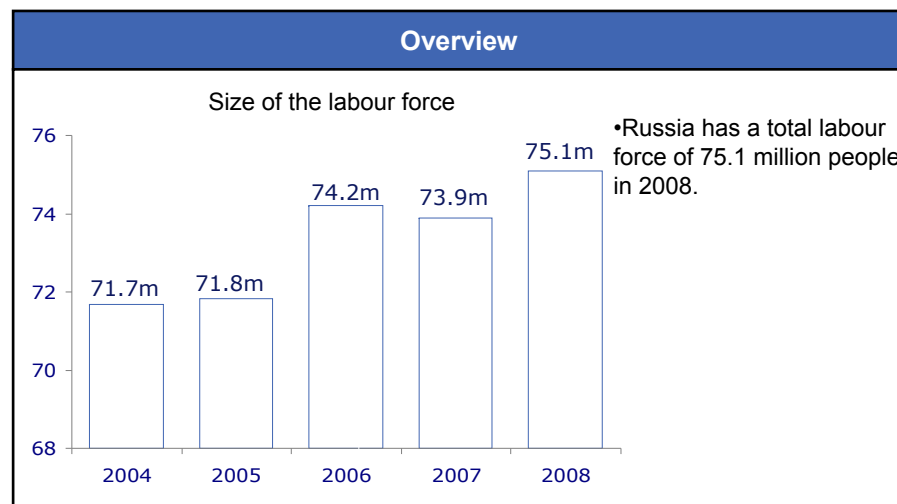
Company	Net Asset Value (US\$ bn)	Market share %
Troika Dialog	1,071.0	15.46
UralSib	837.1	12.08
Alfa Capital	721.3	10.41
Bank of Moscow Asset Management Company	432.0	6.24
Rosbank Asset Management Company	332.0	4.79
KIT Fortis Investment Management	308.1	4.45
UFG Invest	288.9	4.17
Total market	6,927.6	100.00

Source: EIU 2008, Country Finance, www.investfunds.ru



Skilled Labour Pool

Russia has a large labour force and education is a priority of the current government

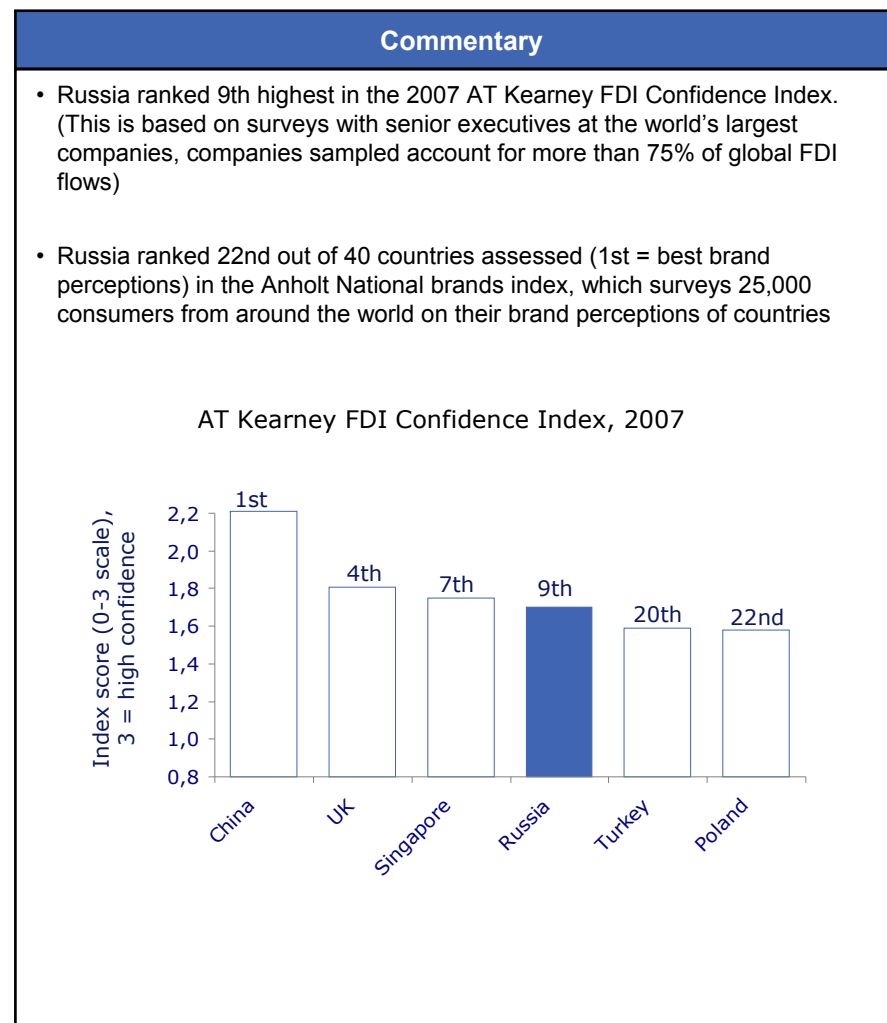
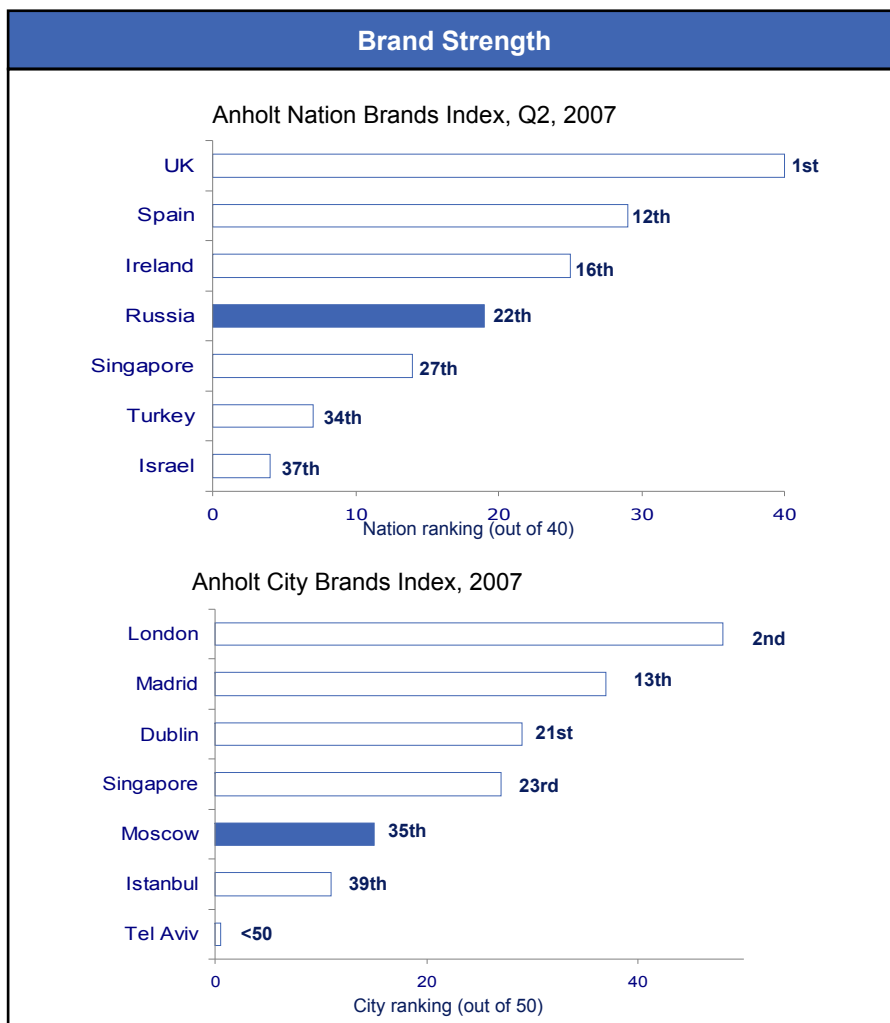


Source: EIU 2008, Country Profile, Russia's Ministry of Education



Image & Perceptions

Russia's image is influenced by perceptions of corruption but FDI confidence is high



Source: AT Kearney FDI Confidence Survey (2007), Anholt "Nation Brands Index 2007", Anholt "City Brands Index 2007"



Political and Economic Stability

Russia is moving towards a more stable political and economic environment

System of government	
Form of govt.	Federal state with a republican government
Parliamentary system	Two-chamber legislature: the lower house (the State Duma); and the upper house, (the Federation Council)
Electoral system	Universal direct suffrage over age 18. The seats in the Duma are to be elected from party lists on a proportional basis. The Federation Council members are chosen by regional governors and legislative bodies.

- Russia's political system, though based on democratic principles "elections are free, if not always fair, and Russians can speak and travel freely", is influenced by authoritarianism "the state controls the nationwide mass media" (EIU)

Political landscape
<ul style="list-style-type: none"> The Russian Federation, composed of 88 federal subjects, is a presidential system with a bicameral parliament Vladimir Putin has consolidated power in the Kremlin, at the expense of parliament, political parties and regional administrations. He is expected to step down in 2008. His successor is likely to come from a small circle of loyal officials, and no sharp shift in policies is expected under the next president. Overall stability is unlikely to be seriously threatened The lack of accountability in politics and the absence of an independent judiciary means that property rights still ultimately depend on the will of the Kremlin and on the power of local administrations. This, together with widespread corruption and bureaucratic interference, stifles investment, risk-taking and entrepreneurship

Economic policy
<ul style="list-style-type: none"> All Russian governments since 1992 have pursued macroeconomic policies for bringing price liberalisation, macroeconomic stabilisation and integration with the world economy. However, successive governments have equally shied away from micro-level structural reforms for fear of their social and political consequences. This behaviour was one of the chief causes of the 1998 financial collapse Russia's growing dependence on hydrocarbons exports goes hand-in-hand with an increasing concentration of wealth and tight links between big business and the state bureaucracy. The authorities plan to set up a national development bank and to liberalize domestic energy prices more rapidly The government's 2007 budget plans imply a fiscal loosening. It will begin to operate on the basis of a three-year budget beginning in 2008 which will help to improve budget planning

Economic stability
<ul style="list-style-type: none"> Since the economic collapse in 1998, many sectors of the economy have boomed. The result of this, combined with high international oil prices was average real GDP growth of 4.3% per year in 2004-2008

Historical & forecast Russia inflation & interest rates (EIU)

Year	Inflation rate (average) (%)	Interest rates (average) (%)
2002	16.0	16.0
2003	13.5	13.0
2004	11.0	11.0
2005	12.5	10.5
2006	10.0	10.0
2007	9.0	9.5
2008	14.0	12.0

EIU Country Risk Ratings, 2008

Sovereign risk	BBB
Banking sector risk	BB
Economic Structure risk	BB
Political Risk	B
Currency Risk	BB

Source: EIU (2008)



Infrastructure

Russia has mediocre transport links and rapidly improving telecoms infrastructure

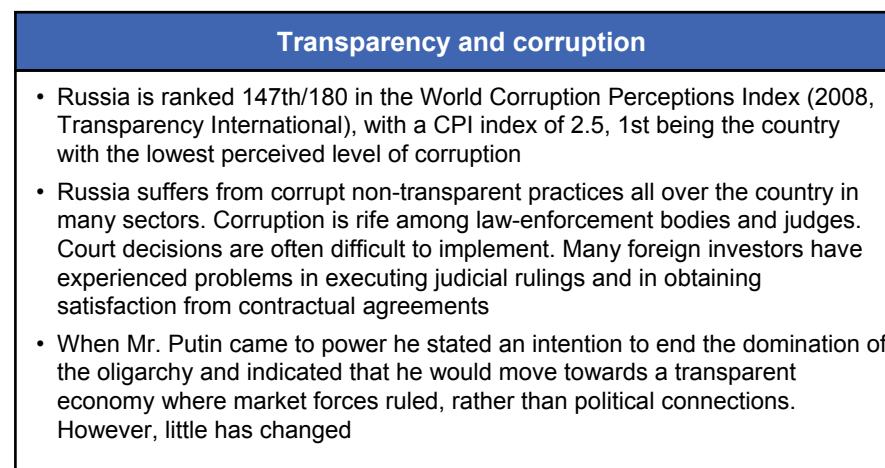
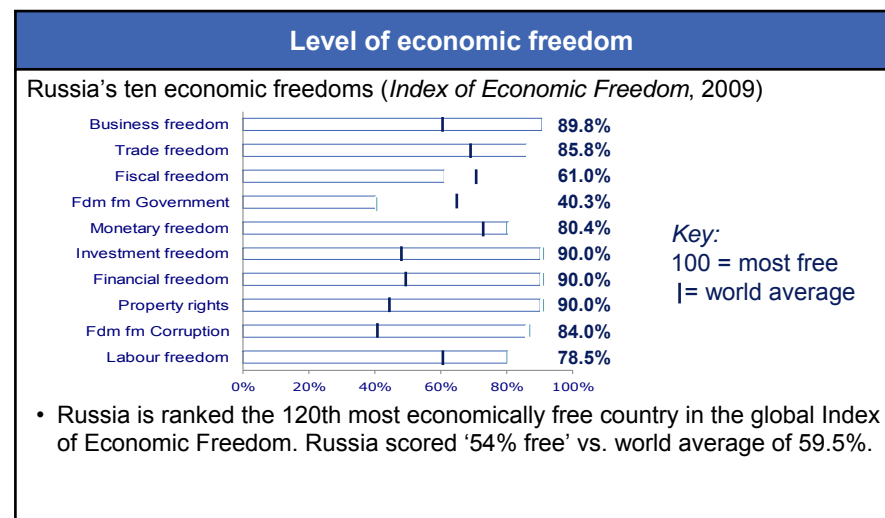
Transport	Telecoms & IT
<ul style="list-style-type: none"> • Russia scores relatively poorly on key air infrastructure measures in the World Travel & Tourism index ranking, with a ranking of 79th/133 for level of international network and 88th/133 for quality of air infrastructure. Moscow is relatively isolated geographically • Russia's transport infrastructure has been suffering from relative neglect over the past two decades • Moscow is served by two airports: • Sheremetyevo - the old international airport has an outdated infrastructure, 35kms from city (journey time 30-40 mins) • Domodedovo - was upgraded to international standards 10 years ago, and is used by BA and increasingly by other international airlines. This airport is growing and has room to expand, being on the outskirts of the city. Good train links to city centre (45mins), where current financial district is located • Flight times: London 4hrs, Frankfurt 3.5hrs, New York 9hrs • Although the air transportation sector has been recovering slowly over the past few years, it is still in need of modernisation. Around 50% of Russia's civil aircraft were over 15 years old in 2000, and the upgrading process is moving very slowly • Time zone GMT+3, 8 hours ahead of New York, 4 behind Hong Kong • The government has embarked on 'The City' project, creating a new business district (the current business district is in/around Red Square in the city centre) • Moscow has an extensive and well-functioning metro system. Traffic congestion is increasingly a problem. Urban modes of transport (trolleybuses, trams and metro) accounted for over 48% of all passengers, compared with 42% in 1992 • There is a shortage of good, international quality office space and business and luxury hotel accommodation 	<ul style="list-style-type: none"> • Russia's information communication technology infrastructure is relatively developed • Russia ranked 50th/133 for Information Communication Technology infrastructure in WEF World Travel & Tourism index rankings, 2009 • The market penetration of key technologies has grown rapidly over the past 10 years • Demand for connections has risen rapidly, despite the post-communist slump in production and income. The number of private fixed-line telephones rose by more than 50% during the 1990s • Moscow boasts the highest density of fixed lines in the country, with 97% of Muscovites having a telephone at home, compared with only 43% in the rest of the country • The Russian Federation, which is the biggest wireless telecom market in Europe, will have 188.5 million subscribers by 2010, according to a research by Wireless Federation. • Internet usage is estimated to have grown from around 4m in 2000 to 38m in 2008 • Usage of all telecommunications technology is heavily concentrated in Moscow and St. Petersburg • Access to digital lines has improved, particularly in urban centres. However, in rural areas the telephone services are still outdated, inadequate, and of low density • It is estimated that up to US\$40bn needs to be invested in the telecoms network over the next decade to remedy past deficiencies and meet new subscriber needs

Source: WEF (2009), EIU



Ease of Doing Business

The World Bank ranks Russia the 120th easiest country to do business in



Source: World Bank (2008), Transparency International, WEF (2009)



Lifestyle

Moscow is the most expensive city to live in in the world

Overview
<ul style="list-style-type: none"> • Moscow is central to Russia's economy; it is home to the country's government and the financial infrastructure, along with numerous head offices of the big oil and gas companies • Moscow has a total population of 10.5 million people • Historically, Moscow benefited from its strategic location on the Baltic-Volga-Caspian trade route • Russia has a rich legacy including eight World Heritage Sites such as Solovetsky Islands, White Monuments of Vladimir and Suzdal, Virgin Komi Forests and Kizhi Pogost

Amenities
<ul style="list-style-type: none"> • Education in Russia is compulsory and free of charge, at least officially, although bribing has become the means to pass the exams in universities • Chronic underfunding has led to an erosion of the high standards in the post-Soviet educational system in Russia • Russian public healthcare has been chronically under funded and has now become a national priority area announced in 2005. The national priority project for healthcare involves an increase of 84.5% in federal budget expenditure in 2006, with more promised over the next two years • Crime of all kinds is high in Russia, particularly in the larger cities. Most foreign investors are likely to run into Russian organised crime only peripherally in Moscow, but the days of criminals demanding protection money are mostly over

Leisure
<ul style="list-style-type: none"> • Moscow is home to Kremlin, Red Square, St Basil's Cathedral, Novodevichy Monastery, and cultural centers such as Pushkin Museum of Fine Arts and Tretyakov Gallery • The former Soviet Union took great pride in its cultural institutions and these were often of the very highest calibre. A number of these are based in Moscow, notably the Bolshoi Ballet & Opera Company and the Moscow Circus • Moscow has a vibrant night life with numerous high scale restaurants and night clubs which are mostly catered towards the high-spending Russian families and foreigners • Moscow hosted the Olympic Games in the summer of 1980 and as a result has a number of good sporting venues, although the 100,000-seat Lenin Stadium is now a giant flea market

Cost of living																								
<p>Cities with the highest cost of living index, 2008</p> <table border="1"> <caption>Cities with the highest cost of living index, 2008</caption> <thead> <tr> <th>City</th> <th>Rank</th> <th>COL Index (approx.)</th> </tr> </thead> <tbody> <tr> <td>Moscow</td> <td>1st</td> <td>145</td> </tr> <tr> <td>London</td> <td>3rd</td> <td>125</td> </tr> <tr> <td>Singapore</td> <td>13th</td> <td>110</td> </tr> <tr> <td>Tel Aviv</td> <td>14th</td> <td>105</td> </tr> <tr> <td>Dublin</td> <td>16th</td> <td>100</td> </tr> <tr> <td>Istanbul</td> <td>23rd</td> <td>95</td> </tr> <tr> <td>Madrid</td> <td>28th</td> <td>90</td> </tr> </tbody> </table>	City	Rank	COL Index (approx.)	Moscow	1st	145	London	3rd	125	Singapore	13th	110	Tel Aviv	14th	105	Dublin	16th	100	Istanbul	23rd	95	Madrid	28th	90
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Source: WEF Travel and Tourism index (2009), Mercer Global cost of living index (2007), PwC UK Economic Outlook (2007)



Russia Taxation System Overview

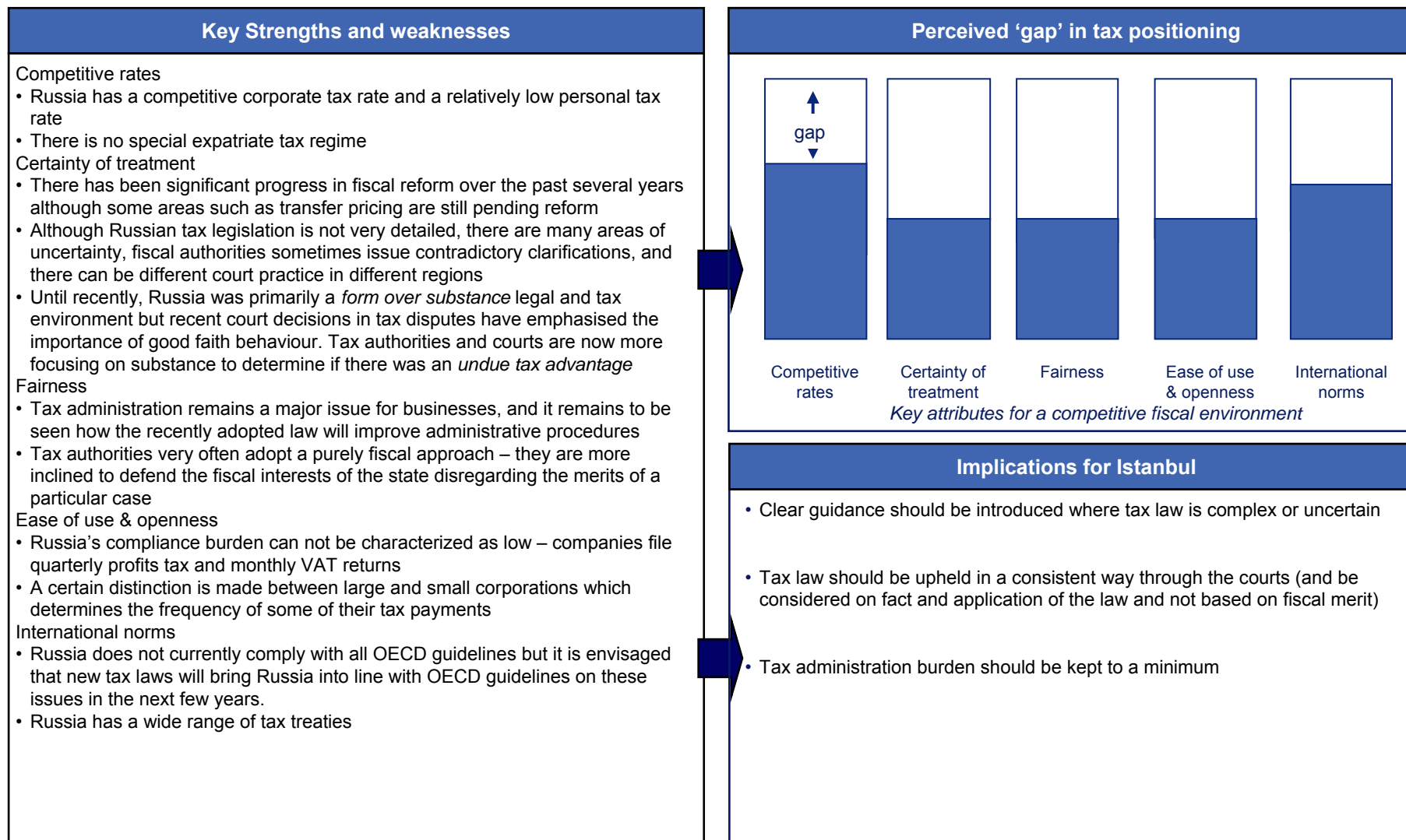
The tax system in Russia is developing but is still too fiscal

Rates	Compliance and Administration
<p>Corporation Tax</p> <ul style="list-style-type: none"> As from January 1, 2009 the main tax rate on taxable profits is 20% Russian legal entities are taxed on worldwide income All expenses (subject to certain specific exceptions) are deductible providing that they are economically justifiable, aimed at generation of income and supported by relevant documentation Capital gains on the sale of capital assets are considered ordinary income and are taxed at the standard rate Capital gains from the sale of securities are generally treated as a separate category of income Offsetting losses against taxable profits is generally allowed and carry forward of losses is possible for up to 10 years <p>Personal Tax</p> <ul style="list-style-type: none"> Flat rate of 13% for residents on most types of worldwide income Different rates apply for certain types of income received by residents (9% on dividends, 35% on imputed interest on beneficial loans, etc) Flat rate of 30% for non-residents on Russian-source income <p>Withholding Tax</p> <ul style="list-style-type: none"> 15% on dividends, 20% on interest (0%, 9% for certain types of securities), royalties and other types of passive income. 24% on sale of Russian real estate and certain shares (but deductions possible for allowable expenses, if not – the rate is 20% on gross income) <p>VAT</p> <ul style="list-style-type: none"> Standard rate of 18% charged on sales of most goods and services Some reduced rates/exemptions apply <p>Other</p> <ul style="list-style-type: none"> Employers unified social tax (a payroll tax levied on all) 	<p>Compliance and Administration</p> <ul style="list-style-type: none"> The tax year is the calendar year Profits tax is calculated on either a monthly or quarterly basis <ul style="list-style-type: none"> If monthly, payment is due (and interim return is filed) 28 days after month end based on actual profits If quarterly, an advance monthly payment is due based on the tax base calculation for previous periods and quarter's advance payment is paid (and interim returns are filed) in 28 days following the 1st quarter, mid-year, and nine months reporting periods High VAT compliance costs – often VAT refunds granted only by court orders <p>International Aspects</p> <ul style="list-style-type: none"> Russia is party to more than 70 tax treaties Russia does not currently comply with all OECD guidelines but new legislation to bring Russia closer to OECD-style transfer-pricing rules is expected within the next few years Transfer pricing has become a significant concern and it has been difficult to apply existing legislation in practice because the burden of proof is on the tax authorities and information on market prices has been difficult to collect Russia has some general anti-avoidance tax provisions, but does not currently have specific anti-avoidance rules Russia does not currently have Controlled Foreign Corporation (CFC) legislation Income of foreign branches is not taxable in Russia, but dividends from foreign subsidiaries are taxable

Sources: Deloitte Tax Russia; Deloitte Russia International Tax and business guide; IBFD Russia country guide; 'Paying Taxes - the global picture' - World Bank/PWC report, OECD



Strengths, Weaknesses and Implications





Availability of Professional Services

Professional services are fairly developed and Moscow houses many international firms

Overview	Lawyers
<ul style="list-style-type: none"> • The 'big-four' have a substantial presence in Russia (& the CIS), employing a combined total of 13,400 people. 	<p>Lawyers</p> <ul style="list-style-type: none"> • 25 of the top 100 global law firms have a presence in Russia, employing a combined total of 546 lawyers. Examples include: <ul style="list-style-type: none"> – Baker & McKenzie – Clifford Chance – Allen & Overy – Linklaters – Lovells – Norton Rose – Freshfields Brukhaus Deringer
Accountants	Consultants
<ul style="list-style-type: none"> • Russia has nearly 37,000 Certified or Chartered Accountants • There are approximately 300 audit/accounting firms in Russia • There are two main accounting professional associations in Russia: <ul style="list-style-type: none"> – Russian Collegium of Auditors – The Institute of Professional Accountants of Russia 	<p>Consultancy</p> <ul style="list-style-type: none"> • There is a substantial presence of international consultancy firms in Russia.

Source: Taylor and Francis 2004, EIU Country reports 2006, 'big-four' websites,



Cost of Doing Business

Moscow's office costs are among the highest in the world

Labour costs

- Multinationals continue to expand their operations in Russia rapidly, with the inherent challenges that this brings. Competition for trained resources is intense, and both base and variable, pay is rising fast
- From the research of PwC, Russian banks salary levels are about the same as the foreign banks. Below figure shows the foreign bank levels value as 100 constant, comparing the Russian banks

Russian Bank Salary Levels, indexed

Role	Foreign Bank Level (Value of 100)	Russian Bank Level (Indexed)
Deputy Chairman/Board Member	100	~125
Head of Division	100	~110
Head of Unit	100	~90
Senior Specialist	100	~85
Specialist	100	~90

- Average blue chip & professional services new graduate salaries in Moscow are \$12,000-\$14,500 per annum
- Banks will pay slightly more because of bonuses - annual salaries will be between \$18,000 and \$24,000 at the high end

Office costs

- Moscow has the 6th highest average office costs globally, with total occupation costs per square meter per annum at \$2,501. Supply being delivered to the market is still said to be failing to meet demand and rates are expected to continue to rise
- The vacancy rate for office space in Moscow is 4.4%, with the vacancy for top quality grade A office space even lower at 2%
- Recent press reports indicate corruption can add 10-15% to the cost of contracts, transport value, etc.

Total office occupancy costs \$'000 per sq. metre per annum

City	Global Rank	Cost (\$'000 per sq. metre per annum)
Moscow	2nd	~2.5
London City	6th	~1.8
Singapore	9th	~1.5
Dublin	12th	~1.4
Madrid	17th	~1.1
Tel Aviv	>50th	~0.7
Istanbul	>50th	~0.6

Source: CBRE Index 2008, Deloitte Russia, Herald Tribune



Regulatory Philosophy and Structure

Moscow’s regulatory environment may hinder Moscow’s competitiveness

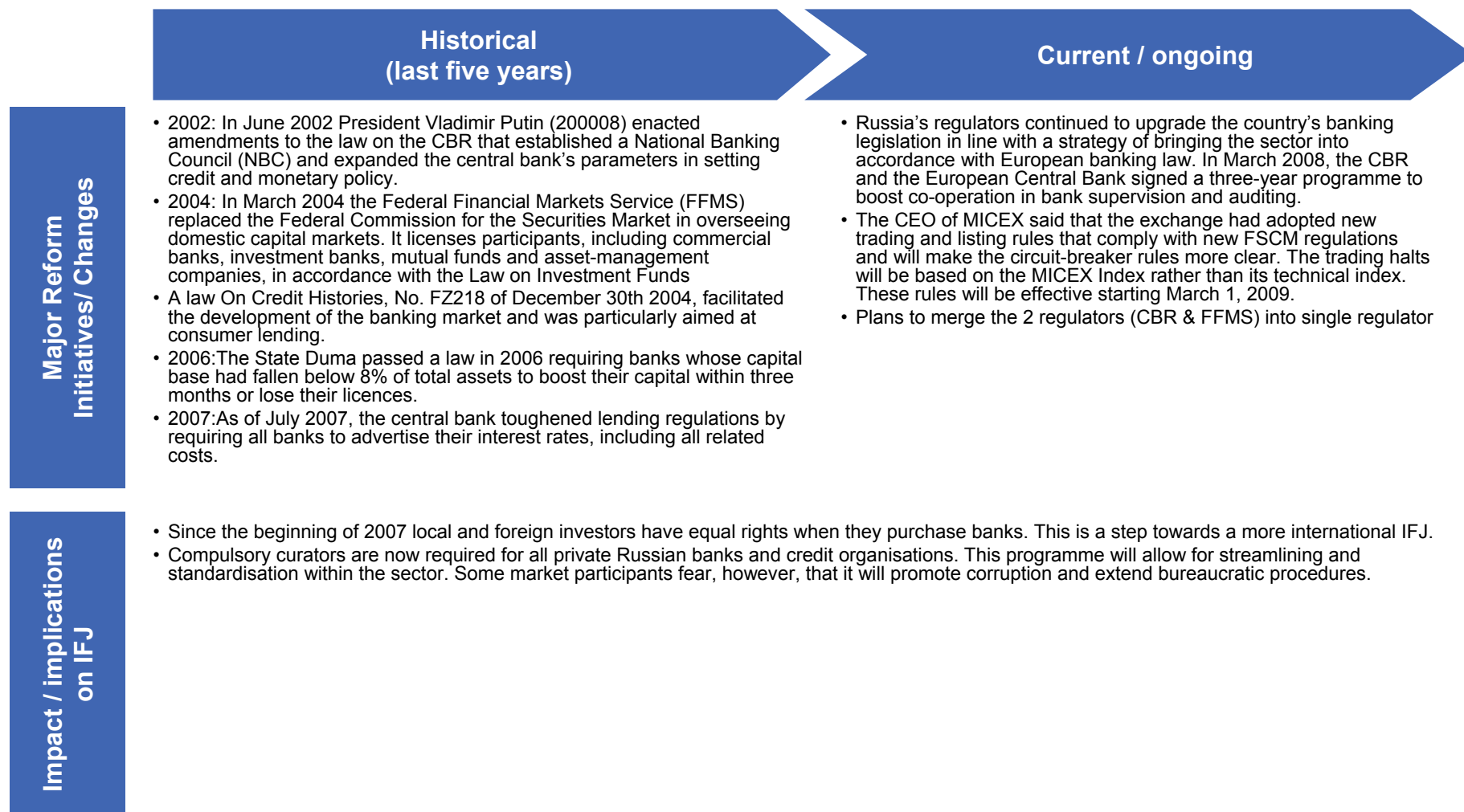
Regulatory Philosophy	Regulatory Structure
<ul style="list-style-type: none"> • “The key objectives of FFMS are to maintain stability in the financial markets, make the markets more efficient and attractive to investors, increase market transparency and reduce investment risks. It achieves these objectives by regulating the activities of financial market participants and by setting out the conditions for securities issuance and trading.” • Regulatory functions of Central Bank of Russia (CBR) include: • State registration of credit institutions, issuing banking licences to credit institutions suspending and revoking them • Supervising activities of credit institutions and banking groups • Proposing frameworks for dispute resolution between financial market participants, particularly for contractual disputes • Regulatory bodies bear civil responsibility for their actions 	<ul style="list-style-type: none"> • Regulatory functions are split between the CBR and the Federal Financial Markets Service (FFMS) • FFMS is a federal executive body which regulates the financial markets (see structure chart). It is controlled by the government which makes all key appointments • The Federal Financial Monitoring Service is responsible for tackling money laundering. It is part of the government’s Finance Ministry • CBR is responsible for regulating banks, issuing licences and setting accounting standards • Although CBR is independent of the government, the State Duma of the Federal Assembly appoints the Chairman and the Board with input from the President • All regulatory bodies are funded by government • No mechanism in place to check the conduct of either regulator – for example, no independent body to assess regulatory effectiveness and no tribunal to review regulatory decisions • Plans to replace CBR and FFMS with a single regulator for the financial sector are currently progressing through parliament. However, it is possible that this will meet with resistance from senior regulators <p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> • The main source of problems lies in imperfect market regulation, such as non-transparent rules governing market closure. • Existence of two regulators complicates the regulatory environment.
Key Regulatory Bodies	
<ul style="list-style-type: none"> • The main regulatory institution is Central Bank of Russia “CBR” • In early 2007, a commission to investigate abuses in the country’s financial markets and evaluate companies monopolies was established by the Federal Anti-Monopoly Service (FAS) and the Federal Financial and Budgetary Supervisory Service. The commission is charged with investigating widespread financial abuses, including insider trading • In March 2004 the Federal Financial Markets Service (FFMS) replaced the Federal Commission for the Securities Market in overseeing domestic capital markets. • The Interdepartmental Committee for Co-operation in the Development of Banking Business in Russia comprises representatives of various government bodies and plays a mainly consultative role in developing banking policies 	

Source: EUI, Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL)



Development of Regulatory Environment

The recent global crisis will have its effects on the regulatory environment



Source: Bank Industry Risk Analysis: Russian Federation, Deloitte analysis



Key Aspects of Regulatory Environment (1/3)

Regulatory environment needs to meet international standards

International Compliance (AML/CFT)	International standards
<ul style="list-style-type: none"> • Member of the Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering (MONEYVAL), an FATF-style regional body committed to implementing the FATF Recommendations • MONEYVAL’s second round evaluation of Russia in July 2004 (accompanied by FATF) highlighted the following issues • Offences of corruption and financial/economic crime generate the largest amount of money laundering • There is no concept of corporate liability in Russian law • Tracing proceeds of crime is not a routine part of investigation and prosecution • Significant weaknesses are apparent in the rules on the identification of clients and beneficial owners • However, the report also highlighted significant improvements compared with 2000, including advances towards the creation and development of an effective money laundering system • In March 2006 the Russian Federation ratified the United Nations Convention Against Corruption and in July 2006 the Council of Europe’s Criminal Law Convention on Corruption <p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> • High levels of money laundering are hindering international reliability. • to ratify EU and UN conventions against money laundering. 	<ul style="list-style-type: none"> • Implementation of key international regulation such as Basel II hindered by the lack of transparency in property ownership required by Russian law • Full Basel II compliance unlikely to be achieved by 2009 • Financial institutions have been slow to improve risk management practices • Banks were required to comply with international reporting standards from 2005. However, implementation has been diluted – only the largest banks are following IFRS <p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> • Basel II implementation hindered by lack of transparency over ownership in Russian law • Russia is considered to be slow to develop risk-based management systems • The approach to implementation of IFRS is perceived to be diluted.

Source: Bank Industry Risk Analysis: Russian Federation, Deloitte analysis



Key Aspects of Regulatory Environment (2/3)

Inconsisten implementation of law in the courts has failed to protect creditors’ rights

Responsiveness to market and ease of entry

- There is little or no evidence of a consultative approach to regulation
- According to a report by the rating agency Standard and Poor’s, “CBR’s intervention and effective resolution of the failures of large bank have been slow”
- Occasionally new regulations will be disseminated to market participants on the regulator’s website prior to their adoption
- Bureaucratic and lengthy process for foreign banks looking to establish themselves in Moscow. As a result, foreign banks generally establish branch presence and from there seek to develop local relationships before applying for a full licence

Key implications for international competitiveness

- Measures that are imposed with little or no consultation with market participants will hinder the development of a regional financial center

Quality of regulation and consistency of approach

- According to Standard & Poor’s there is “Weak regulatory framework and supervision, along with limited political commitment to banking reform
- Increasing move towards risk-based monitoring focusing on the major players
- Inconsistent and unpredictable implementation of law in the courts has led to poor protection of creditor’s rights

Regulatory Quality - 2007

Source: "Governance Matters VII: Governance Indicators for 1996-2007 " by Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi, <http://www.govindicators.org>

Key implications for international competitiveness

- Better regulation and transparency will be key in creating a regional financial center.

Source: Bank Industry Risk Analysis: Russian Federation, Deloitte analysis



International Market Confidence in Regulatory Environment

Moscow’s regulatory environment undermines market confidence

International market confidence																	
<ul style="list-style-type: none"> • Low confidence in the Russian legal system which leads many participants to choose international law to govern their transactions • A history of financial and banking crises has created a perception that disciplinary measures by regulators signifies another impending crisis – such as the near-collapse prompted by the revocation of banking licences in 2004 as part of a drive forward Basel II compliance • A report by MONEYVAL (the Committee of Experts on the Evaluation of Anti-Money Laundering Measures) noted “human resources of the supervisory authorities in respect of insurance and securities market participants appeared to...need supplementing” • Doubts persist over the likelihood of government interference 																	
<div style="border: 1px solid black; padding: 5px; margin: 10px auto; width: fit-content;"> <p>Risk assessment</p> <table border="1"> <thead> <tr> <th>Sovereign risk</th> <th>Currency risk</th> <th>Banking sector risk</th> <th>Political risk</th> <th>Economic structure risk</th> <th>Country risk</th> </tr> </thead> <tbody> <tr> <td>BBB</td> <td>BB</td> <td>BB</td> <td>B</td> <td>BB</td> <td>BB</td> </tr> </tbody> </table> </div>						Sovereign risk	Currency risk	Banking sector risk	Political risk	Economic structure risk	Country risk	BBB	BB	BB	B	BB	BB
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BBB	BB	BB	B	BB	BB												
<p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> • Reforms should deal with a number of criticisms raised by international bodies • Efficiency and reliability of regulatory and legal systems have significant effect on the performance of the market. 																	

Source: EUI, Deloitte analysis.

Contents

Comparative study profiles:

- London
- Moscow
- **Dublin**
- Madrid
- Israel
- Singapore
- Istanbul

Dublin as a Financial Centre

Dublin's IFSC has successfully attracted global reinsurance & fund servicing business

Background & history

- Dublin's International Financial Services Centre (IFSC) was set up by the Irish Government with EU approval in 1987
- IFSC is globally recognised as a leading location for a range of international financial services, including banking, asset financing, fund management, corporate treasury management, investment management, custody & administration and specialised insurance operations
- This was primarily achieved through: availability of a skilled labour pool, targeted investment in education, a lenient fiscal policy and the provision of incentives, leveraging English language skills and close cultural ties to the US and UK
- More than 430 international operations are approved to trade in the IFSC in Dublin, including over 50% of the top 50 global banks and half of the top 20 insurance companies
- The focus of the IFSC is on middle and back office operations

Capital Markets

- Market capitalisation of the Irish Stock Exchange was declined from €93 Bn in 2007 to €32.4 Bn in 2008
- 71 companies were listed on the stock market at the end of July 2008, reduced from 96 at the end of 2000
- The Exchange has an additional market specifically designed for small to mid-sized companies, the Irish Enterprise Exchange ('IEX')
- Market capitalisation of Irish Government Bonds were €42.6 Bn in 2008
- Market capitalisation of Official List:
 - Included in Irish Stock Exchange was €31.4 Bn
 - Not Included in Irish Stock Exchange was €77.3 Bn
- Trading on the Exchange is primarily conducted in the equities and Government bond markets on the ISE Xetra trading platform and EuroMTS platform respectively

Strategy and product focus

- Dublin is increasingly positioning itself as a product management centre where activities such as performance management, risk management, product development, product sales/support & regulatory compliance could take place, recognising that back office processing will continue to migrate to low cost Eastern Europe/Pacific rim & front-office activities are likely to stay 'in-market' close to customers
- Key opportunities for IFSC, identified in IDA strategic review:
 - Major centre for specialist debt/financing products/structures & securitisation
 - Ireland as a centre for managing global/regional banking products
 - Centre of excellence for funds servicing
 - Building scale in asset management
 - Positioning Ireland as the pan European location for insurance products and in particular mass risk/retail insurance products

Current situation and progress

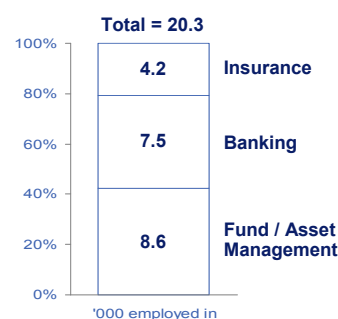
- 10% of all reinsurance business is written through Ireland
- Ireland's estimated GDP is \$287.1 Bn (2008)
- Given Ireland's size, a disproportionate amount of funds are serviced in the country - the value of funds serviced equates to \$950 Bn, (473% of GDP)
- Dublin appears to have had some success in attracting middle/back office functions, e.g. Merrill Lynch moved some operations to Dublin, but costs are rising and the supply of skilled labour is running short
 - *"Although Ireland still has cost advantages over many international financial centres, it is no longer considered to be a low cost location. The cost of skilled labour & property has increased relative to other markets in recent years"* (IDA)
 - *"There isn't the availability to fill these jobs because Ireland is at full employment. One company registered with us has 42 positions available."* (MD of Joslin Rowe recruitment agency, Ireland)

Source: IFSC Online, EIU (2008), IDA , WFE, BIS (2007)

Financial Services Market

Financial services contribute 11.2% to Ireland's GDP and employ 59,500 people

Overview of domestic economy	
<ul style="list-style-type: none"> Ireland has a GDP of \$254.3 Bn (2007), 2008 GDP is estimated to be \$287.1Bn <ul style="list-style-type: none"> GDP per capita (2007) was \$59,272 Real GDP growth was 5.3% over the period 2006-2007 In 2007 the total flow of Foreign direct investment into Ireland was €18.9 Bn, almost all of which (€17.4 Bn) was non-IFSC related The US and the UK are Ireland's key trading partners: <ul style="list-style-type: none"> Exports: UK (18.7%), US (17.8%), GER (7.5%) Imports: UK (32.2%), US (11.3%), GER (8.7%) Ireland had a current account deficit of €9.3 Bn in 2007, equivalent to 5% of GDP Ireland's main contributors to GDP are industry (incl. construction) (39%) & 'other services' (38%) 	

Financial services market headcount	
<p>Breakdown of international financial services employment in Ireland by sector '000</p>  <p>Total = 20.3</p> <ul style="list-style-type: none"> Insurance: 4.2 Banking: 7.5 Fund / Asset Management: 8.6 <p>'000 employed in sector</p>	
<ul style="list-style-type: none"> Total employment in banking, building societies and insurance in Ireland was 59,500 in June 2007 An estimated 25,000 people were employed in international financial services at the IFSC in Dublin in 2007 The largest sector in terms of headcount in the IFSC is Funds/Asset Management which accounts for 42% of employment there More than 430 international operations are approved to trade in the IFSC in Dublin, including over 50% of top 50 global banks and half of the top 20 insurance companies 	

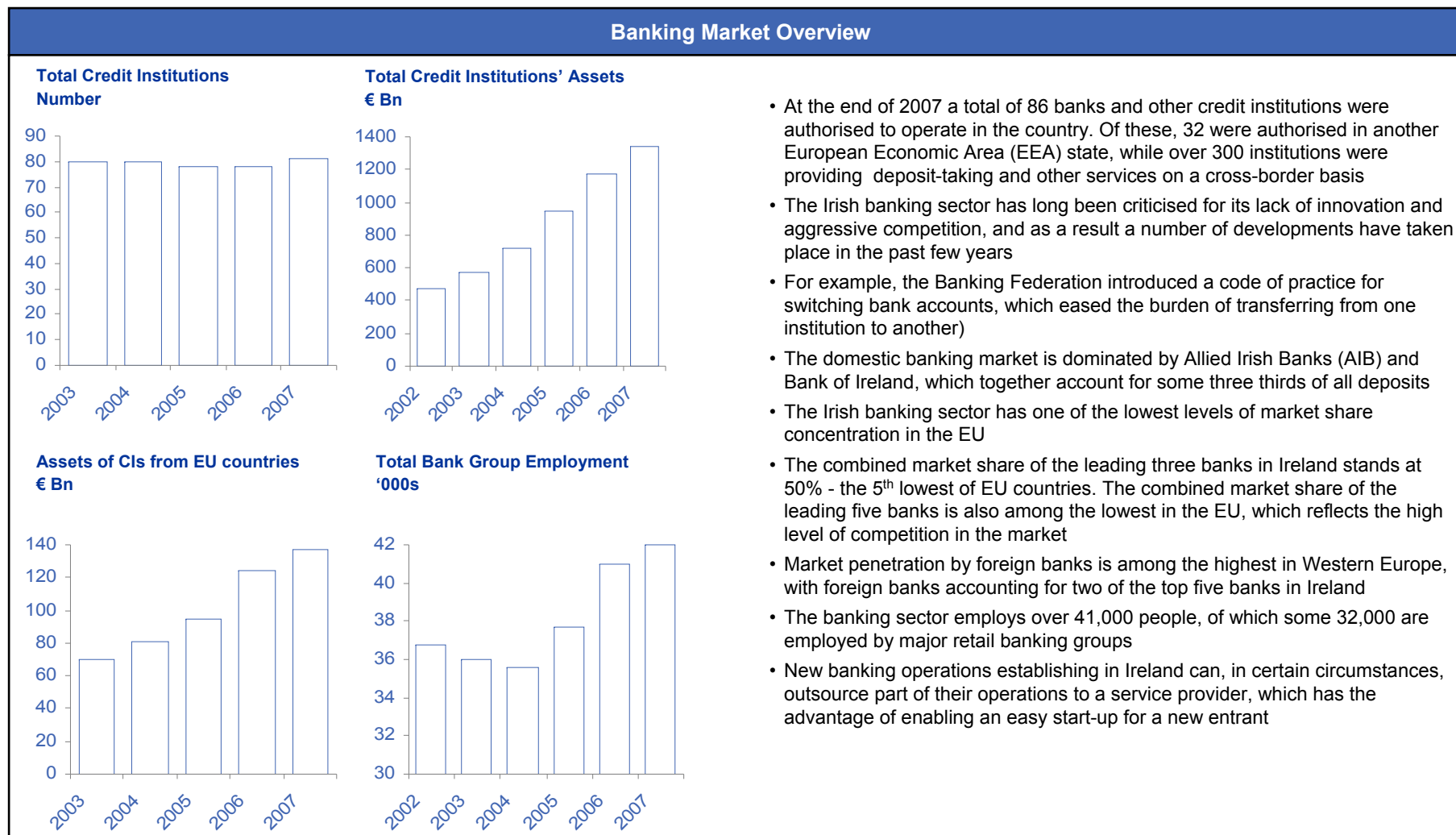
Financial services market size	
<ul style="list-style-type: none"> In February 2008 the total assets of all credit institutions operating in Ireland, including significant offshore (non-Irish-oriented) activity, stood at €1,397 Bn, equivalent to 777% of GDP 	
Banking	
Total banking assets, 2008 estimated	\$2,222 Bn (774% GDP)
Bank deposits, 2008 estimated	\$520 Bn (181% GDP)
Bank loans, 2008 estimated	\$931 Bn (324% GDP)
Insurance (2007)	
Life: Total gross premium income	€14.6 Bn
Non-life: Total gross premium written in 2004	€3.6 Bn
Fund Administration	
Total value of funds serviced in Ireland	\$2,615 Bn

Financial services market structure & growth	
<ul style="list-style-type: none"> The financial services sector (including insurance) earned a net €4.3 Bn of invisible exports in 2007, up marginally from the €4.1 Bn recorded a year previously 	
Banking	
CAGR total banking assets (2003-2008)	16.0%
CAGR total bank deposits (2003-2008)	11.4%
CAGR total bank loans (2003-2008)	13.1%
Insurance	
Growth in total gross premium income in Ireland in 2007	13%
Fund Administration	
Growth in total value of funds serviced in Ireland, 2005	41%

Source: EIU (2008 numbers), IDA, Dublin Fund Encyclopaedia, IFSC Online, Central Statistics Office

Ireland's Banking Market

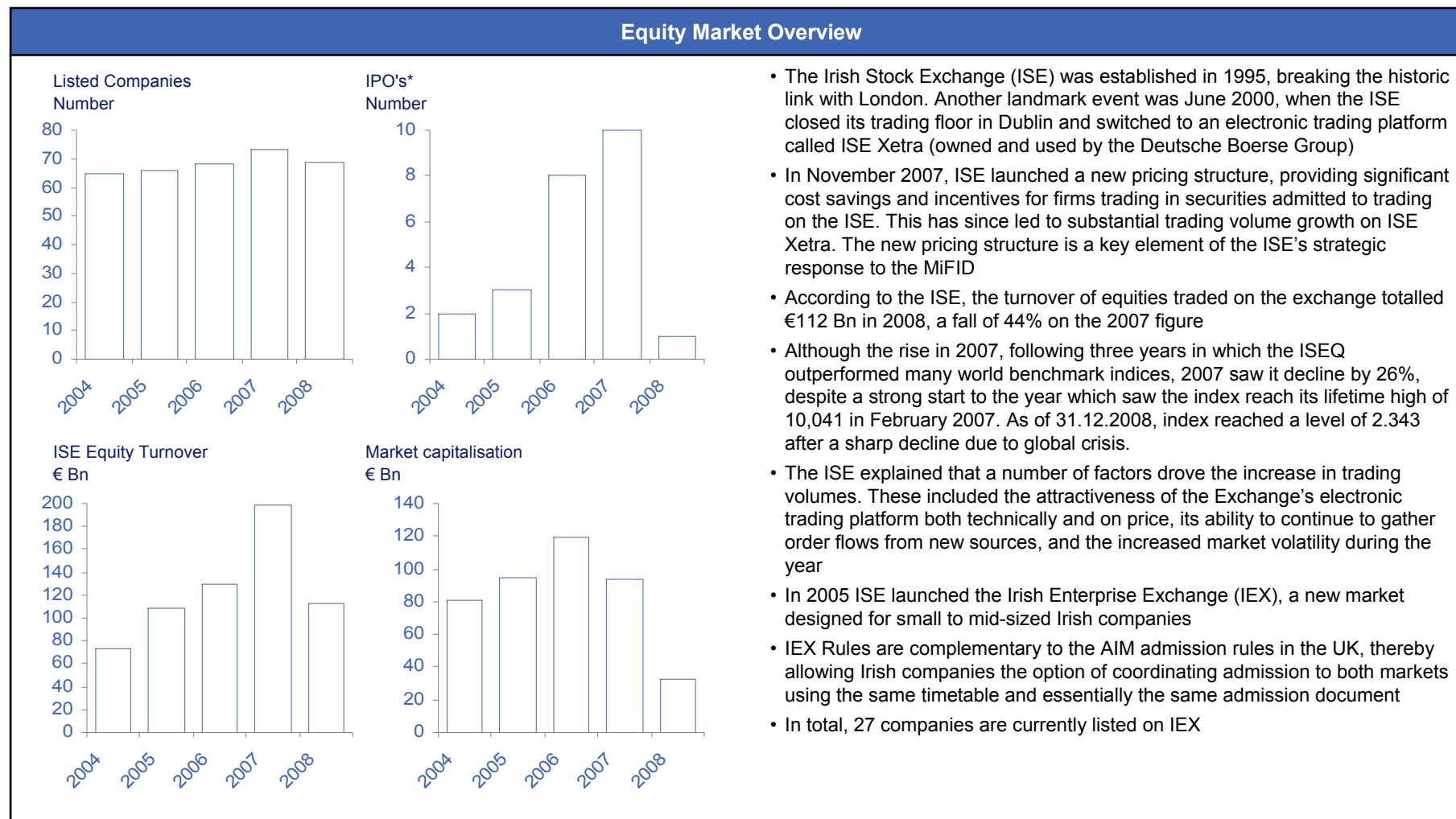
The Irish banking sector is a large employer and a major contributor to the economy



Source: EIU, IBF "Profitability in Irish Banking", IDA Ireland, CBFSAI, ECB "EU Banking Structures, October 2008"

Ireland's Equity Market

Ireland's equity market is small by world standards, yet performing strongly

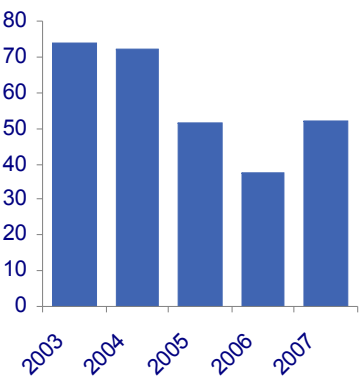


* Includes dual listings

Source: ISE News search, PwC "IPO Watch Europe", ISE "Annual Statistical Review 2008"

Ireland's Fixed Income Market

Ireland is a pre-eminent centre for the listing of asset backed securities in Europe

Fixed Income Market Overview													
<p>Turnover of Irish Government Bonds on Irish Stock Exchange S\$ Bn</p>  <table border="1"> <caption>Turnover of Irish Government Bonds on Irish Stock Exchange (S\$ Bn)</caption> <thead> <tr> <th>Year</th> <th>Turnover (S\$ Bn)</th> </tr> </thead> <tbody> <tr> <td>2003</td> <td>75</td> </tr> <tr> <td>2004</td> <td>72</td> </tr> <tr> <td>2005</td> <td>52</td> </tr> <tr> <td>2006</td> <td>38</td> </tr> <tr> <td>2007</td> <td>52</td> </tr> </tbody> </table>	Year	Turnover (S\$ Bn)	2003	75	2004	72	2005	52	2006	38	2007	52	<ul style="list-style-type: none"> • The Irish Government bond market is primarily based on a Primary Dealer system which was introduced at the end of 1995. • Trading can also be conducted on an OTC basis particularly in the non-benchmark bonds. Most trading is undertaken for the institutional and professional market. • Irish-based banks are able to issue covered bonds as a result of the passing of the Asset Covered Securities Act 2001 • The rating given by Moody's for Irish Government Bonds is Aaa. • Dublin is ranked second to London and ahead of Frankfurt in terms of asset backed securities. The aggregate amount of asset backed securities investments, managed by Dublin based investors witnessed huge growth in recent years • In 1999, the aggregate amount of asset backed securities investments was around €6 Bn. This grew to exceeded €80 Bn in 2007. • Since Ireland first emerged in the global securitisation and structured financing market, it developed a highly regarded regulatory regime, and is consistently introducing and refining its legislation dealing with structured finance transactions to tackle obstacles to the growth of the industry: <ul style="list-style-type: none"> – Finance Act 2006: Clarification of the VAT treatment of collateral management fees – Tax neutrality is a key requirement for a Special Purpose Vehicle (SPV) securitisation and Ireland introduced a favourable tax regime (Section 110 regime) ensuring tax neutrality
Year	Turnover (S\$ Bn)												
2003	75												
2004	72												
2005	52												
2006	38												
2007	52												
Derivatives Market Overview	Foreign Exchange Market Overview												
<ul style="list-style-type: none"> • The Irish government established a legal framework to encourage derivatives activity when it enacted the Netting Financial Contracts Act in 1995. Nowadays, the absolute level of turnover in the OTC market in Ireland is comparable with that in Austria and Norway • Activity in the OTC derivatives market declined between 2004 and 2007, with average daily turnover of \$7.7 Bn recorded in 2007, compared with \$12.6 Bn in 2004 • Turnover in FRA's has been decreasing since 2001 and fell to 1.6% of the total in 2007 (from 22% in 2001) 	<ul style="list-style-type: none"> • There was a sizeable increase in activity in the market between April 2004 and April 2007. The reported daily turnover in 2007 was \$10.1 Bn compared to \$6.9 Bn in 2004 • In 2007 spot activity accounted for 37% of overall market turnover, foreign exchange swaps accounted for 56% and outright forwards took up the remaining 7% • Trading between dealers dropped from over 80% of trades in 2004 to 51% in 2007. This was mainly accounted for by an increase in trading with other financial institutions (33% of turnover in 2007) 												

Source: FIBI, Finance Magazine, PwC "Life insurance securitisation in Ireland", Dept of Enterprise, Trade and Employment, BIS "Survey on Forex and Derivatives 2007"

Ireland's Insurance Market

Around 10% of world's reinsurance business is written through Ireland

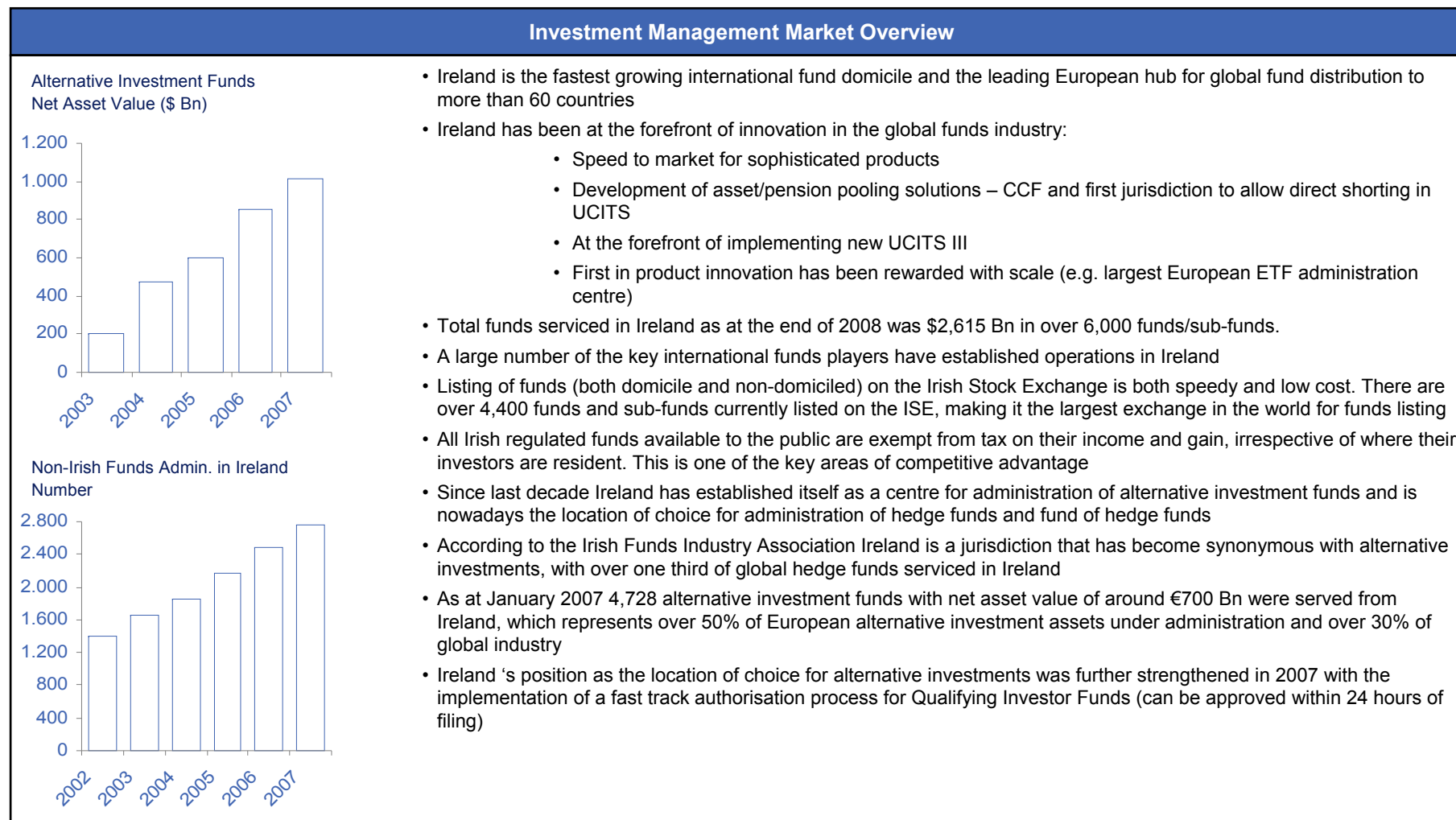
Life and Non-Life Insurance Market Overview	Re Insurance Market Overview																								
<p>Non-life Gross Premium Income* € Mn</p> <table border="1"> <caption>Non-life Gross Premium Income (€ Mn)</caption> <tr><th>Year</th><th>Income</th></tr> <tr><td>2003</td><td>4.25</td></tr> <tr><td>2004</td><td>4.00</td></tr> <tr><td>2005</td><td>3.85</td></tr> <tr><td>2006</td><td>3.80</td></tr> <tr><td>2007</td><td>3.60</td></tr> </table> <p>Life Premiums as a Proportion of GDP %</p> <table border="1"> <caption>Life Premiums as a Proportion of GDP (%)</caption> <tr><th>Year</th><th>Proportion</th></tr> <tr><td>2003</td><td>5.5</td></tr> <tr><td>2004</td><td>5.2</td></tr> <tr><td>2005</td><td>6.2</td></tr> <tr><td>2006</td><td>7.0</td></tr> <tr><td>2007</td><td>7.5</td></tr> </table> <ul style="list-style-type: none"> • Ireland is home to more than half the world's top 20 insurance companies • The insurance sector is a major employer in the Irish economy. In 2007, IIF's 64 member insurance companies directly employed around 15,000 people in Ireland • Total insurance industry assets increased by 1.7% in 2007 and amounted to €92.5 Bn at the end of the year • Gross insurance premium income in 2007 (life and general) was €18.2 Bn, which represents just over 9.7% of GDP (up from 9.2% in 2006) • Ireland's premium per capita of around €4,335 is lower than the UK but higher than the majority of other European countries • Ireland's market for life products has been buoyant in recent years (18.4% YoY growth in life gross written premiums in 2007), while general gross written premiums are falling • Motor insurance is the largest class of general insurance (43% of all non-life business), followed by property (28% of non-life business) • The captive sector was the first international re/insurance sector to establish in Dublin, with the first captive incorporated in 1989 • Since the start, Ireland offered captives the option to write business across Europe and was unique in this offering until the late 1990s when Gibraltar, and more recently Malta, have set themselves up as competing domiciles 	Year	Income	2003	4.25	2004	4.00	2005	3.85	2006	3.80	2007	3.60	Year	Proportion	2003	5.5	2004	5.2	2005	6.2	2006	7.0	2007	7.5	<ul style="list-style-type: none"> • The Irish reinsurance industry represents a significant amount of the reinsurance business written worldwide. Since IFSC was founded, Dublin went on to the fourth largest reinsurance centre in the world • The city has become a location for life reinsurance and finite business in particular • Finite reinsurance is a growing proportion of the Dublin reinsurance sector, estimated to be worth about €2 Bn per annum in premiums • As the market grew, the Irish regulator developed a set for standards for reinsurers, yet on the whole the industry was lightly regulated • Ireland was the first European country to implement the European Reinsurance Directive (came into effect in July 2006, EU deadline was December 2007), which introduces a comprehensive framework for the authorisation and supervision of reinsurers in Ireland • The early implementation of the Directive was intended to demonstrate Ireland's commitment to retaining and developing its status as a major centre for the international reinsurance industry • Ireland has gone from a position of relatively low regulation in reinsurance to a highly-regulated environment, which raised questions about whether the regulations will leave Ireland at a competitive disadvantage when competing for reinsurance business. The full impact of Directive's implementation remains to be seen • Ireland will still keep its with low corporation tax rates, and has a proven track record as an attractive location for reinsurers
Year	Income																								
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* IIF members only (write 95% of total)

Source: Irish Insurance Federation "Factfile 2008", Dublin Insurance Magazine, IDA Ireland

Ireland's Investment Management Market

Ireland services over one third of global hedge funds



Source: IFIA, ISE

Skilled Labour Pool

Ireland has a good tertiary education system but demand for FS skills outweighs supply

Overview

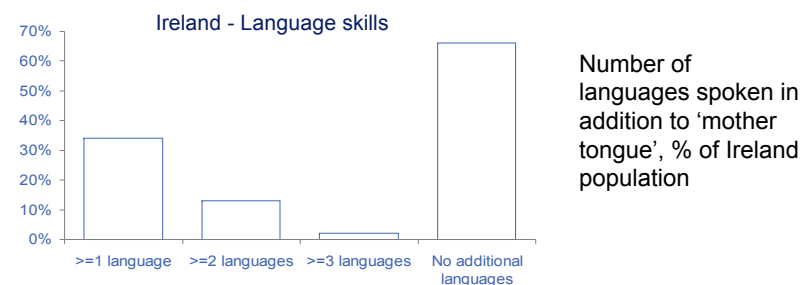
- Ireland has a total population of 4.34 Mn (2007) of which approximately 506,000 live in Dublin
- Population demographics:
 - 15% aged between 15-24 years, 35% aged under 25 years, 54% aged between 25-64 years
- The total labour force comprises 2.2 Mn people
 - 10% of labour force is foreign
- Ireland's ability to retain home-grown talent has improved (previously there was a 'brain drain' issue where top graduates would go to London & elsewhere). The 'brain drain' has reduced significantly following the establishment of the IFSC
- Ireland also has a lots of nationals working abroad who could be repatriated as a source of labour and benefits from appealing to English speakers

Financial services professionals

- Ireland's financial services industry employs circa 59,500 people (around 3% of the total labour force)
- The availability of a skilled labour pool was consistently cited as being a key competitive advantage for Ireland on financial services, in particular: quality & expertise of individuals, cultural compatibility with US/UK, quality graduate pool, favourable education system
- However, it is considered to be difficult to obtain work permits for non-EU workers where skills gaps need to be filled
- In addition, FS recruiting firms located in Ireland have recently commented that the labour market is at full employment and demand for skills outweighs local supply available
- An estimated 25,057 employees work in the IFSC, and this figure is expected to grow by 1,000 this year

Tertiary education

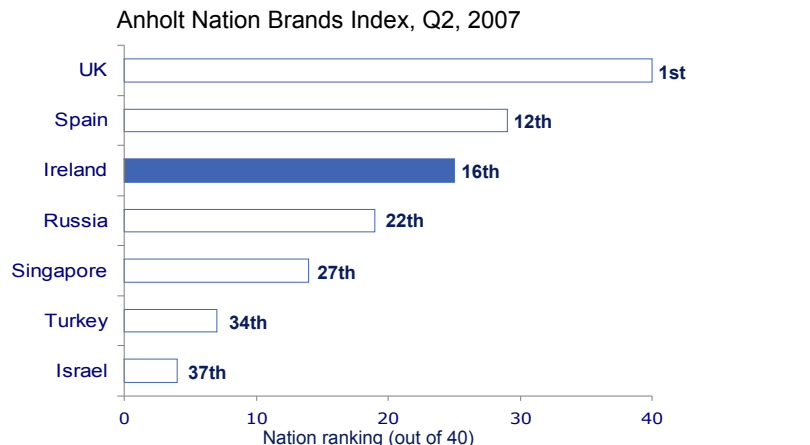
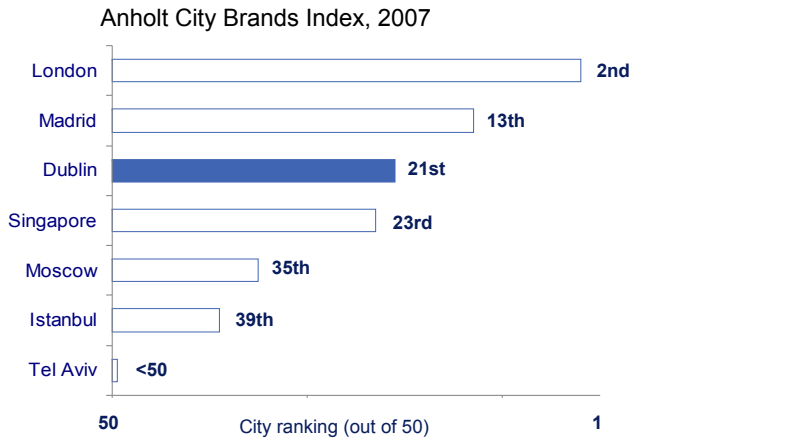
- Levels of educational achievement in Ireland have traditionally been below those of other developed economies, but the disparities have narrowed and Ireland is now outperforming its peers on a number of measures
- There are 7 major universities in Ireland (in addition to a number of smaller institutes/colleges), several of which have developed new courses tailored to financial services over the past couple of years, e.g. MSc Quantitative Finance, MSc Finance & Capital Markets
 - 87,021 students were enrolled full-time in higher education institutions in Ireland, 2008-2009
 - 16,219 of these were Postgraduates
 - 20,349 new undergraduate students in total enrolled in 2007-2008 in higher education institutions in Ireland
- Ireland has one MBA's in the Top 100 Global MBA rankings 2009 (FT.com): University College Dublin 99th
- Ireland ranks highly on quality of education in the WEF Travel & Tourism rankings (2009)
 - Quality of the educational system 7th/133
 - Secondary education enrolment 10th/133



Source: Eurobarometer Languages Survey, Deloitte/IDA Study on IFS sector in Ireland, EIU, WEF (2009), Higher Education Authority

Image & Perceptions

Ireland is perceived to offer cost benefits, a good lifestyle & a skilled labour force

Brand strength	Commentary																																
<p>Anholt Nation Brands Index, Q2, 2007</p>  <table border="1"> <caption>Anholt Nation Brands Index, Q2, 2007</caption> <thead> <tr> <th>Country</th> <th>Ranking</th> </tr> </thead> <tbody> <tr><td>UK</td><td>1st</td></tr> <tr><td>Spain</td><td>12th</td></tr> <tr><td>Ireland</td><td>16th</td></tr> <tr><td>Russia</td><td>22nd</td></tr> <tr><td>Singapore</td><td>27th</td></tr> <tr><td>Turkey</td><td>34th</td></tr> <tr><td>Israel</td><td>37th</td></tr> </tbody> </table> <p>Anholt City Brands Index, 2007</p>  <table border="1"> <caption>Anholt City Brands Index, 2007</caption> <thead> <tr> <th>City</th> <th>Ranking</th> </tr> </thead> <tbody> <tr><td>London</td><td>2nd</td></tr> <tr><td>Madrid</td><td>13th</td></tr> <tr><td>Dublin</td><td>21st</td></tr> <tr><td>Singapore</td><td>23rd</td></tr> <tr><td>Moscow</td><td>35th</td></tr> <tr><td>Istanbul</td><td>39th</td></tr> <tr><td>Tel Aviv</td><td><50</td></tr> </tbody> </table>	Country	Ranking	UK	1st	Spain	12th	Ireland	16th	Russia	22nd	Singapore	27th	Turkey	34th	Israel	37th	City	Ranking	London	2nd	Madrid	13th	Dublin	21st	Singapore	23rd	Moscow	35th	Istanbul	39th	Tel Aviv	<50	<ul style="list-style-type: none"> • Ireland ranked 16th out of 40 countries assessed in the <i>Anholt National Brands Index</i>, which surveys 25,000 consumers from around the world on their brand perceptions of countries • Dublin also ranked 21th out of 50 cities assessed in the <i>Anholt City Brands Index</i>, which ranks world cities according to consumer responses regarding six aspects (e.g. perceptions about the economic and educational opportunities on offer in each city) • The effectiveness of the marketing and branding of Ireland was ranked 8th/133 globally in the WEF Travel & Tourism rankings (2009)
Country	Ranking																																
UK	1st																																
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Source: World Economic Forum (2009), Anholt Nation Brands Index (2007), Anholt City Brands Index (2007)

Political and Economic Stability

Ireland is both politically and economically stable

System of government

- Form of government: Parliamentary representative democratic republic, whereby the Taoiseach (Prime Minister) is the head of government, and of a pluriform multi-party system
- Executive power is exercised by the government
- Legislative power is vested in both the government and the two chambers of parliament, the Dáil Éireann and the Seanad Éireann
- The Judiciary is independent of the executive and the legislature
- While there are a number of important political parties in the state, the two largest are Fianna Fáil and Fine Gael

Economic policy

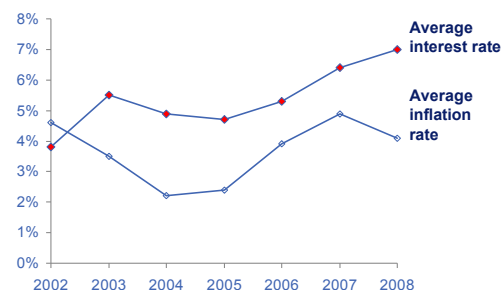
- In January 1999, Ireland joined 10 other EU member states & formed an economic and monetary union (EMU), with the euro as a single currency and a common monetary policy conducted by the European Central Bank (ECB)
- With broad Irish money stock contributing less than 2% of total euro area money supply, conditions in Ireland have little impact on ECB monetary policy formulation
- The difficulties faced by small states under the new "one size fits all" European monetary policy regime were shown by Ireland's inability to tighten monetary policy when the economy overheated during the economic boom in 2000
- Pro-business & pro foreign investment with relatively attractive tax environment. Corporate tax rate is 12.5% and the 0.5% capital duty was recently abolished (at a cost of €16 Mn), allowing Ireland to further promote itself as a location for multinational company headquarters

Political landscape

- The current government, which was elected in May 2007, is a three-party centrist coalition. Fianna Fail, which is just short of a majority in the 166-seat lower house, is the senior partner
- The Green Party (six seats) and Progressive Democrats (two seats) give the coalition a solid majority. They also have further support of a number of independent parliamentarians
- Bertie Ahern, former party leader of Fianna Fail, was Prime Minister of the Republic of Ireland since 26th June 1997. Ahern stood down on 6th May 2008 following controversy about his personal finances and was succeeded by Brian Cowen
- In the last decade, there has been a high degree of consensus among the main parties on most issues, in particular regarding key areas of macroeconomic policy

Economic stability

Historical Ireland inflation & interest rates (EIU)



EIU Country Risk Ratings, January 2009

Sovereign risk	A
Banking Sector risk	BBB
Economic Structure risk	BBB
Political Risk	AA
Currency Risk	A

Source: EIU (2008)

Infrastructure

Ireland has established ICT infrastructure & good air links to regional financial centres

Transport	Telecoms & IT
<ul style="list-style-type: none"> • Dublin International Airport is Ireland’s main airport and also the primary gateway to Northern Ireland. It served 23 Mn passengers in 2008 - five times the country’s population • Dublin is amongst the ten busiest airports in Europe with over 150 destinations served by 90 airlines • Dublin airport also has good links to other international financial jurisdictions - top 6 international destinations served by airport are London, Paris, Manchester, New York, Birmingham, Frankfurt • The airport is located approximately 10 km north of Dublin city centre. It is served by a large number of buses and taxis • A second terminal is planned for 2009 • Ireland’s air transport infrastructure ranks relatively highly, 23th/133, in the WEF Travel & Tourism rankings (2009), detailed ranks: <ul style="list-style-type: none"> – Departures per 1,000 population 2th/133 – Number of operating airlines 39th/133 – Quality of air transport infrastructure 46th/133 – International air transport network 48th/133 • Ireland is also fed by ferries from England, Wales and Scotland, but with the advent of budget airline Ryan Air, flying here is both cheap and fast 	<ul style="list-style-type: none"> • Ireland’s Information Communications Technology (ICT) infrastructure ranks 28th/133 globally in the WEF Travel & Tourism rankings (2009), detailed ranks: <ul style="list-style-type: none"> – Extent of business Internet use 31th/133 – Internet users 42th/133 – Telephone lines 17th/133 – Broadband Internet subscribers 29th/133 – Mobile telephone subscribers 21th/133 • Progressive liberalisation of the Irish telecommunications market during the 1990s culminated in the privatisation of the state-owned monopoly operator, Telecom Eireann (now Eircom) <ul style="list-style-type: none"> – The telecommunications market is now fully de-regulated and currently over 20 companies compete on the basis of value-added services • There has been investment of over \$5 Bn in recent years that has resulted in state-of-the-art optical networks being available with world-class international & national connectivity • As well as offering extensive international connectivity, Ireland’s national telecommunications backbone is over 98% fibre • Ireland also increasingly provides wireless broadband access and continues to issue spectrum for the delivery of value-added services • Ireland had 2.1m fixed-line connections in 2007, broadly in line with 2006 • Broadband is now the most prevalent type of business connection to the Internet. The share of Internet connections accounted for by dial-up dropped to 27% in 2007, while that of broadband increased to 73% • 12% of businesses use integrated services digital network (ISDN) connections, while 21% still use a slow dial-up connection dial-up figure (reflecting the high proportion of small businesses in Ireland)

Source: EIU (2009), IDA, WEF (2009)

Ease of Doing Business

Ireland is easy to do business in & government intervention is low

Bureaucracy

- The World Bank 2009 Ease of Doing Business survey ranks Ireland 7th overall out of 181 countries:

Detailed World bank ease of business rankings, Ireland (2009)

Factor	Global Country Ranking (out of 181)
Starting a business	5th
Dealing with licenses	30th
Employing workers	38th
Registering property	82th
Getting credit	12th
Protecting investors	5th
Paying taxes	6th
Trading across borders	18th
Enforcing contracts	39th
Closing a business	6th

- Ireland ranks relatively highly overall in ease of doing business
 - Ireland consistently scores in the top 20 for each factor assessed with the exception of 'dealing with licences', 'employing workers', 'registering property' and 'enforcing contracts' where it ranks 30th, 38th, 82th and 39th respectively
 - Surprisingly, for a centre built off the back of its skilled labour pool, Ireland scores relatively poorly for labour freedom and the ease of employing workers. Also, Ireland has quite high average firing costs at 24 weeks of salary
- It appears to be relatively easy to setup a new business in Ireland, which ranked 5th best globally on this factor:
 - Number of procedures to setup a business = 4
 - Average time to setup a business = 13 days

Level of government intervention

- Ireland is ranked the 4th most economically free country in the global Index of Economic Freedom and 1st out of 43 countries in the European region, 2009. Ireland scored '82.2% free' vs. world average of 59.5% and a Europe average of 66.8%

Freedom Category	Ireland's Score (%)	World Average (%)
Business freedom	93.0%	~60%
Trade freedom	85.8%	~60%
Fiscal freedom	69.2%	~60%
Fdm fm Government	64.9%	~60%
Monetary freedom	84.3%	~60%
Investment freedom	90.0%	~60%
Financial freedom	90.0%	~60%
Property rights	90.0%	~60%
Fdm fm Corruption	75.0%	~60%
Labour freedom	79.7%	~60%

Ireland's ten economic freedoms (Index of Economic Freedom, 2009)
Key:
100 = most free
| = world average

Transparency and corruption

- Ireland is ranked 16th/180 in the World Corruption Perceptions Index (2008, Transparency International), with 1st being the country with the lowest perceived level of corruption

Source: World Bank ease of doing business survey (2009), Heritage Index of Economic Freedom (2009), Transparency International (2008)

Lifestyle

Dublin offers a high quality and varied lifestyle, but can be expensive

Overview	Amenities
<ul style="list-style-type: none"> • Dublin was founded in the early ninth century when Vikings made their largest settlement outside of Scandinavia on the city of the present day city. Ever since then, Dublin has suffered many wars and conflicts • In the early 20th century, Dublin established its own identity and is today a modern, cosmopolitan city which is rich in history and proud of its past • Dublin is a small city of 506,000 people, but offers a vibrant city lifestyle in close proximity to open countryside & coastline • Ireland was rated as having the highest quality of life out of 111 countries in the EIU Quality of Life index (2005) • Dublin (& Ireland) has had great success at attracting significant and increasing numbers of tourist visitors in recent years 	<ul style="list-style-type: none"> • Ireland’s educational system is ranked 7th/133 in World Travel & Tourism rankings (2009) • Ireland’s public healthcare system is largely tax-funded. Health services are free at the point of use to the poorest one-third of the population. The remaining two-thirds pay privately for primary-care services and for pharmaceuticals (up to a monthly ceiling). The % of the population covered by private health insurance has more than doubled from 25% in 1980 to over 50% in recent years, partly reflecting the fact that private insurance subscriptions are relatively inexpensive in Ireland and are also eligible for tax relief • Dublin is a relatively safe city. • Transport in Dublin comprises a tram system, taxis, fast suburban light rail and over 1200 buses
Leisure	Cost of living
<ul style="list-style-type: none"> • Dublin has a number of museums & galleries, including the large collections of the National Museum, National Gallery and Irish Museum of Modern Art, plus many small private collections • The city has a range of theatres. Highlights of the theatre year include the Opera season and the Dublin Theatre Festival. Major Irish and international plays run regularly in the larger venues • Dublin is renowned world wide as a city of writers and literature, home to such literary pens as Joyce, Shaw and many others, celebrated at the Dublin Writers Museum, James Joyce Museum and the Shaw Birthplace • There are some 1,000 pubs, in which live popular/ traditional music is easy to find, along with numerous restaurants • Some of the sports activities on offer include: sailing, fishing, windsurfing, horse riding, cycling, and walking 	<ul style="list-style-type: none"> • Dublin was 16th in the ‘Mercer Global cost of living index’ 2008, up from 18th in 2006, 1st being the city with the highest cost of living • Restaurants and pubs can be relatively expensive in Dublin

Source: Various publications and websites, WEF (2009), EIU Quality of Life index (2005)

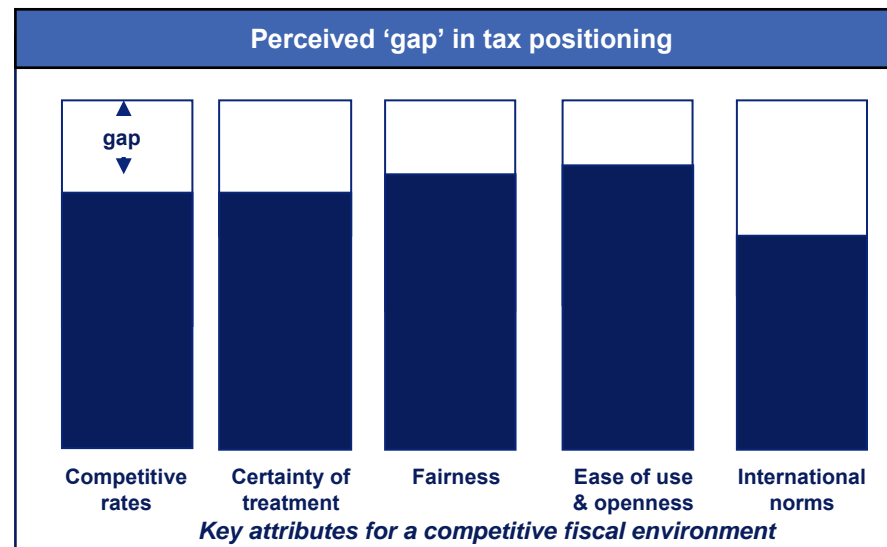
Ireland Taxation System Overview

Low rate, fair and simple system

Rates	Compliance and Administration
<p>Corporation Tax</p> <ul style="list-style-type: none"> The main tax rate on trading profits is 12.5% Passive income including dividends, interest, rents and royalty income is taxed at a higher rate of 25% Companies resident in Ireland are subject to corporate taxes on worldwide profits, regardless of where they arise A company is an Irish tax resident if <ul style="list-style-type: none"> it is incorporated in Ireland, or its place of central management and control is in Ireland Companies may generally deduct from gross trading profits revenue expenditure that is wholly and exclusively incurred for business purposes, although certain capital expenditure may qualify for capital allowances Capital gains are taxed at 20% although there is a participation exemption regime (see International Aspects) Offsetting losses against taxable profits is generally allowed. Trading losses may be carried back for one year and carried forward indefinitely. Group relief of losses is also possible in the current year against profits of over group companies <p>Personal Tax</p> <ul style="list-style-type: none"> Taxable income is based on a schedular system which in turn is based on the source of the income The tax rates are 20% or 41% <p>Withholding Tax</p> <ul style="list-style-type: none"> 20% on dividends, interest and royalties, although there are generous domestic exemptions from dividend and interest withholding tax <p>VAT</p> <ul style="list-style-type: none"> 21% standard rate charged on sales of most goods and services Some reduced rates/exemptions apply <p>Other</p> <ul style="list-style-type: none"> Stamp duty (payable at 1% for the transfer of shares, and between 1 and 9% on commercial property transfers) Employers' social insurance (a 10.75% social security tax on payroll) 	<ul style="list-style-type: none"> Companies must self-assess their corporate tax liability A company must file a tax return within 8 months and 21 days of the end of the accounting period Large companies must make an advance tax payment one month before the year end, amounting to 90% of its final liability The balance of tax payable must be paid by the date on which the company files its tax returns The tax affairs for all large companies and most companies within the financial services sector are dealt with by the Large Cases Division and each company is appointed a Revenue officer As a result of the previous point and greater Revenue powers, there are an increasing number of Revenue audits taking place particularly for companies within the Large Cases Division
	<h3 data-bbox="1131 869 2027 928">International Aspects</h3> <ul style="list-style-type: none"> Ireland has 44 tax treaties Ireland adheres to OECD guidelines on issues such as transfer pricing, transfer pricing legislation may be introduced in the future There is also no specific thin-capitalisation legislation although interest paid by an Irish company to a 75% non-resident group member is deemed to be a distribution and as such is not tax deductible (some exemptions) In certain instances a tax credit is available in respect of foreign tax suffered on profits, income and/or dividends received Ireland also operates a favourable participation exemption regime whereby companies are exempt from tax on gains arising on the sale of certain shareholdings of more than 5% held for more than 1 year Ireland has no Controlled Foreign Company rules Finance Act 2008 introduced a reduced rate of 12.5% in respect of certain foreign dividends

Strengths, Weaknesses and Implications

Key Strengths and weaknesses
<p>Competitive rates</p> <ul style="list-style-type: none"> • Ireland has an extremely competitive corporate taxation rate although its personal taxation rate is relatively high • There is no special expatriate tax regime
<p>Certainty of treatment</p> <ul style="list-style-type: none"> • Current tax law is upheld by the tax authorities and law courts and therefore taxpayers may place reliance on it • Although, there is a substantial volume of tax legislation the tax authorities do publish guidance and statements of practice on the application of the tax legislation • The perceived stability in the Irish tax system has helped contribute to the growth in the economy
<p>Fairness</p> <ul style="list-style-type: none"> • Some leading companies have moved their HQs to Ireland as the corporate tax system is seen as more competitive than many other developed economies
<p>Ease of use & openness</p> <ul style="list-style-type: none"> • Both the administrative and compliance burden are relatively light • Ireland has few tax payments and calculation is straightforward, however recent changes in preliminary tax payments have increased the burden and practical difficulties for companies • Companies must now accurately forecast their full year results ahead of their year end in order to avoid interest and penalties for underpayment. This is particularly problematic for companies using functional currency other than Euros who are at higher risk due to unexpected currency changes
<p>International norms</p> <ul style="list-style-type: none"> • Ireland has a relatively low number of tax treaties for a well-developed economy, although the disadvantage of this can often be disregarded due to its generous domestic withholding tax exemptions



Implications for Istanbul
<ul style="list-style-type: none"> • Turkey should set more competitive corporate tax rates • Ireland operates an internationally recognised, well administered, low tax environment. It has a number of specific features aimed at enticing key financial businesses • Changes to tax law should be kept to a minimum. • The perception of a clear and fair set of tax rules is a significant incentive for investment in an International financial jurisdiction • Favourable interest deductibility and withholding tax rules are key issues for corporate entities • The importance of adherence to OECD guidelines in gaining international acceptance is reinforced by the Ireland's model

Availability of Professional Services

Professional services firms are well developed, although few global law firms are present

Overview	Lawyers
<ul style="list-style-type: none"> • There is a substantial presence of the ‘big 4’ in Ireland, who together employ around 6,200 people, split: 	<ul style="list-style-type: none"> • Total number of lawyers members of the bar = 2,008 (2008) • Only 1 of the top 100 global law firms has a presence in Ireland and employs 19 lawyers • This low presence is likely to be explained by the close proximity to global law firm’s major offices located 1 hour away by air in London, which act as a base for servicing the Irish market <ul style="list-style-type: none"> – <i>“There is no lack of legal expertise available, through a combination of local firms and supplementary support from UK/international firms who are very active in the Irish market. The Irish law firms routinely refer matters where international expertise is required to UK/international law firms”</i> (Lawyer, Leading law firm in Ireland)
Accountants	Consultants and other professionals
<ul style="list-style-type: none"> • Ireland has 20,400 certified accountants and 10,300 accountancy students in training • There are c. 1,500 audit / accountancy firms in Ireland • Three main qualifications / professional associations: <ul style="list-style-type: none"> – The Institute of Accounting Technicians in Ireland – The Institute of Certified Public Accountants in Ireland – The Institute of Chartered Accountants in Ireland 	<ul style="list-style-type: none"> • Ireland as a full spectrum of consulting providers, including leading IT, outsourcing & strategy consulting firms • A number of international consulting firms are located in Ireland mostly in Dublin.

Source: IFAC, CCBE (2008), ALM Global 100 law firms, Law Society of Ireland “Annual Report 2007/2008”

Cost of Doing Business

Dublin has relatively high office costs and the cost of labour is increasing

Labour costs	Inward incentives	
<ul style="list-style-type: none"> • Ireland has become less of a low cost option for labour, average weekly earnings in the 'banking, insurance & building societies sector' grew 45% over 1998-2007 <ul style="list-style-type: none"> – <i>“Although Ireland still has cost advantages over many international financial jurisdictions, it is no longer considered to be a low cost location. The cost of skilled labour & property has increased relative to other markets in recent years” (IDA report 2005)</i> • The global 'ease of doing business rankings' by the World Bank rank Ireland 38th easiest (out of 181) for Employing Workers <ul style="list-style-type: none"> – Average non-wage labour cost = 11% of salary – Average firing cost = 24 weeks of salary (higher than the figure of 22 weeks for the UK) 	<ul style="list-style-type: none"> • Low Corporation Tax – 12.5% • IDA Ireland is the primary government agency with responsibility for the promotion of foreign direct investment into Ireland and the development of the existing base of overseas companies • IDA have the capacity to issue grants to companies for the creation of jobs, major training programmes, research and development facilities and capital projects. These may vary by region and are awarded on a case by case basis 	
	<th data-bbox="1135 858 2024 917">Office costs</th>	Office costs
	<ul style="list-style-type: none"> • Rental cost per square metre of office space <ul style="list-style-type: none"> – Dublin was 12th in the global 50 CBRE index of office costs - 1st being the most expensive, (2008) – Total current occupation cost \$/annum: <ul style="list-style-type: none"> – Dublin \$1,363 per sq. metre (18.9% increase over last 12 months) – <i>Costs per sq. metre are 'gross' & reflect all occupancy costs</i> 	

Source: CBRE Global index of office costs (2008), IDA, World Bank (2009)

Regulatory Philosophy and Structure

Dublin’s single regulator operates a ‘principles led’ approach

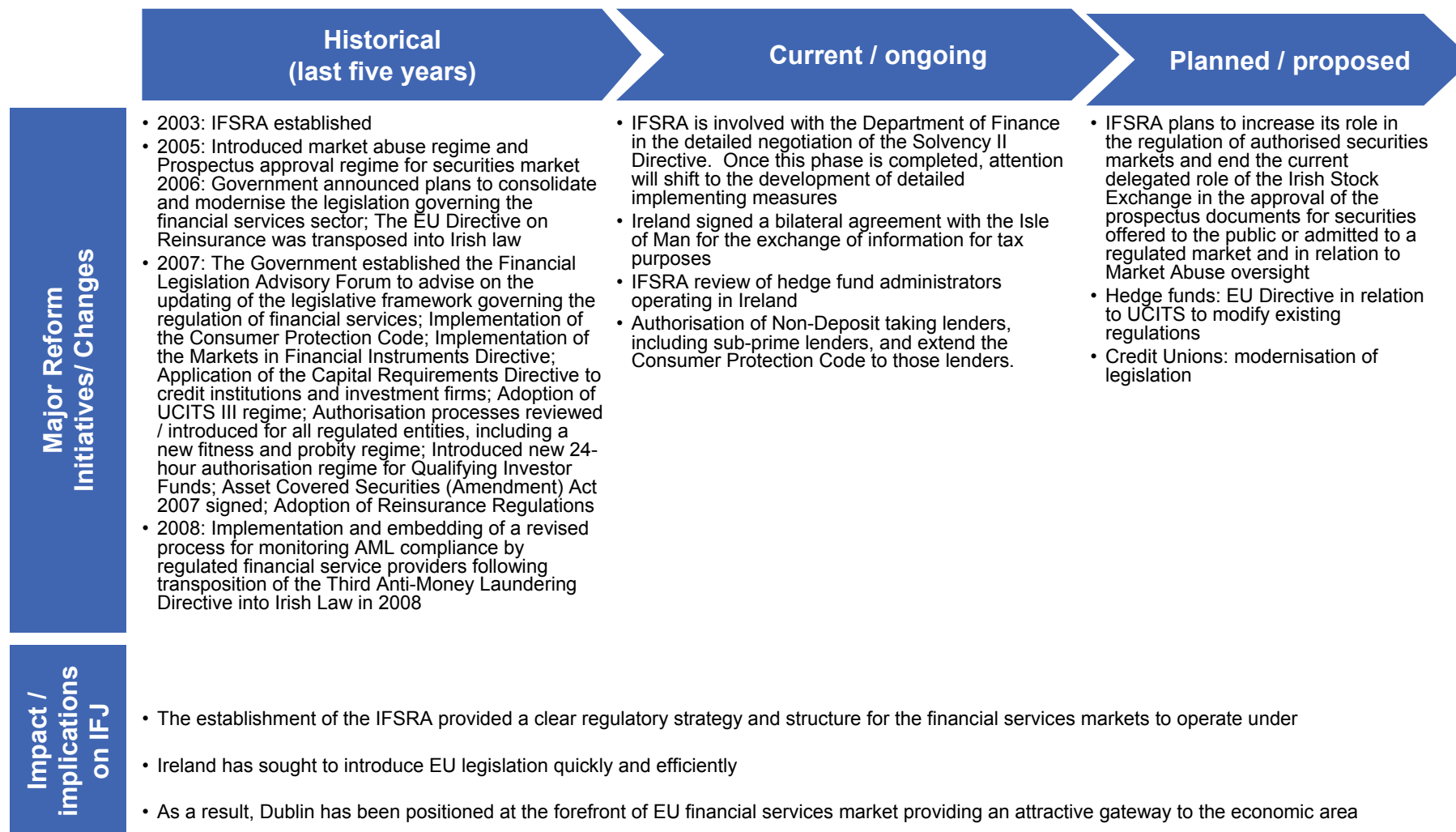
Regulatory Philosophy
<ul style="list-style-type: none"> • The Irish Financial Services and Regulatory Authority (IFSRA) was established in 2003 • It is responsible for the regulation of all financial services firms in Ireland and has a role in the protection of the consumers of these firms • Takes a ‘principles led’ approach to regulation and a risk-based approach to supervision • The IFSRA is a distinct component of the Central Bank and Financial Services Authority of Ireland (CBRSI) but does contribute to the Bank’s work in discharging its responsibility in relation to the maintenance of overall financial stability
Key Regulatory Bodies
<ul style="list-style-type: none"> • IFSRA <ul style="list-style-type: none"> – Responsible for the regulation of all financial services firms in Ireland – Responsibilities do not include occupational pension schemes, Post Office savings schemes and credit intermediaries and pawnbrokers • Irish Stock Exchange (ISE) <ul style="list-style-type: none"> – Certain responsibilities under the Market Abuse Directive Regulations and Prospectus Directive Regulations have been delegated from IFSRA to the ISE for an interim period (up to 2008 and 2011 respectively)

Regulatory Structure
<ul style="list-style-type: none"> • “The Financial Regulator is adequately structured, funded, staffed, and provided with sufficient technical and other resources to fully and effectively perform their functions” – IMF 2007
<p>IFSRA organisational chart</p> <pre> graph TD IFSRA_Board[IFSRA Board] --> IFSRA_CEO[IFSRA Chief Executive] IFSRA_CEO --> Prudential_Director[Prudential Director] IFSRA_CEO --> Registrar[Registrar of Credit Unions] IFSRA_CEO --> Legal[Legal and Enforcement] IFSRA_CEO --> Consumer_Director[Consumer Director] Prudential_Director --> FI[Financial Institutions and Funds Authorisation] Prudential_Director --> BS[Banking Supervision] Prudential_Director --> IS[Insurance Supervision] Prudential_Director --> ISPS[Investment Service Providers Supervision] Prudential_Director --> MS[Markets Supervision] Consumer_Director --> PF[Planning and Finance] Consumer_Director --> CI[Consumer Information] Consumer_Director --> CPC[Consumer Protection Codes] </pre>
<p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> • Regulatory responsibilities are clearly defined • Regulator is adequately staffed and funded

Source: www.ifsra.ie; Bodies in Ireland with Regulatory Powers, Department of the Taoiseach, February 2007; Ireland: Report on the Observance of Standards and Codes, FATF, 2007; Deloitte analysis

Development of Regulatory Environment

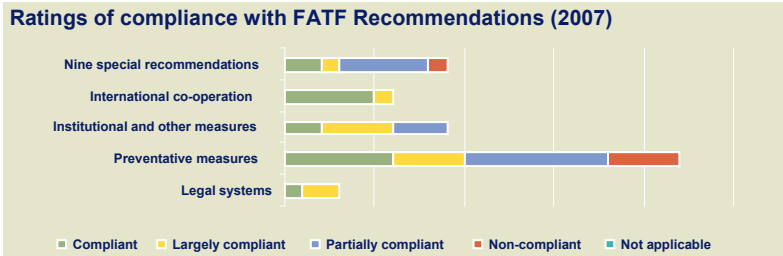
Ireland has sought to be at the forefront of implementing EU legislation



Source: EIU 2009; Article IV Consultation – Staff Report, IMF, September 2007; Strategic Plan of the Financial Regulator 2008-2010, IFSRA, September 2007; IFSRA Annual Report 2007; Deloitte analysis

Key Aspects of Regulatory Environment (1/3)

Ireland faces some ML issues but is making progress in overcoming them

International Compliance (AML/CFT)	International standards																																				
<ul style="list-style-type: none"> “The Irish authorities have sufficient powers to prosecute ML and TF offences; however the structures, staffing and resources to investigate these offences are also responsible for examining a range of white collar crimes. While legal measures are available to investigate and prosecute for ML or TF offences few cases lead to a successful prosecution” – FATF, 2006 <div data-bbox="250 596 1030 853"> <p>Ratings of compliance with FATF Recommendations (2007)</p>  <table border="1"> <caption>Ratings of compliance with FATF Recommendations (2007)</caption> <thead> <tr> <th>Category</th> <th>Compliant</th> <th>Largely compliant</th> <th>Partially compliant</th> <th>Non-compliant</th> <th>Not applicable</th> </tr> </thead> <tbody> <tr> <td>Nine special recommendations</td> <td>1</td> <td>1</td> <td>1</td> <td>1</td> <td>0</td> </tr> <tr> <td>International co-operation</td> <td>1</td> <td>1</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>Institutional and other measures</td> <td>1</td> <td>1</td> <td>1</td> <td>0</td> <td>0</td> </tr> <tr> <td>Preventative measures</td> <td>1</td> <td>1</td> <td>1</td> <td>1</td> <td>0</td> </tr> <tr> <td>Legal systems</td> <td>1</td> <td>1</td> <td>0</td> <td>0</td> <td>0</td> </tr> </tbody> </table> </div> <ul style="list-style-type: none"> Criminal activity related to drug trafficking offences are an issue although use of financial institutions is diminishing Considerable criminal proceeds from revenue and excise frauds <p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> Performs relatively well against FATF recommendations Tackling internal problems identified by FATF Engaged with the international community and is well represented at the EU level 	Category	Compliant	Largely compliant	Partially compliant	Non-compliant	Not applicable	Nine special recommendations	1	1	1	1	0	International co-operation	1	1	0	0	0	Institutional and other measures	1	1	1	0	0	Preventative measures	1	1	1	1	0	Legal systems	1	1	0	0	0	<ul style="list-style-type: none"> IFSRA has 19 memoranda of understandings in place with 15 institutions based outside of Ireland (excluding multilateral agreements) In 2006, Ireland became the first EU member state to incorporate the EU reinsurance directive into national law Ireland was the third country to pass its MiFID transposing legislation. The MiFID Regulations came into force in November 2007 IFSRA is actively involved in the Committee of European Insurance and Occupational Pensions Supervisors work that relates to Solvency II. In 2008 it is engaged in the QIS 4 quantitative study Pending finalisation of ICAAP reviews in 2008, credit institutions are required to maintain capital at least comparable with those under the Capital Adequacy Directive <p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> Aims to be at the fore front of EU harmonisation Potentially a significant attraction for multi-national companies looking for a gateway to the EU market as companies can expect to operate under a highly compatible regulatory regime
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Source: Report on Observance of Standards and Codes, FATF; Strategic Plan of the Financial Regulator 2008-2010, IFSRA, September 2007; EIU; Deloitte experts

Key Aspects of Regulatory Environment (2/3)

Ireland’s regulatory regime has been designed to attract international firms

Responsiveness to market and ease of entry
<ul style="list-style-type: none"> • EU and Irish law require that the Directors and Managers of financial services entities regulated by the Financial Regulator meet standards of competence and probity • The IFSRA applies strict licensing and supervision requirements before authorizing financial institutions to become active in Ireland • Under EU regulations, financial institutions from EEA states are permitted to conduct business in Ireland without first setting up an office in the country • Concerns about the lack of competition on the sector have been highlighted by both the Competition Authority and IFSRA, despite the arrival of overseas players in the savings, mortgage and business markets • The Irish regulator is considered to be very approachable by industry
<p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> • Operates a strong authorisation regime • As an EU state allows EEA registered firms to operate on a passport basis

Quality of regulation and consistency of approach
<ul style="list-style-type: none"> • The IFSRA operates a risk based supervision model and claims its risk rating system evaluates financial service providers under a number of general and specific risk headings • The potential impact of an institution on a number of stakeholders is also evaluated and forms part of the final score. Information from sources such as inspections, on and off-site reviews, prudential returns and financial statements feed into the risk rating process
<p>Regulatory Quality - 2007</p> <p>Normalized Regulatory Burden Index</p> <p>212 Countries</p> <p>Ireland</p> <p>Source: "Governance Matters VII: Governance Indicators for 1996-2007 " by Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi, http://www.govindicators.org. See note in Appendix</p>
<p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> • Considered to operate an effective and well-balanced regulatory approach • Regulations and approach to supervision are relatively transparent

Source: EIU; ARC 2007, National Competitiveness Council, 2007; Strategic Plan of the Financial Regulator 2008-2010, IFSRA, September 2007; Deloitte experts; www.financialregulator.ie; Deloitte experts

Key Aspects of Regulatory Environment (3/3)

To date, the regulator has been well structured and managed

Quality and availability of regulatory staff												Independence / legal position of regulator																																																														
<ul style="list-style-type: none"> IFSRA employed 344 permanent staff at end-December 2007 												<ul style="list-style-type: none"> The decision-making power of IFSRA lies generally with the members of the Authority which comprises the Chairman, Chief Executive, Consumer Director and seven other non-executive members. The Prudential Director also attends Authority meetings and, although not a member, plays a key role in decision making The Chairman, Chief Executive and Consumer Director were each appointed for a term of 5 years and may be reappointed The non-executive members of the Authority are appointed by the Minister for Finance and may hold office for an indefinite period, subject to a maximum of 15 years The Chairman, Chief Executive and four non-executive Authority members are also members of the CBFSAI Board 																																																														
<p>IFSRA: permanent staff numbers</p> <table border="1"> <thead> <tr> <th rowspan="2"></th> <th colspan="3">Department</th> <th colspan="3">Consumer Directorate</th> <th colspan="6">Prudential Directorate</th> <th rowspan="2">Overall total</th> </tr> <tr> <th>Senior Management</th> <th>Registrar of Credit Unions</th> <th>Legal and Enforcement</th> <th>Consumer Information</th> <th>Consumer Protection and Codes</th> <th>Planning and Finance Department</th> <th>Banking Supervision</th> <th>Insurance Supervision</th> <th>Financial Institutions and Funds Authorisation</th> <th>Investment Service Providers Supervision</th> <th>Markets Supervision</th> </tr> </thead> <tbody> <tr> <td>2006</td> <td>3</td> <td>19</td> <td>13</td> <td>32</td> <td>50</td> <td>15</td> <td>49.5</td> <td>30</td> <td>64</td> <td>37</td> <td>16.5</td> <td>329</td> </tr> <tr> <td>2007</td> <td>3</td> <td>21</td> <td>11</td> <td>32</td> <td>48</td> <td>18.5</td> <td>48</td> <td>33</td> <td>67.5</td> <td>46</td> <td>15.5</td> <td>343.5</td> </tr> </tbody> </table>													Department			Consumer Directorate			Prudential Directorate						Overall total	Senior Management	Registrar of Credit Unions	Legal and Enforcement	Consumer Information	Consumer Protection and Codes	Planning and Finance Department	Banking Supervision	Insurance Supervision	Financial Institutions and Funds Authorisation	Investment Service Providers Supervision	Markets Supervision	2006	3	19	13	32	50	15	49.5	30	64	37	16.5	329	2007	3	21	11	32	48	18.5	48	33	67.5	46	15.5	343.5	<p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> Successful in attracting suitably skilled staff to date but some concerns over availability of suitable staff in the future 											
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Source: IFSRA Annual Report 2007; Future skills and research needs of the IFSI, Expert Group on Future Skills Needs, December 2007; Ireland: Report on the Observance of Standards and Codes, FATF, 2007; Deloitte experts

International Market Confidence in Regulatory Environment

Dublin is a widely viewed as a pro-business environment

International market confidence													
<p>OECD, 2008 “The risks associated with the sharp run-up in domestic indebtedness have so far been contained. Irish banks are well-capitalised and profitable, so they should have considerable shock-absorption capacity. However, turmoil in the international markets continues to impact on the Irish financial system. Transparency in financial markets worldwide needs to be improved to restore confidence. It is important to prepare for downside risks and, in conjunction with international efforts, Ireland should consider its own arrangements”</p> <p>IMF, 2007</p> <ul style="list-style-type: none"> • “Banks have large exposures to the property market, but stress tests suggest that cushions are adequate to cover a range of shocks. Financial regulation and supervision have improved over the past year with the introduction of a new liquidity management framework for banks and the strengthening of capacity for insurance supervision. The authorities and staff shared the view that continued careful monitoring of banks’ risk management practices is essential” • “The Financial Regulator’s general approach – which aims to prioritize supervisory resources across sectors based on risk profile – is appropriate. The introduction of a new liquidity management framework for banks and the improvement in the capacity for insurance supervision are important steps forward. Looking ahead, continued careful monitoring of banks’ risk management practices, including for commercial property lending, is essential. The envisaged upgrading of the stress-testing framework and the commitment to continue to improve supervision are welcome” 	<p>FATF, 2006</p> <ul style="list-style-type: none"> • “Ireland follows a principles-based approach to regulation and supervision, placing responsibility on the boards and management of financial institutions to implement appropriate risk management systems and effective AML / CFT internal controls. The fitness and probity of those who manage financial institutions is monitored closely by the Financial Regulator” • “Ireland’s provisions for the confiscation of the proceeds of crime appear effective and comprehensive, and are available through both criminal and civil procedures” <p>US State Department, 2008</p> <ul style="list-style-type: none"> • “The Irish Government generally employs a transparent and effective policy framework that fosters competition between private businesses in a non-discriminatory fashion” <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p>Risk assessment</p> <table border="1"> <thead> <tr> <th>Sovereign risk</th> <th>Currency risk</th> <th>Banking sector risk</th> <th>Political risk</th> <th>Economic structure risk</th> <th>Country risk</th> </tr> </thead> <tbody> <tr> <td>A</td> <td>A</td> <td>BBB</td> <td>AA</td> <td>BBB</td> <td>BBB</td> </tr> </tbody> </table> </div> <p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> • Dublin is a widely respected pro-business environment • Regulation is viewed as appropriate and risks, to date, have been well managed 	Sovereign risk	Currency risk	Banking sector risk	Political risk	Economic structure risk	Country risk	A	A	BBB	AA	BBB	BBB
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Source: Article IV Consultation - Staff report, IMF, September 2007; Ireland: Country Risk Service, EIU, January 2009; Deloitte experts; Economic Survey of Ireland, OECD, 2008; Report on Observance of Standards and Codes, FATF; www.state.gov

Contents

Comparative study profiles:

- London
- Moscow
- Dublin
- **Madrid**
- Israel
- Singapore
- Istanbul



Madrid as a Financial Centre

Madrid occupies a prominent position in the international financial markets

Background & history	Capital Markets
<ul style="list-style-type: none"> Madrid is Spain's most important financial centre, as most financial institutions have their headquarters there Madrid is the decision-making centre for two of the world's 30 leading banks, BSCH and BBVA There is intense investment activity from Madrid, due to the internationalisation of Spanish companies 	<ul style="list-style-type: none"> The market capitalisation of BME has grown strongly in recent years Madrid is among the leading markets in terms of the volume of equities traded, with growth rates similar to those of Frankfurt and London In the past few years, the bonds and promissory notes balance grew significantly in the Spanish stock markets BME has a highly successful Euro-denominated market that allows trading of securities listed on Latin American markets in Spain. Latibex is the third largest market by capitalization for Latin American stocks
Strategy and product focus	Current situation and progress
<ul style="list-style-type: none"> In 2007 Madrid was the world leader in terms of the value of fixed-income products traded In 2007, in terms of fixed income products, the volume traded by Bolsas y Mercados Españoles was higher than that of the London Stock Exchange and the NYSE Group, and in stock volumes, Madrid ranked sixth in the world Madrid is also a leading exchange in terms of the volume of fixed income trading, and is growing faster than the international average Compared with its main European competitors, Madrid ranks fourth in equities in Europe, and has implemented numerous initiatives to increase its traded volume 	<ul style="list-style-type: none"> Spain has a strong and stable banking system, with Spanish banks being among the leading global banks. This is mainly due to the strict regulation. The equities market has grown significantly in Madrid since the start of the decade The Spanish fixed-income market has grown rapidly over the past ten years, backed by the issue of mortgage bonds In recent years Spanish companies have implemented strong foreign investment strategies Madrid has the opportunity to build up the structured product business, as seen by strong results of the options and futures markets in 2008 Madrid occupies a prominent position among its European counterparts in terms of the volume of net investment fund assets

Source: EIU (2008), INTERES



Financial Services Market

Spain is one of Europe’s largest financial services markets

Overview of domestic economy	
<ul style="list-style-type: none"> Spain has a GDP of \$1,610 Bn (2008), which makes it the 9th largest world economy <ul style="list-style-type: none"> GDP per capita (2008) was €26,700 Real GDP growth is 1.1% for 2008 France and Germany are Spain’s key trading partners: <ul style="list-style-type: none"> Exports: France (18.1%), Germany (10.4%), Portugal (8.3%) Imports: Germany (15.2%), France (12.3%), Italy (8.1%) In 2007 strong domestic demand in Spain resulted in an increase in imports, with the trade deficit widening to \$121 Bn Spain is the 6th largest FDI recipient in Europe and 9th in the world. Also, it is the 8th largest investor in the world Spain is an open economy with a 55.7% trade to GDP ratio, above the 51% OECD average 	

Financial services market headcount	
<ul style="list-style-type: none"> Spain employed more than 300,000 people in financial services Finance or accounting positions in Spain usually require a relevant degree (e.g. Economics) In case of foreign workers, The Spanish Ministry of Education must accept a foreign degree as an equivalent to a Spanish degree 	

Financial services market size									
<ul style="list-style-type: none"> The financial services sector in Spain is one of the largest in Europe BBVA and BSCH are two of the top ten banks in Europe At end-2007 the total assets of all monetary financial institutions operating in Spain were €2.83 trillion 									
<table border="1"> <thead> <tr> <th colspan="2">Banking</th> </tr> </thead> <tbody> <tr> <td>Profits after tax for the banking sector 2007</td> <td>€12.8 Bn</td> </tr> <tr> <td>Credit to the Resident Private Sector, 2007</td> <td>€1.74 Bn</td> </tr> <tr> <td>Deposits for the Resident Private Sector, 2007</td> <td>€2.23 Bn</td> </tr> </tbody> </table>	Banking		Profits after tax for the banking sector 2007	€12.8 Bn	Credit to the Resident Private Sector, 2007	€1.74 Bn	Deposits for the Resident Private Sector, 2007	€2.23 Bn	
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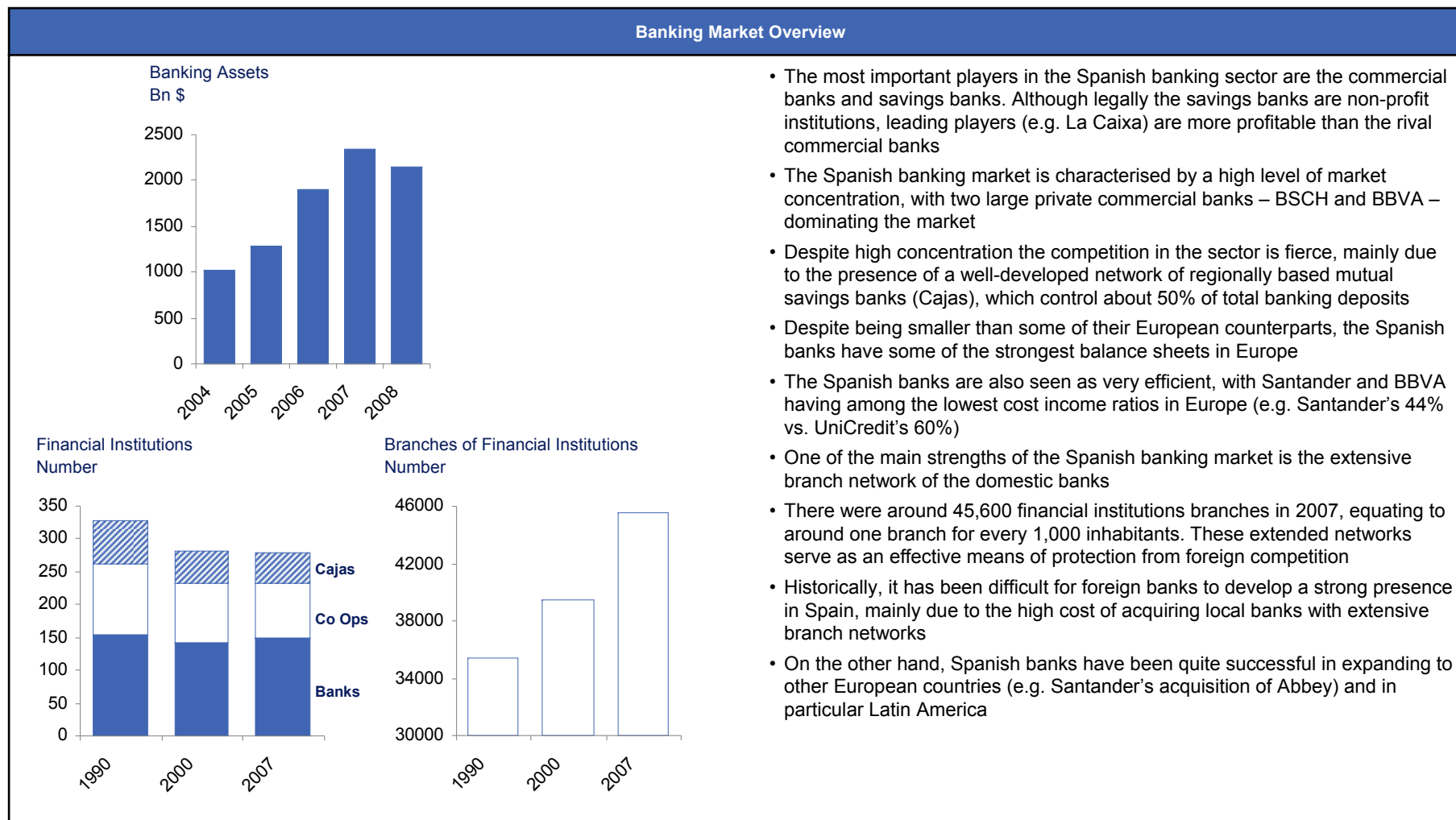
Financial services market structure & growth									
<ul style="list-style-type: none"> Two groups dominate the banking sector – BSCH and BBVA – and together account for around 40% of total assets in the sector Spanish banking sector is characterised by a dense branch network 									
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Source: EIU (2008), INTERES, overseasdigest.com



Spain's Banking Market

The Spanish banking sector is highly efficient and competitive

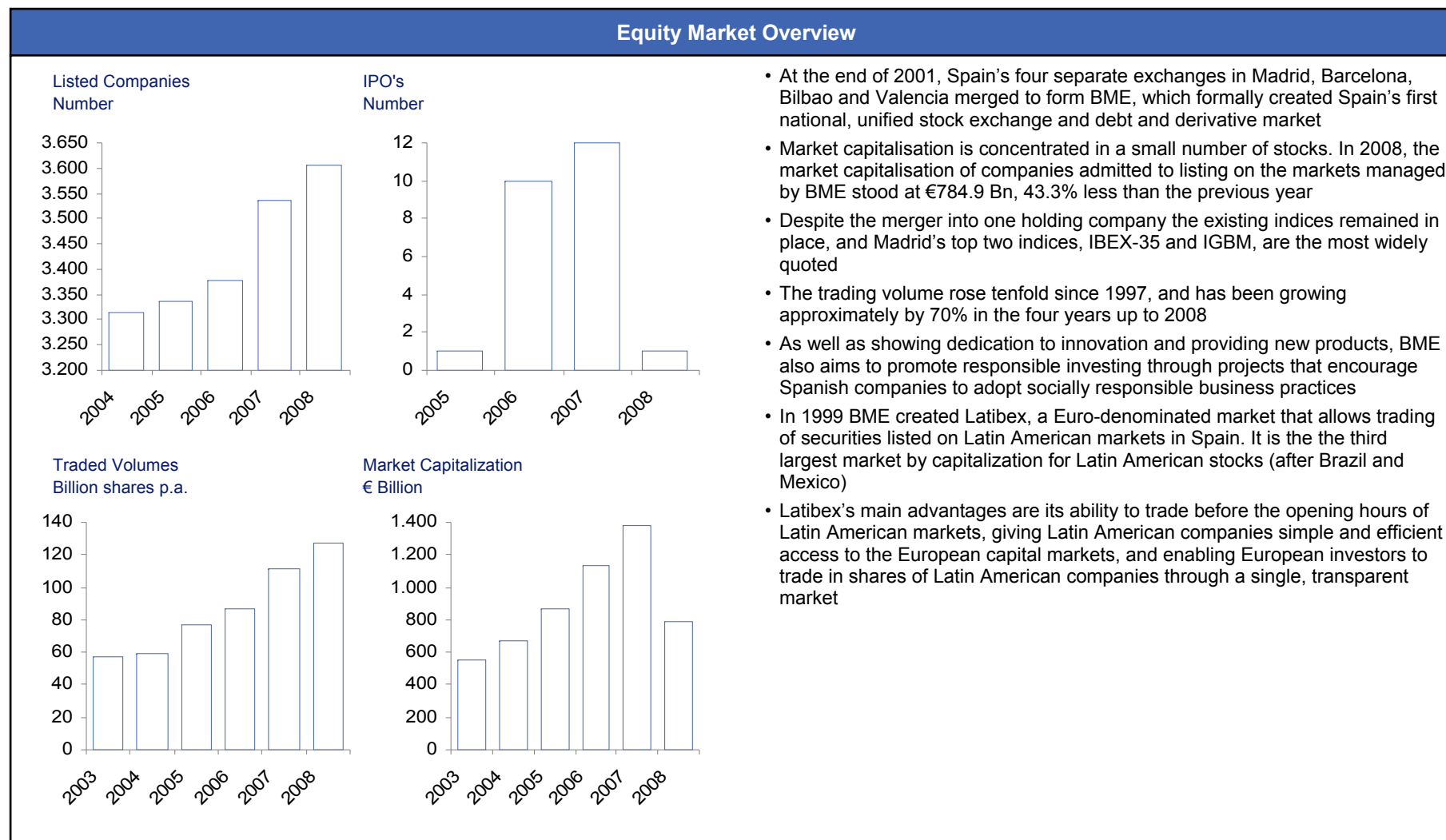


Source: EIU (2008), Bank of Spain



Spain's Equity Market

The equities business has grown significantly since the start of the decade

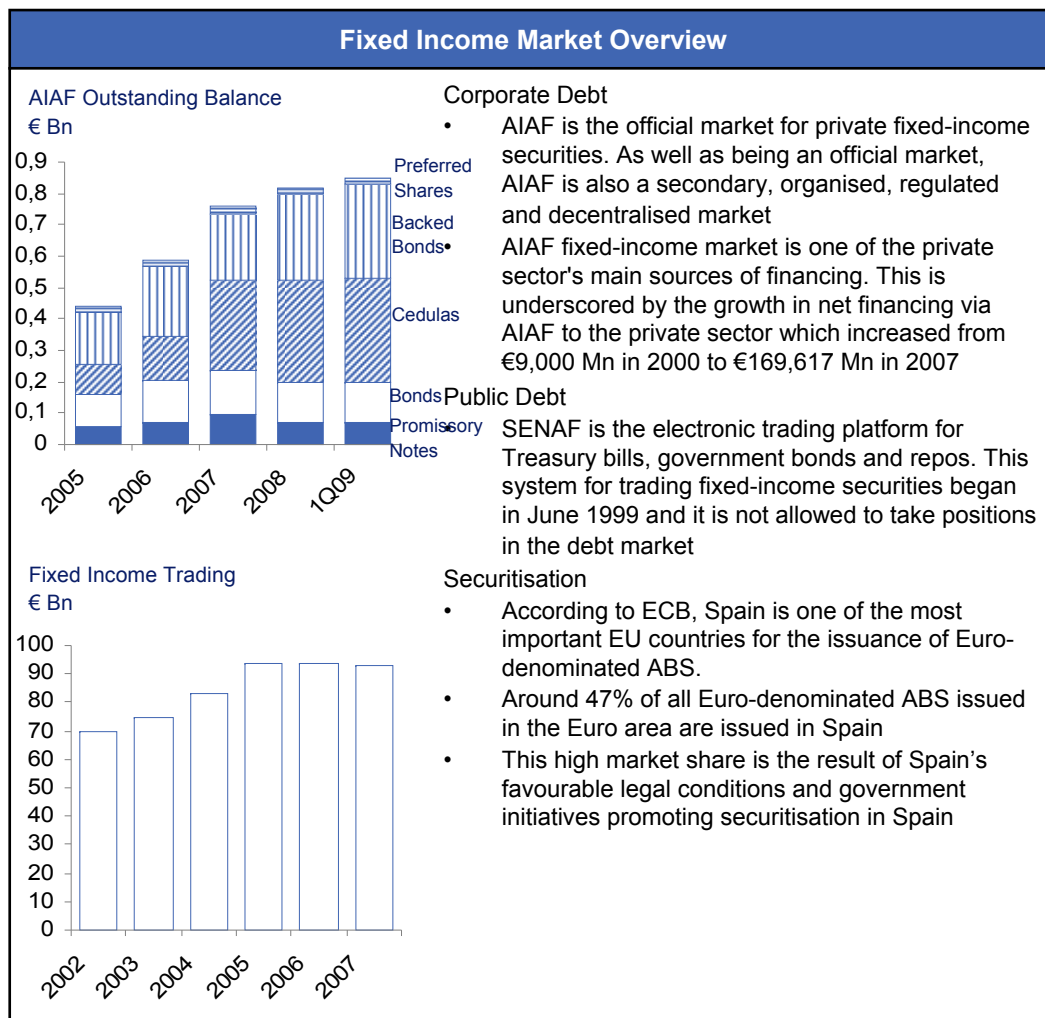


Source: EIU (2008), BME "Annual Report 2008", PwC "IPO Watch Europe 2008"



Spain's Fixed Income Market

Spain is the world leader in terms of the value of fixed income products traded in 2007



Derivatives Market Overview

- The first derivatives market in Spain, OM Ibérica, came into being in 1989 and made way for MEFF Renta Fija, started up in 1992 as the official market for public debt futures and options
- Futures, forwards, options and other hedging tools developed rapidly in Spain
- MEFF has tried to keep local futures markets competitive by making innovations in step with the introduction of the Euro and the increased integration of European stock markets
- In 2003 MEFF partnered with the Chicago Mercantile Exchange and S&P to launch futures and options on European indices, with MEFF conducting trading and the CME handling settlement
- According to the BIS study, the average daily turnover in the Spanish foreign exchange derivative market in 2007 was 133% higher than in 2004. In the OTC interest rate market, the average daily turnover in 2007 was 41% higher than in 2004
- The Spanish OTC forex derivatives market had daily average turnover of \$900 Mn in April 2007, up from a previous \$370 Mn in 2004

Source: EIU (2008), BME "Annual Report 2008", AIAF, ECB "The Euro Bonds and Derivatives Markets 2007"



Spain's Insurance Market

The Spanish insurance market is one of the largest in the world

Insurance Market Overview															
<p>Insurance Penetration, 2007 Total Premiums as % GDP</p> <table border="1"> <caption>Insurance Penetration, 2007 (Total Premiums as % GDP)</caption> <thead> <tr> <th>Country</th> <th>Penetration (%)</th> </tr> </thead> <tbody> <tr> <td>UK</td> <td>17.5</td> </tr> <tr> <td>Ireland</td> <td>10.5</td> </tr> <tr> <td>Singapore</td> <td>8.5</td> </tr> <tr> <td>Spain</td> <td>5.2</td> </tr> <tr> <td>Israel</td> <td>4.8</td> </tr> <tr> <td>Russia</td> <td>2.5</td> </tr> </tbody> </table>	Country	Penetration (%)	UK	17.5	Ireland	10.5	Singapore	8.5	Spain	5.2	Israel	4.8	Russia	2.5	<ul style="list-style-type: none"> • Insurance companies total premiums were 5.19% of GDP and life insurers were 2.17% of GDP at the end of 2007 • The Spanish insurance market is the world's eighth and world's fifth largest non-life insurance market in terms of gross direct premiums • The largest insurance company in Spain by premium volume is Mapfre, whose aim is to become one of the ten leading non-life insurers in Europe and to expand significantly in Latin America • Despite consolidation in the insurance market, many small niche market insurers remained in the market. They tend to specialise in particular product lines and/or geographical regions within Spain • The market is concentrated at the top, with the leading five insurance companies (according to premium production) controlling around 39% of the market • However, the bottom 10% of the market is geographically fragmented with more than 100 companies that occupy a strong position in specialist areas • Local players tend to have strong reputations in health and funeral expense insurance in particular • Distribution in the Spanish non-life insurance market is dominated by insurance agents, of which there are two types – exclusive agents (tied to one or two insurers) and tied agents (linked to a few insurers) • Despite the domination of agents, the share of premiums derived from brokers has been growing in recent years. There are around 4,000 brokers operating in Spain • In terms of life insurance, Spain is the fifth EU market with regards to the volume of policies • Life insurance in Spain is concentrated, with the top ten life insurance companies controlling around 49% of the market
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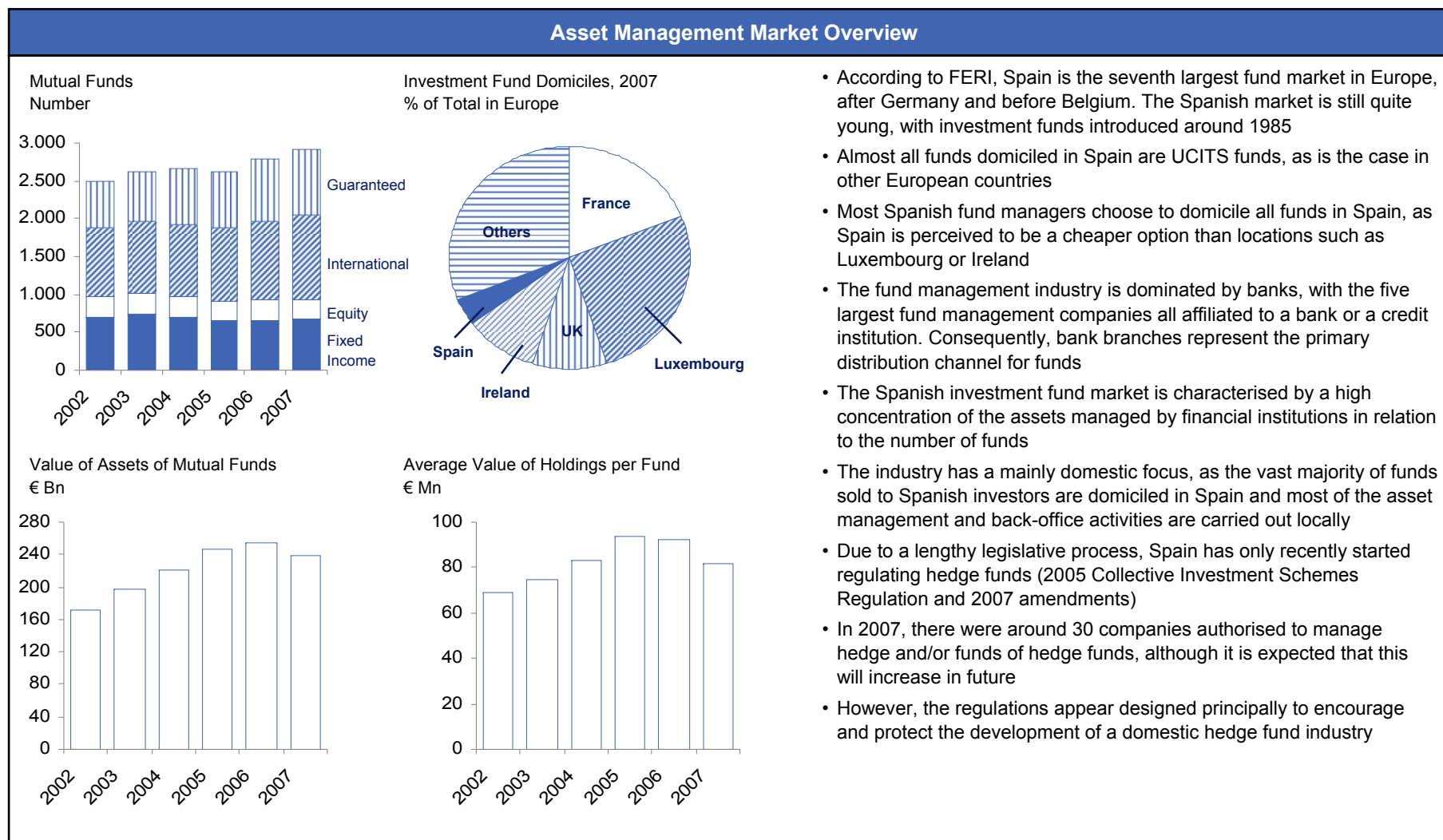
Re Insurance Market Overview
<ul style="list-style-type: none"> • The Spanish reinsurance market is unique due to the dominance of the government agency, Consorcio, which covers catastrophic risks as a direct insurer • The coverage is contracted on a compulsory basis • Private underwriters can cover Consorcio perils, although the coverage would be duplicated • Several international reinsurers have offices in Spain, although they tend to operate under the guise of reinsurance brokers and place business with their head offices • Facultative reinsurance is considered to be expensive in Spain • Although facultative reinsurance is sought fairly frequently in aviation and larger construction risks, overall it is a niche solution in Spain • The credit reinsurance business in Spain was negatively impacted by deteriorating economic conditions

Source: Lloyds "Insights: Spain", Swiss Re, Insurance Statistics Yearbook (2007), EIU (2008), Economy Watch



Spain's Asset Management Market

Spain has a lot of development potential in terms of asset management



Source: Hedge Week, Inverco, ICI, EFAMA, AFG, Fernandez et al (2008), CRA "Potential Cost Savings in a Fully Integrated European Investment Fund Market"



Skilled Labour Pool

Spain has a highly educated workforce and growing demand for financial professionals

Overview

- The population of Spain in 2007 was 43.6 Mn, with around 33% of the population living in the capitals of provinces
- Compared with many other OECD countries, Spain's population is relatively young:
 - Around 15% is under 16 years old, 68% is between 16 and 64 years old, and 17% is 65 and over
- Spain has also witnessed a significant inflow of immigrants in recent years
- Spain has a labour force of around 22.2 Mn people, which represents approximately 66% of the country's population between 16 and 64 years old
- According to the National Statistics Institute, around 66% of the labour force is employed in services
- Employment growth in Spain is higher than the EU average (3.6%)

Financial services professionals

- According to Bank of Spain banks, cajas and other types of financial institutions employ approximately 300,000 people. The figure is the highest ever for the sector
- Vacancies for highly qualified employees are mainly concentrated in Barcelona and Madrid
- Finance and accounting are estimated to make up around 6% of all job offers in Spain. Financial services professionals are quite mobile in Spain and the turnover rate is quite high compared to some other sectors
- Financial services, unlike the majority of other sectors, have one of the lowest rates of temporary employment in Spain (12.7%)

Tertiary education

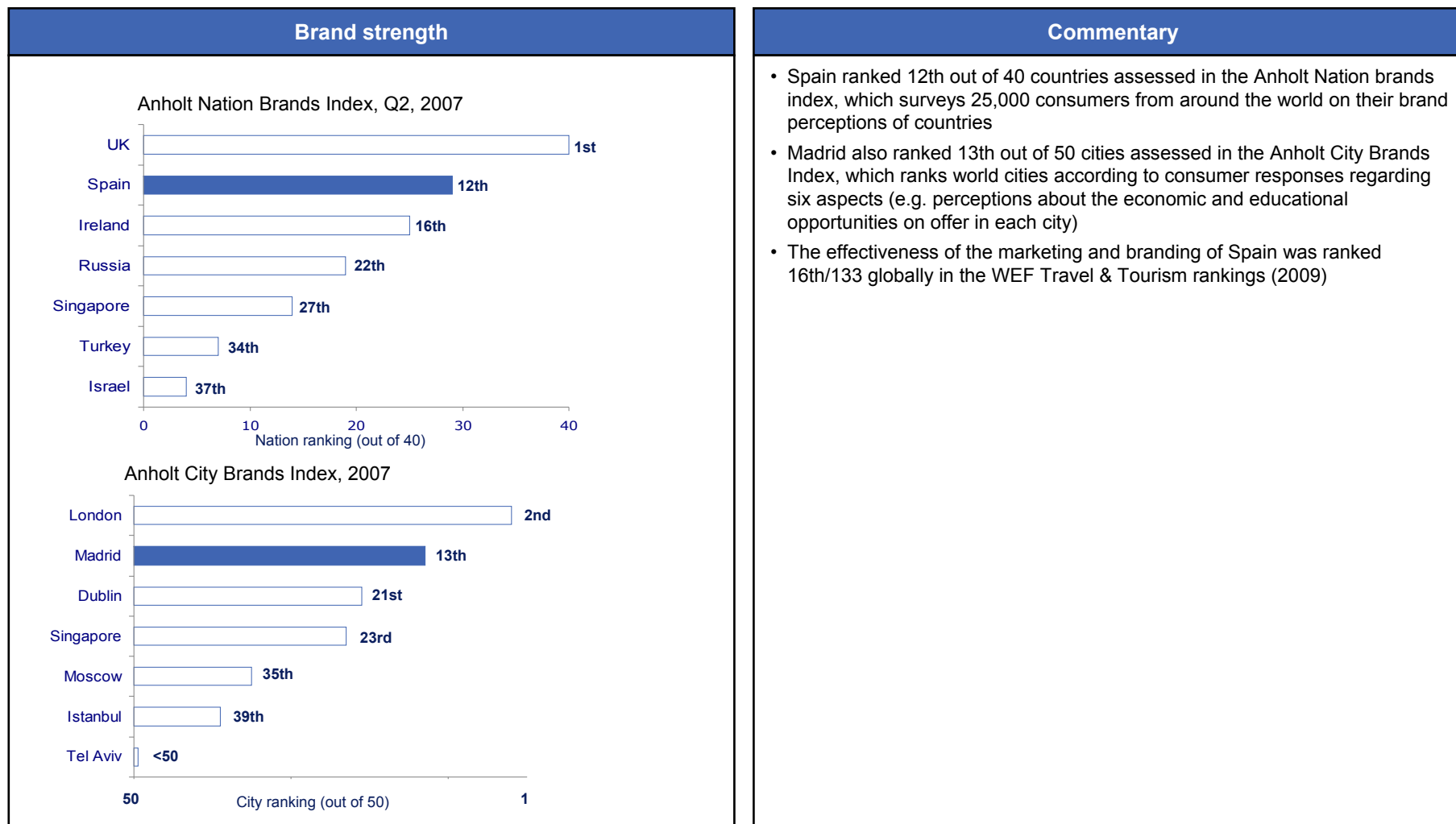
- Spain plays host to some of the oldest universities in the world and has traditionally been recognised for its quality tertiary education
- Total educational spending in Spain reached 5.2% of GDP in 2007, with just 19.5% funded privately (the state subsidises most private educational centres)
- In terms of expenditure per pupil, Spain ranks 12th in the EU, spending \$4,900 per year according to the OECD
- According to OECD, Spain holds the 8th position among OECD countries in percentage of college students between the age of 25 and 34, in front of the UK and Ireland
- There are six public universities in Madrid, including one of the biggest in Europe, the Universidad Complutense
- Madrid also has the highest number of private universities in Spain
- Spain has four MBA's in the Top 100 Global MBA rankings 2008 (FT.com), of which three are in the top 20: IE Business School (6th), IESE Business School (12th) and Esade Business School (18th)
- Spain ranks fairly highly on quality of education in the WEF Travel & Tourism rankings (2009)
 - Quality of the educational system 52nd/133
 - Extent of staff training 63rd/133
- According to a study done by the University of Salamanca, 90% of companies in Spain want graduates to be fluent in English as a basic requirement of employment
- However, according to a survey by Employment and Global Media Consultants, only 1.4% of Spanish university students graduate with the second-language levels (almost always English) necessary to find employment in large multinational companies
- The government is introducing plans to raise foreign language levels and see students fluent in at least two foreign languages

Source: WEF (2009), INTERES, National Statistics Institute, Bank of Spain, overseasdigest.com, Eurofound



Image & Perceptions

Spain is perceived to offer a good quality of life and qualified, cost-effective workforce



Source: WEF (2009), Anholt "Nation Brands Index 2007", Anholt "City Brands Index 2007"



Political and Economic Stability

Spain is perceived to be politically and economically stable

System of government

- Form of government: Parliamentary monarchy, whereby the Monarch is the head of state and the President of the Government is the head of government in a multi-party system
- Executive power is vested in the government. Central legislative power is vested in the two chambers of parliament. The Judiciary is independent of the executive and the legislature
- Spaniards directly elects their legislature, the Cortes Generales, which consists of two chambers, the Congress of Deputies and the Senate. Both serve concurrent terms that run for a maximum of four years. Every law is approved with the votes of Congress
- Spain is divided into 17 autonomous communities. All autonomous communities are ruled by a government elected by a unicameral legislature. They are also financially autonomous. As a result of this structure Spain is one of the most decentralised countries in Europe

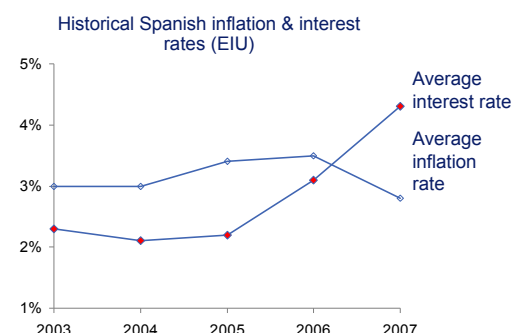
Economic policy

- During the 1990s, the Spanish economic policy focused on meeting the convergence criteria laid down by the EU for the economic and monetary union (EMU)
- Bank of Spain was granted autonomy in 1994 and implemented a cautious monetary policy in the run-up to the launch of the Euro. This greatly helped the Spanish economy to flourish, and Spain was admitted to EMU in 1999
- The loss of monetary policy (now in hands of ECB) means that fiscal policy is now the Spaniards' main instrument of domestic macroeconomic management. The general government deficit was eliminated in 2001 for the first time in 25 years
- The features of the economic policy in the past decade have been privatisation, tax reform and liberalisation. Spain's privatisation programme was largely completed by 2000, and in the same year the government approved a package of liberalisation measures

Political landscape

- Spanish Socialist Workers' Party (PSOE), the governing party since 2004, secured a narrow victory in the most recent general election (March 2008)
- The PSOE fell seven seats short of an absolute majority in the parliament. The PM, Jose Luis Rodriguez Zapatero, made only a few changes to his cabinet, and reappointed two vice-presidents
- One of the government's biggest challenges in recent years has been the demand for greater autonomy by the Basque Country and Catalonia
- The intention of the Basque president to hold a referendum in October 2008 on the region's right to secede could lead to a conflict with constitutional implications
- A further uncertainty for the government will be the outcome of a ruling by the Constitutional Court on the validity of the new statute for Catalonia

Economic stability



EIU Country Risk Ratings, October 2008

Sovereign risk	AA
Banking sector risk	BBB
Economic Structure risk	A
Political Risk	A
Currency Risk	A

Source: EIU (2008), INTERES "Spain: A Profile"



Infrastructure

Spain invests a lot in its infrastructure and is an important European hub

Transport	Telecoms & IT
<ul style="list-style-type: none"> • The Spanish Government pledged to invest heavily in infrastructure over the next few years. This is reflected in the Strategic Infrastructure and Transport Plan 2005-2020, which provided investment of around €250,000 Mn – rail transport accounts for almost 50% of the investment • Madrid is well connected to the rest of Spain with high-speed train network (AVE), which by 2020 is expected to span 10,000 km. The overall aim is to have all important provincial cities no more than 4 hours away from Madrid • In 2007, Madrid's Metro became the second largest metro network in Europe, behind London. The network serves a population of around 4 Mn and is one of the most fastest growing networks in the world • In addition to the extensive metro network, Madrid also operates a large, metro-like network of suburban trains (Cercanias) • Spain's air transport infrastructure ranks very high, 10th/133, in the WEF Travel & Tourism rankings (2009): <ul style="list-style-type: none"> – Departures per 1,000 population 26th/133 – Quality of air transport infrastructure 34th/133 – International air transport network 41th/133 • Madrid's Barajas airport is an important hub for connections between Latin America and Europe, as well as acting as a European gateway to Africa and Europe. It is recognised as the twelfth airport in the world in terms of number of passengers by the Airports Council International • Madrid also has two smaller airports • Barajas Airport increased its capacity to 70 Mn passengers per year since Terminal 4 opened in early 2006 • The expansion of Barajas Airport was mainly done to accommodate increasing air traffic until a new airport is completed in Campo Real area. The new airport is expected to be operational around 2016 	<ul style="list-style-type: none"> • Spain is Europe's fifth largest market for telecom services. Its ICT infrastructure ranks 31st out of 133 countries in the WEF Travel & Tourism rankings (2009) • Around 40% of the headquarters of the information technology and communications companies active in Spain are located in Madrid and its surrounding area. Within this sector, more than 8,000 companies are devoted to the development of high technology • Computer penetration is lower in Spain than in the EU, as is broadband penetration per household. Internet penetration in general is 39% for Spanish households, compared with the European average of 51% • According to the CMT, the Spanish telecommunications regulator, at the end of 2007 Spain had a mobile phone penetration rate of 112% • 3G penetration in Spain outstrips the European average and is higher than in countries including the UK, France and Germany. HSDPA coverage is available throughout the 3G network and the number of 3G customers in Spain has topped the 10 Mn mark • Spain is ranked 34th/134 on the networked readiness index according to WEF's Global Information Technology Report 2008/2009 • Spain has an extensive fibre optic network (64,000km) that covers almost the whole country, and also manages one of the largest international undersea cable networks. In addition, Spain has satellite connections with five continents • Madrid Red (maR), is an initiative started in Madrid to introduce its residents to the Internet and new technologies. One of the measures has been to put in place a network of centres aimed at making the citizens more technologically literate. There are 21 public Internet access centres open to citizens, and 6 technology dissemination centres for SMEs

Source: INTERES "Spain: A Profile", WEF (2009), esmadrid.com, Vodafone Spain, CMT, WEF "Global Information Technology Report 2008-2009"



Ease of Doing Business

Spain is perceived to be easy to do business in with low government intervention

Bureaucracy

- The World Bank 2009 Ease of Doing Business survey ranks Spain 49th overall out of 181 economies:
 - Detailed World Bank ease of business rankings, Spain (2009)

Category	Ranking
Starting a business	140th
Dealing with licenses	51st
Employing workers	160th
Registering property	46th
Getting credit	43rd
Protecting investors	88th
Paying taxes	84th
Trading across borders	52nd
Enforcing contracts	54th
Closing a business	19th

181 90 1
Global country ranking (out of 181)

- Spain introduced a number of positive reforms since the 2007 Ease of Doing Business survey, most importantly concerning 'Employing Workers'
 - Easier for employers to convert employees' contracts from fixed term to open ended
 - Lower non-wage labour costs and certain severance payments
 - However, Spain still ranks poorly in relation to other countries (160th place out of 181 countries)
- Spain is in the top 20 for 'Closing a Business'
 - Time for closing a business = 1 year
- Spain is not doing particularly well in 'Starting a Business', with 10 procedures required compared to leading country's ratings

Level of government intervention

- Spain is ranked the 29th most economically free country in the global Index of Economic Freedom and 16th out of 43 countries in the Europe region in 2009. Spain scored '70.1% free' vs. world average of 59.5% and an Europe average of 66.8%

Category	Percentage
Business freedom	77.5%
Trade freedom	86.0%
Fiscal freedom	54.5%
Fdm fm Government	56.2%
Monetary freedom	78.1%
Investment freedom	70.0%
Financial freedom	80.0%
Property rights	70.0%
Fdm fm Corruption	68.0%
Labour freedom	56.7%

Spain's ten economic freedoms (Index of Economic Freedom, 2009)
Key: 100 = most free | = world average

Transparency and corruption

- Spain is ranked 28th/180 in the World Corruption Perceptions Index (2008, Transparency International), with 1st being the country with the lowest perceived level of corruption
- In the Transparency International Global Corruption Barometer 2007 Report, 54% of Spanish respondents thought that in the next three years corruption in their country will increase

Source: World Bank "Doing Business 2009", Heritage "Index of Economic Freedom 2009", Transparency International (2008)



Lifestyle

Madrid has plenty to offer and is less expensive compared to other European capitals

Overview	Amenities
<ul style="list-style-type: none"> • The origins of the modern-day Madrid come from the 9th century, when a small citadel, al-Mudaina, was built. During Franco’s dictatorship the city experienced a large influx of migrants from rural areas of Spain. After Franco’s death Spain was newly established as a constitutional monarchy, with Madrid as the capital • Spain was ranked 10th for quality of life out of 111 countries in the EIU Quality of Life index (2005) • Madrid receives the highest number of visitors in Spain and is the fourth city in Europe regarding the annual volume of tourists. The capital of Spain has seen the number of visitors increase by 40% in the four years up to 2007 • According to UNESCO, Spain has the second highest number of Human Heritage sites in the world, behind Italy. Spain has a total of 37 sites of cultural and natural interest worldwide 	<ul style="list-style-type: none"> • Spain was ranked 52th/133 for the quality of its educational system in World Travel & Tourism rankings (2009) • Spain, and Madrid in particular, is home to a number of international schools teaching in English (34 in total), in particular in areas where there is a large number of expatriates • Madrid is also home to a large number of both public and private universities, some of which are among the oldest in the world • Madrid is generally safe and peaceful, although the country is considered to be at a small risk of political violence (e.g. 2004 Madrid bombings, 2006 ETA Barajas attack) • Transport in Madrid comprises a network of taxis, buses and the metro network. High speed trains and a modern airport link Madrid to the most important cities in Spain as well as abroad
Leisure	Cost of living
<ul style="list-style-type: none"> • Madrid is one of the top destinations in Europe regarding museums and galleries. The most famous is the Prado Museum, part of Madrid’s Golden Triangle of Art that comprises three museums (the other two being Reina Sofia and Thyssen Bornemisza Museums) • Madrid has many green spaces and parks, and even the Atocha Rail Station is home to a distinctive indoor garden with around 4,000 sq.m. of tropical plants • Madrid is a very lively city with a famous café society scene, and bars and restaurants can be found in almost every side street • Spain is also the second most popular destination for business meeting tourism in the world, behind the US • Madrid is home to Spain’s largest trade fair complex (IFEMA) and hosts a number of international fairs. In 2011 Madrid will also get a new state-of-the-art business centre 	<ul style="list-style-type: none"> • Madrid was 28th in the ‘Mercer Global Cost of Living Index’ 2008, up from 26th in 2007, 1st being the city with the highest cost of living • While the cost of dining out, clothing, public transport and entertainment is affordable, in particular compared to other European capitals such as London, Madrid has the highest property prices in Spain • Since the introduction of the Euro, there has been a perceived inflation in prices in Spain. With the conversion, some prices were rounded up to the nearest Euro equivalent, with more increases coming in time. • There is universal access to essential social services, including health services and education

Source: EIU, Mercer “Global Cost of Living 2008”, WEF (2009), Spain-info.com, Madrid County Council, Wikipedia, INTERES



Spanish Taxation System Overview

Recent improvements, but rates remain high

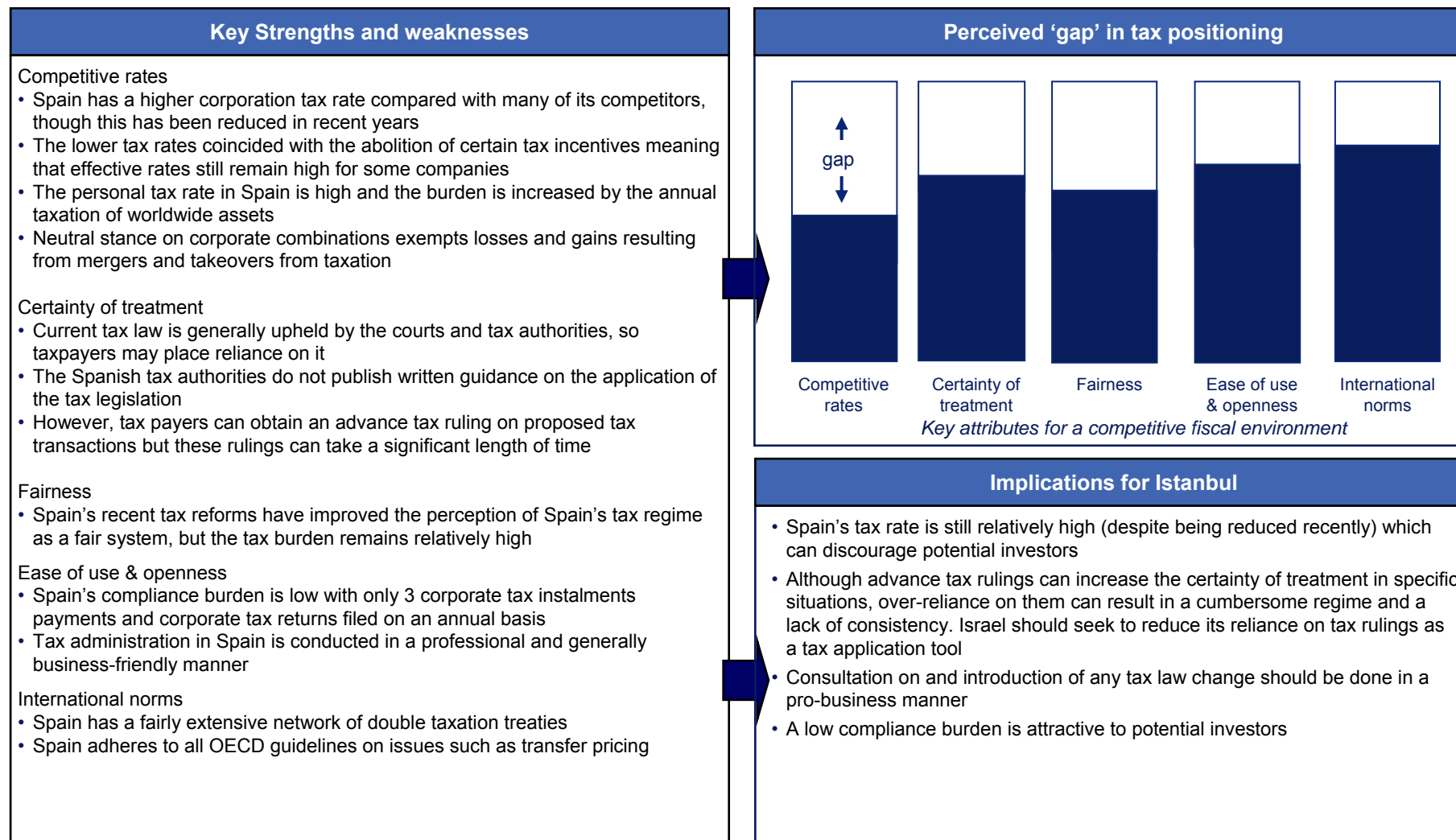
Rates
<p>Corporation Tax</p> <ul style="list-style-type: none"> The main tax rate on taxable profits is 30%, although reduced rates are available for small and medium size companies Spanish resident companies are subject to corporate taxes on worldwide profits and capital gains, regardless of where they arise A company is Spanish tax resident if <ul style="list-style-type: none"> it is incorporated or headquartered in Spain, or its place of central management and control is in Spain Companies may generally deduct from gross profits expenditure that is wholly and exclusively incurred for business purposes, although certain industrial and property taxes are also deductible Capital gains are included within taxable income Offsetting losses against taxable profits is generally allowed and losses can be carried forward for 15 years (but not carried back) Group relief of losses also possible in the current year against profits of other group companies If an entity qualifies as a venture capital fund capital gains from profitable share sales in target companies are generally 99% exempted from taxation (conditions apply) <p>Personal Tax</p> <ul style="list-style-type: none"> Rates are progressive from 24% to 43%, however savings income is subject to a flat rate of 18% Residents are subject to tax on their worldwide assets on 31 December of each year. Non residents are taxed on Spanish property <p>Withholding Tax</p> <ul style="list-style-type: none"> 18% on dividends and interest payments, 24% on royalties Branch remittance tax is 18% unless paid to an EU resident or reduced by treaty <p>VAT</p> <ul style="list-style-type: none"> 16% standard rate charged on sales of most goods and services Reduced rates of 7% and 4% may apply, also some exemptions <p>Other</p> <ul style="list-style-type: none"> Stamp duty (0.5% of the value of the subject in a notarised document). This varies between regions Employers' national insurance (23.6% social security tax on payroll)

Compliance and Administration
<ul style="list-style-type: none"> Companies self-assess their corporation tax liability The tax year coincides with the accounting period which may not exceed 12 months The corporate income tax return must be filed and taxes paid within 6 months and 25 days following the close of the fiscal year Corporations must make 3 advance payments during the year in April, October and December The Spanish tax authorities may provide advance rulings on tax consequences of a proposed transaction

International Aspects
<ul style="list-style-type: none"> Spain is party to more than 60 tax treaties The treaties often exempt interest, royalties and licensing payments from Spanish and foreign withholding taxes Spain adheres to OECD guidelines on issues such as transfer pricing Thin-capitalisation rules state that when the average loan amount with non-EU parties exceeds 3:1 debt-equity ratio, interest will be re-characterised as a dividend “Controlled foreign company” rules require that certain income of non-resident entities be included in the corporate taxable income Spain operates a participation exemption regime under which qualifying resident companies can exempt themselves from the Spanish tax regime and operate under the Spanish holding company (ETVE) regime. Qualifying ETVE companies are not taxed on foreign income from dividends and capital gains



Strengths, Weaknesses and Implications





Availability of Professional Services

Spain has a number of professional firms and a well-developed legal market

Overview	Lawyers
<ul style="list-style-type: none"> • There is a substantial presence of the ‘big 4’ in Spain, who together employ around 10,600 people, split: <ul style="list-style-type: none"> – Deloitte: ~3,500 – PwC: ~3,000 – KPMG: ~2,300 – E&Y: ~1,800 • All four have a network of offices spread across Spain – e.g. PwC have 21 offices covering the whole country and Deloitte have 19 offices • According to CCBE, there were 114,143 active lawyers in Spain 	<ul style="list-style-type: none"> • The Spanish legal sector has been characterised by the progression of its leading law firms from small local players into some of continental Europe’s largest and most successful independents (e.g. Garrigues is Europe’s largest independent law firm) • The size of the Spanish legal profession has been growing at a rate of around 1,000 lawyers per year and the number of law students has dropped from 160,000 to 90,000 since the beginning of the decade – good lawyers are an increasingly scarce resource • Barcelona and Madrid are the two key legal markets in Spain, although the major domestic players have a presence across the majority of Spain’s commercial centres • A number of UK firms boast strong practices in Spain (e.g. Clifford Chance). Recently, an increasing number of US firms have made moves into the Spanish market
Accountants	Consultants and other professionals
<ul style="list-style-type: none"> • Spanish Association of Accounting and Business Administration (AECA) was established in 1979 with the purpose of promoting professional activities and studies in the framework of accounting and business administration • AECA has almost 4,000 individual members and more than 600 institutional members • Institute of Accounting and Auditing of Accounts (ICAC), a government body under the Finance Ministry, has the power to adopt and issue accounting rules in Spain • There are a number of companies that offer tax and accountancy services specifically to the English speaking community in Spain 	<ul style="list-style-type: none"> • Spain has a full spectrum of consulting providers, including leading IT, HR & strategy consulting firms • A number of international consulting firms are located in Madrid, including Roland Berger, Deloitte, McKinsey & Company and others

Source: AECA, Which Lawyer?, Legal Week, “Big Four” websites, CCBE



Cost of Doing Business

Spain has relatively high labour costs and fairly limited inward incentives

Labour costs	Inward incentives	
<ul style="list-style-type: none"> • The global 'ease of doing business rankings' by the World Bank rank Spain 160th (out of 181) for 'Employing Workers' <ul style="list-style-type: none"> – Average firing cost = 56 weeks of salary (2.5 times more than the 22 weeks for the UK) • The majority of Spanish companies compensate their employees on a yearly 14-payment system. This system means the normal monthly salary is doubled twice a year, usually before the Summer and Christmas • Salaries in Madrid are the most competitive among Spanish cities. According to PayScale survey, in 2008 the median yearly wage by city in Euros is as follows: <ul style="list-style-type: none"> – Madrid: €34,426 – Barcelona: €31,520 – Seville: €28,905 • According to a survey carried out by the Spanish National Institute of Statistics, the financial sector has the highest salaries – up to 85% higher than the national average 	<ul style="list-style-type: none"> • INTERES Invest in Spain, tasked with promoting, attracting and maintaining foreign investment in Spain, was created in 2005 • The Spanish Government recently established a specific procedure for the work and residence of foreigners with a professional activity that requires high qualifications, which simplifies the procedure of obtaining work authorisation for these employees • Recent tax reform made Spain more appealing to foreign companies and workforce: <ul style="list-style-type: none"> • corporate income tax rate reduced to 30% • simplification of personal income tax calculation • changing the rates applicable to non-resident taxpayers do not qualifying for treaty protection (tax rate for capital gains cut from 35% to 18%) 	
	<th data-bbox="1133 855 2022 914">Office costs</th>	Office costs
	<ul style="list-style-type: none"> • Rental cost per square metre of office space <ul style="list-style-type: none"> – Spain was 17th in the global 50 CBRE index of office costs - 1st being the most expensive, (2008) – Total current occupation cost \$/annum: <ul style="list-style-type: none"> – \$1040 per sq. metre (23.3% increase over last 12 months) – Costs per sq. metre are 'gross' & reflect all occupancy costs 	

Source: CBRE "Global index of office costs 2008", World Bank "Doing Business 2009", PayScale, National Institute of Statistics, INTERES



Regulatory Philosophy and Structure

The Spanish regulatory system is undergoing significant reform

Regulatory Philosophy

- Currently, financial supervision in Spain is structured on the three pillar model (banking, insurance and securities)
- Key tenets of the approach are:
 - Protection of customers
 - Transparency
 - Investor protection
 - Market efficiency
- Regulators are currently being reorganised to a ‘twin peaks’ model

Key Regulatory Bodies

- The Banco de España (BE): supervises banks and credit institutions
- Comisión Nacional del Mercado de Valores (CNMV): in charge of supervising and inspecting the Spanish Stock Markets and their participants
- The General Directorate of Insurance and Pension Funds (GDIPF): A Directorate of The Ministry of Economy and Finance
- SPEBLAC: the financial intelligence unit

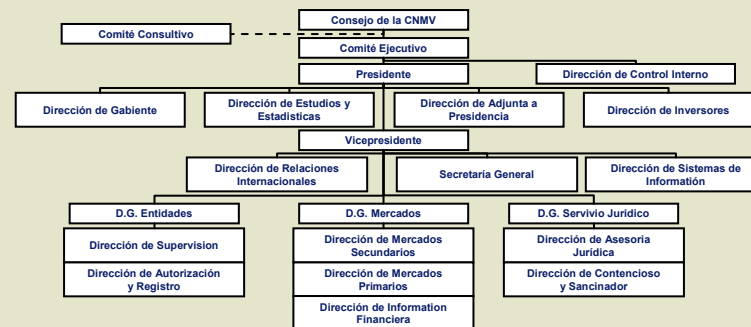
Regulatory Structure

The General Directorate of Insurance and Pension Funds organisational chart

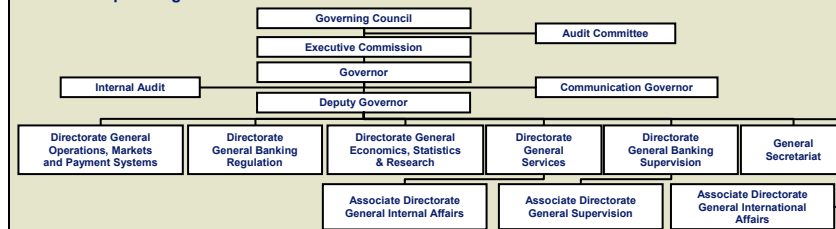


Regulatory Structure

CNMV organisational chart



Banco de España organisational chart



Key implications for international competitiveness

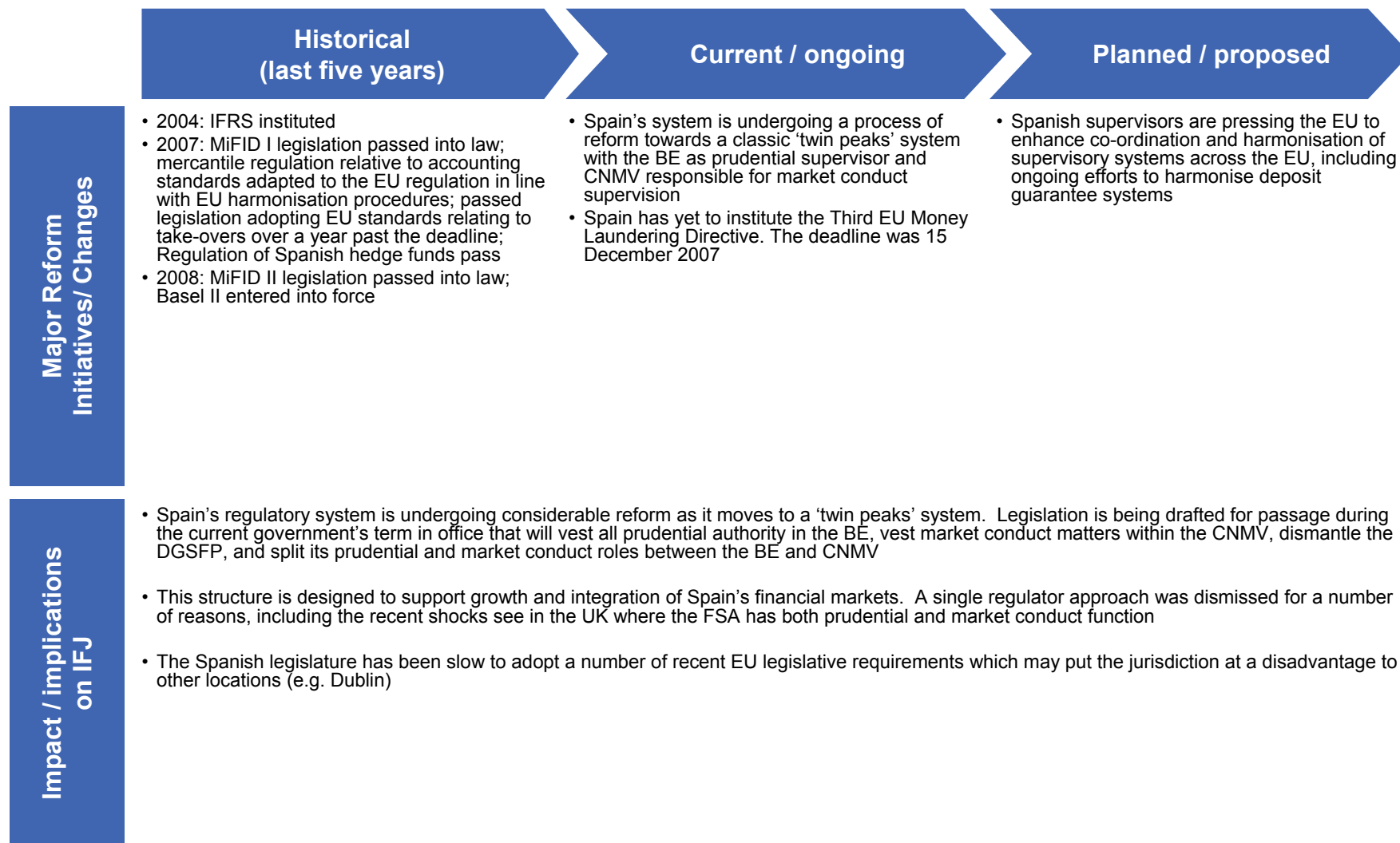
- Operates a relatively robust regulatory system
- A recent decision has been made, not driven by crisis, to adopt a new regulatory model
- This approach has won wide support from the regulatory, financial and political community

Source: CNMV; GDIPF; Bank of Spain; Deloitte experts



Development of Regulatory Environment

Regulatory developments are driven by EU requirements



Source: Bank of Spain Annual Report 2007; Deloitte experts



Key Aspects of Regulatory Environment (1/3)

Spain’s regulatory environment is not as developed as other EU member states

International Compliance (AML/CFT)	International standards																																				
<ul style="list-style-type: none"> • SEPBLAC is Spain’s financial intelligence unit • FATF noted that a lack of resources for its AML / CFT regulatory function may negatively impact its overall effectiveness. However, it also stated that the legal framework for combating money laundering and terrorist financing is generally comprehensive <div data-bbox="264 632 1043 890"> <p>Ratings of compliance with FATF Recommendations (2007)</p> <table border="1"> <caption>Ratings of compliance with FATF Recommendations (2007)</caption> <thead> <tr> <th>Category</th> <th>Compliant</th> <th>Largely compliant</th> <th>Partially compliant</th> <th>Non-compliant</th> <th>Not applicable</th> </tr> </thead> <tbody> <tr> <td>Nine special recommendations</td> <td>0</td> <td>1</td> <td>1</td> <td>0</td> <td>0</td> </tr> <tr> <td>International co-operation</td> <td>1</td> <td>1</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>Institutional and other measures</td> <td>0</td> <td>1</td> <td>1</td> <td>0</td> <td>0</td> </tr> <tr> <td>Preventative measures</td> <td>1</td> <td>1</td> <td>1</td> <td>1</td> <td>0</td> </tr> <tr> <td>Legal systems</td> <td>0</td> <td>1</td> <td>0</td> <td>0</td> <td>0</td> </tr> </tbody> </table> </div> <p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> • Spain does not perform particularly well against FATF’s recommendations, although it is only non-compliant in small areas • Spain has yet to ratify EU legislation relating to ML and CFT 	Category	Compliant	Largely compliant	Partially compliant	Non-compliant	Not applicable	Nine special recommendations	0	1	1	0	0	International co-operation	1	1	0	0	0	Institutional and other measures	0	1	1	0	0	Preventative measures	1	1	1	1	0	Legal systems	0	1	0	0	0	<ul style="list-style-type: none"> • The Spanish payment system is fully integrated into the EU system • Spain has ratified EU legislation relating to MiFID, Basel II, accounting standards and takeover bids although in some cases deadlines have been missed • Spain has yet to institute the Third EU Money Laundering Directive • IMF reported that the larger Spanish credit institutions and the BE seemed well prepared for the adoption of the Basel II credit and market risk framework • The organisation also stated “financial sector supervision shows a high degree of observance of international financial standards” <p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> • As an EU member state, Spain is required to comply with EU legislation • In some cases, Spain has missed deadlines but is working towards ratifying all EU directives
Category	Compliant	Largely compliant	Partially compliant	Non-compliant	Not applicable																																
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Source: Third Mutual Evaluation Report on Anti-Money Laundering and Combating the Financing of Terrorism: Spain, FATF; Financial System Stability Assessment: Spain, IMF; Spain: Financial System Stability Assessment, IMF



Key Aspects of Regulatory Environment (2/3)

The Spanish system is perceived to provide a relatively attractive environment

Responsiveness to market and ease of entry
<ul style="list-style-type: none"> • BE, CNMV, and the GDIPF provide guidelines in order to facilitate understanding of acts and regulations to the financial industry • Regulatory bodies also provide guidelines addressed to financial customers, for reinforcing the protection of financial services by educating the consumers (explaining the meaning of the acts and regulations) • In recent years, consultation with industry has increased and the process has become more transparent. In particular, the CNMV uses working groups with Investment Firms and associations to discuss new regulation • As an importer of financial services and financial products, there are not strict barriers to entry for carrying out financial services or for the marketing of financial products • Many foreign financial entities use EU passports in order to provide banking and financial services in Spain
<p>Key implications for international competitiveness</p>
<ul style="list-style-type: none"> • The Spanish market adopts a relatively consultative approach to developing regulation • Firms passporting in under EU rules provide a key source of non-domestic companies

Quality of regulation and consistency of approach
<ul style="list-style-type: none"> • The CNMV describes its approach to supervision as responding to the twin aim of properly preventing and managing the risks through ongoing control of a horizontal nature, together with periodic or vertical review, carried out in both a remote fashion as well as on site. Its methodology is based on international principles • An IMF assessment under the IOSCO principles for securities' market supervision found that securities' market regulation and supervision by CNMV is generally sound and of a high standard
<p>Regulatory Quality - 2007</p> <p>Normalized Regulatory Burden Index</p> <p>HIGH 3 2 1 0 -1 -2 -3 LOW</p> <p>212 Countries</p> <p>Spain</p> <p>Source: "Governance Matters VII: Governance Indicators for 1996-2007 " by Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi, http://www.govindicators.org. See note in Appendix</p>
<p>Key implications for international competitiveness</p>
<ul style="list-style-type: none"> • Quality and consistency are relatively strong, however as the regulatory system is currently being restructured, this may change in the future

Source: Financial System Stability Assessment: Spain, IMF; CNMV Annual Report 2007; Deloitte experts



Key Aspects of Regulatory Environment (3/3)

Potential issues exist around the quality of staff and independence of regulators

Quality and availability of regulatory staff	Independence / legal position of regulator
<ul style="list-style-type: none"> • As at 31 December 2007, the Banco de España employed a total of 2,720 staff, the same as a year earlier as the number of new staff matched the number of departures • Concerns exist over the quality of regulatory staff • Anecdotal evidence suggests staff are sometimes not trained in the financial private sector, and therefore, does not have the sufficient knowledge and specialist skills • There is also no rotation between public servants and private positions which limits opportunities for personal development <p style="text-align: center;">Key implications for international competitiveness</p> <ul style="list-style-type: none"> • The quality of regulatory staff is considered to be a significant issue internally 	<ul style="list-style-type: none"> • The BE is led by a Governor and Deputy Governor, the first proposed by the Government and appointed by the King and the second proposed by the Governor and appointed by the Government • The CNMV is led by a President and Vice President, appointed by the Government for four years renewable only once. Other members of the Commission include three members appointed by the Government, each appointed for four years renewable once, the Director General of the Treasury and the Deputy Governor of the BE • IMF argues that there was a need to strengthen the independence of financial sector supervisors as the regulators require specific delegation of authority to issue norms, and major violations must be formally sanctioned by the Ministry of Economy and Finance and the Council of Ministers • This is a particular point of contention for the GDIPF which is directly part of the Ministry of Economy and Finance <p style="text-align: center;">Key implications for international competitiveness</p> <ul style="list-style-type: none"> • The current regulatory structure is perceived to be too tied to government, in particular the Ministry of Economy and Finance and the Council of Ministers • However, the new regime is expected to improve independence issues to some extent

Source: Financial System Stability Assessment: Spain, IMF; CMNV Annual Report 2007; Banco de España Annual Report 2007; Deloitte experts



International Market Confidence in Regulatory Environment

Reforms of the regulatory system could improve Spain’s international standing

International market confidence													
<ul style="list-style-type: none"> In 2006, prior to the regulatory structural reform, the IMF argued Spain should: <ul style="list-style-type: none"> Strengthen the independence of financial sector supervisors Create an institutional mechanism for permanent and continuous coordination among the BE, CNMV, and GDIPF Ongoing reforms of the Statutes of the Autonomous Communities should clearly maintain the State-level supervisors’ sole responsibility and powers regarding prudential supervision and regulation Separate insurance supervision from the Ministry of Economy to achieve greater operational, institutional, and budgetary independence Appoint members of the CNMV’s board to longer, non-renewable terms Introduce regulations to prevent a credit institution representative serving on the board of a non-financial company from taking part in the institution’s decisions regarding that company 													
<p>Risk assessment</p> <table border="1"> <thead> <tr> <th>Sovereign risk</th> <th>Currency risk</th> <th>Banking sector risk</th> <th>Political risk</th> <th>Economic structure risk</th> <th>Country risk</th> </tr> </thead> <tbody> <tr> <td>AA</td> <td>A</td> <td>BBB</td> <td>A</td> <td>A</td> <td>A</td> </tr> </tbody> </table>		Sovereign risk	Currency risk	Banking sector risk	Political risk	Economic structure risk	Country risk	AA	A	BBB	A	A	A
Sovereign risk	Currency risk	Banking sector risk	Political risk	Economic structure risk	Country risk								
AA	A	BBB	A	A	A								

Proposed structural changes
<ul style="list-style-type: none"> Currently, the structure of financial supervision in Spain is based on a three pillar model (banking, insurance and securities) This model will be substituted by a two pillar model (prudential v. conduct of business) described as the ‘twin peaks’ approach In the future the structure of financial supervision will be composed by a new supervisory body, National Commission of Financial Services (CNSF) which will be in charge of the conduct of business supervision in the banking, insurance and securities sectors. The BE will be in charge of the prudential supervision of banks, investment firms and pension plans
<p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> Reforms should deal with a number of criticisms raised by international bodies However, a considerable amount of work remains to be done to prove the efficacy of the reforms

Source: Spain: Country Risk Service, EIU, October 2008; Deloitte experts; Financial System Stability Assessment: Spain, IMF; Spain: Financial System Stability Assessment, IMF

Contents

Comparative study profiles:

- London
- Moscow
- Dublin
- Madrid
- **Israel**
- Singapore
- Istanbul



Israel as a Financial Centre

In recent years, Israel has become a vibrant financial centre in the Middle East

Background & History

- Israel gained its independence from Britain in 1948
- The Tel Aviv Stock Exchange (TASE) was incorporated and began operations in 1953
- In 1983 the stocks of the four largest banks in Israel collapsed, following which the banks were nationalized by the state. This later came to be known as the “Bank Stock Crisis”
- In 1985 the government successfully implemented the stabilization plan to curb inflation that had reached 450% in that period
- In the '90s and the first few years of current decade, Israel gradually abolished all exchange controls
- Since the mid-1990s the Tel Aviv Stock Exchange (TASE) has been adapting to meet the standards of the most advanced exchanges in the world
- In 1994 the government lifted a ban on overseas investment, allowing institutional investors to invest abroad

Capital Markets

- The TASE plays a central role in the Israeli capital market, bringing together issuers and investors and contributing to Israel's growth and prosperity
- The TASE handles trade in all forms of securities: stocks, convertible securities, corporate and government bonds, short-term certificates, index options and futures, currency options and futures and a variety of securities derivatives such as Index Linked Notes (ILNs), reverse certificates and covered warrants
- There were 642 listed companies, with \$218 billion market capitalization in July 2008.
- During 2008 listed companies raised \$ 1.8 billion
- The stock exchange is regulated by the Securities Law (1968), and falls under the direct supervision of the Israel Securities Authority (ISA)

Strategy and Product Focus

- Membership in the OECD is one of Israel's prime strategic objectives
- In 2007 Israel was one of a few countries invited to join the OECD
- Before Israel becomes a full-time member of the OECD it will have to go through a lengthy process involving legislative updates and accommodation of the OECD's standards

Current Situation and Progress

- In 2007 Israel's financial services sector constituted around 5% of the GDP and provided jobs to 3.6% of the total business sector workforce
- In recent years the financial system successfully maintained its stability despite numerous external and domestic shocks – the global financial crisis and the war in the north of Israel among others
- Until 2007 results in the capital markets was marked by rising prices and record turnovers in the equity and bond markets. In 2008 the performance of the market declined due to the global financial crisis.
- The performance of Israel's banking system in recent years was characterized by high levels of profitability, a stable capital adequacy ratio, and a decrease in credit risk.
- These positive trends are the result of favourable macroeconomic conditions and structural reforms that made the market more liquid and attractive to investors

Source: Bank of Israel, TASE, World Federation of Exchanges



Financial Services Market

Financial services contribute around 5% to Israel's GDP

Overview of Domestic Economy

- Israel has an estimated nominal GDP of \$199.5 bn for 2008
 - GDP per capita (PPP) estimate for 2008 is \$27,933 (2007: 26,323)
 - Average real GDP growth was 4.1% over the period 2004-2008
- The EU and US are Israel's key trading partners
 - Exports (2007): US (41.2%), Belgium,(8.9%), Hong Kong (6.8%) and UK (4.3%)
 - Imports (2007): US (14%), Belgium (7.9), Germany (6.22%), China (6.2%)
- Israel's estimated trade deficit for 2008 is \$9.7 bn (2007: \$6.0 bn)
- Government debt/GDP ratio is estimated to be 77.4% (2007: 78.9%)

Financial Services Market Headcount

- Financial and business services contributed 5% of total GDP in 2007
- Israel employed around 95,000 people in financial services in 2007
- The market has recorded strong results in recent years and the financial system successfully maintained its stability despite external and domestic shocks
- A host of structural reforms were carried out in recent years. They mainly related to the pension industry, the tax system, liberalization of institutional investors' activities, the bond market, and, recently, the Bachar reform
- The reforms have transformed the domestic financial system and helped it advance towards greater competitiveness, efficiency, and stability

Financial Services Market Size

- Israel's financial services sector constituted around 5% of the GDP and provided jobs to 3.6% of the total business sector workforce in 2007
- As of December 2008, 25 firms held banking licences. Fifteen of the 25 firms are commercial banks. This number includes the five main banking groups and seven distinct subsidiaries of these groups

Total assets of financial institutions

Total Banking Assets \$ billion, September 2008	263
Insurance Companies \$ billion, 2007	56

Financial Services Market Structure & Growth

Financial market indicators

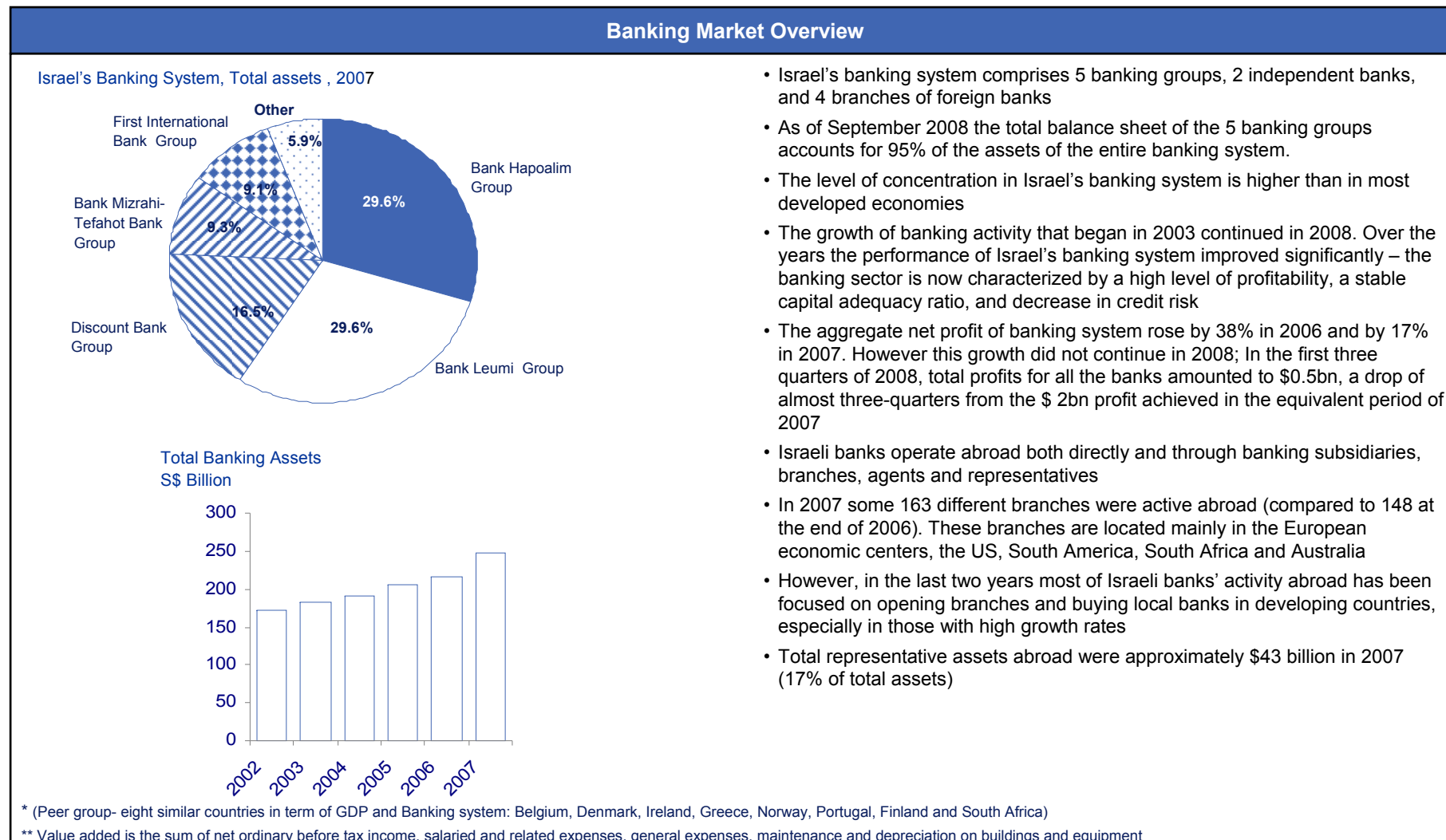
Banking Total lending to the private sector, September 2008	84 (% of GDP)
Insurance All: Total premiums written, 2007 Life: Total premiums written, 2007	4.9 (% of GDP) 2.6 (% of GDP)
Funds Pension: Total assets, September 2008 Mutual: Total assets, September 2008	38.1 (% of GDP) 13.6 (% of GDP)

Source: Statistics Bureau, Bank of Israel, Ministry of Finance, EIU (2007)



Israel's Banking Market

Israel's banking market is highly concentrated and dominated by domestic players

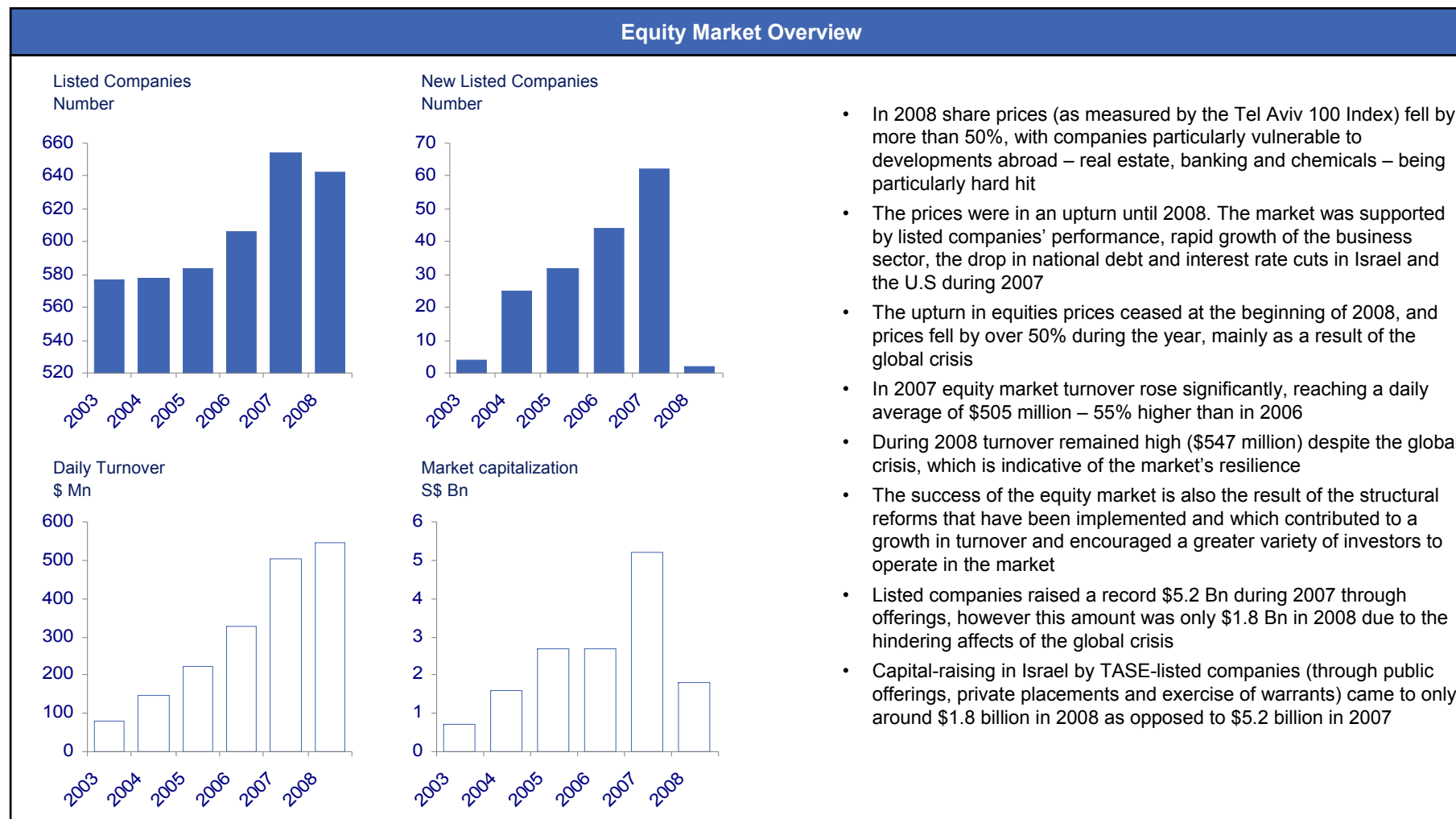


Source: Bank of Israel, EIU (2007)



Israel's Equity Market

The global crisis also affected Israeli equity market in 2008

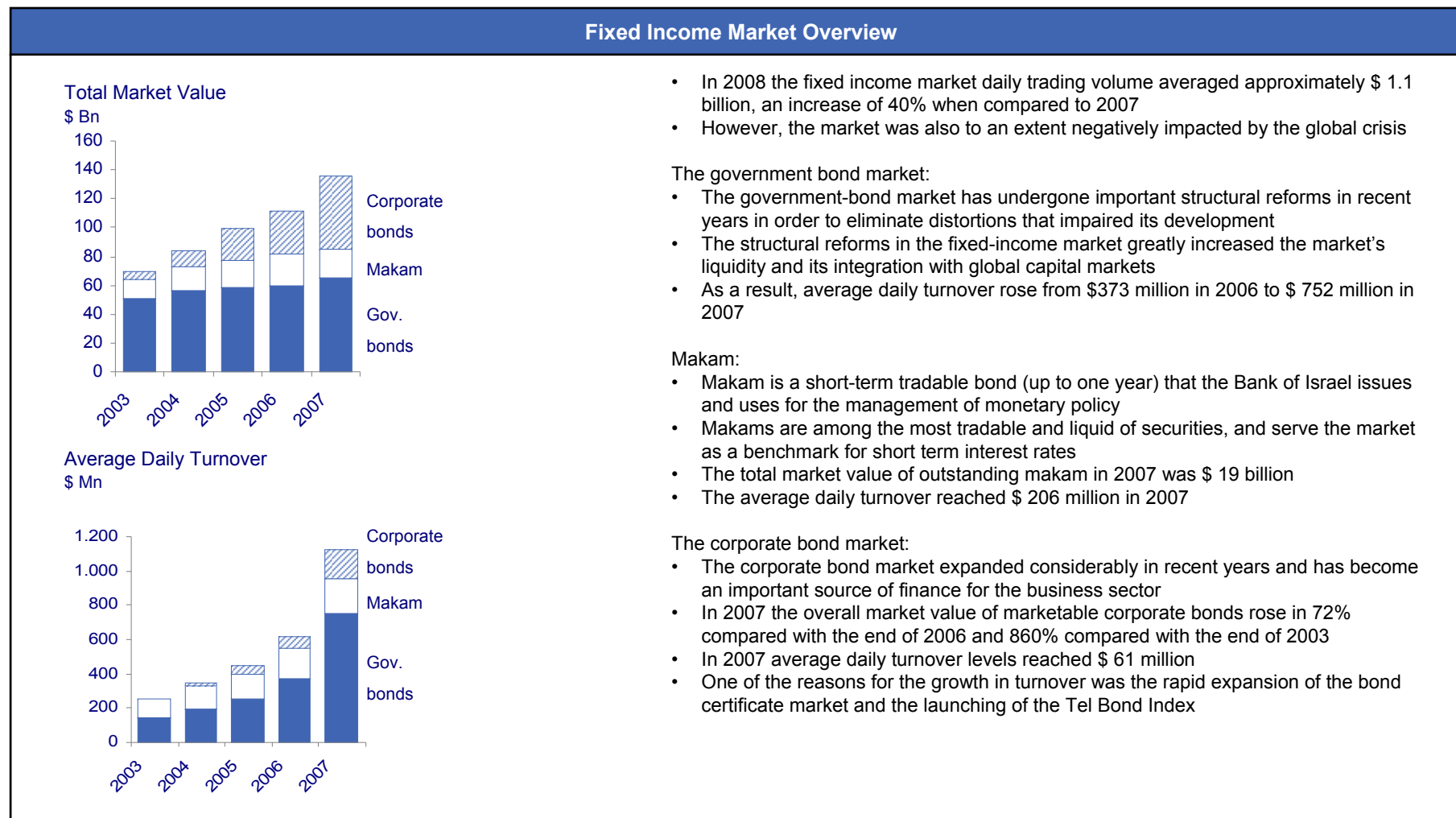


Source: Bank of Israel, TASE



Israel's Fixed Income Market

Israel's corporate bond market has seen rapid growth in recent years



Source: Bank of Israel Annual Report (2007), TASE



Israel's Fixed Income Market (cont.)

The rate of issuance of new ETFs in Israel is faster than in other developed markets

The Shekel / Foreign – Currency Market

Exchange rate:

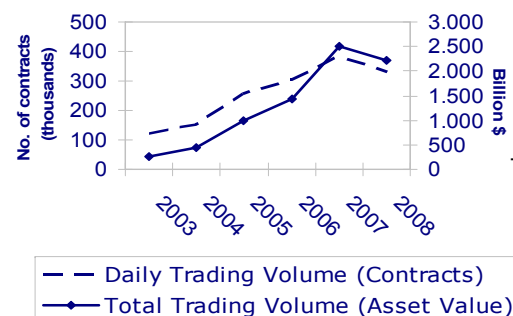
- The dollar fell by 16% against the shekel to 3.23 NIS/dollar in July, recovering to approximately 3.80 NIS/dollar by the end of the end of 2008
- The appreciation of shekel against the dollar in the first half of 2008 mainly resulted from the worldwide weakening of the dollar

Foreign currency market:

- Foreign residents' investments in Israeli equities totaled \$12 bn in 2007. The vast majority of this activity took the form of FDI
- The expansion in foreign direct investments in recent years, which was centered among high tech companies, reflects foreign investors' confidence in the Israeli economy and its technological advantages

Derivatives Market Overview

TA-25 index Trading Volume



- From 2003 to 2007 the activity in options on the TA-25 index quickly increased, in parallel with the rise in turnovers in the equity market. But this increase slowed down in 2008 due to the global crisis

– The total trading volume in underlying assets' value terms increased by 846% between 2003-2007, but decreased by 12% in 2008

Exchange Traded Funds

- The rapid development of index products continued in 2008 for the fifth consecutive
- The number of funds also increased considerably by 140 in 2008 reaching 333
- Turnover in ETFs is an important component in overall turnover on the Tel Aviv Stock Exchange: In 2008, 20% of average equities turnover and 20% of corporate bond turnover derived from share ETFs
- The rapid development of the ETF market in Israel is part of the global increase in investment in index instruments



Israel's Insurance Market

Israel's life and general insurance markets are highly concentrated

General Insurance Market Overview	Life Insurance Market Overview
<ul style="list-style-type: none"> • Total premiums in the non-life insurance lines in 2007 totaled around \$ 4 billion • Premiums rose by \$ 70 million compared to 2006, reflecting an increase of 1.8 % • In recent years there has been a trend towards mergers and acquisitions of insurance companies, resulting in a decrease in the number of insurance companies from 31 in 2000 to 23 in 2007 • The five major insurance groups– Harel, Clal, Phoenix, Menorah, and Migdal – accounted for 72 % of total premiums (\$ 2.8 billion) • The most successful types of insurance are compulsory vehicle insurance (there are approximately 2.2 million vehicles in Israel) , property vehicle insurance, and the sickness and hospitalization related insurance • The heavy losses incurred by savers in the various pension products during 2008, an average of 1520% in provident funds, 10-15% in life insurance and some 6-8% in pension funds, in the first ten months of the year has engendered dismay and anger among the general public • As of January 2009, the government is discussing providing savings safety nets that will guarantee pensions for people over 57 	<ul style="list-style-type: none"> • The total life insurance premiums in 2007 was approximately \$ 4.6 billion. • As of 2007 the five largest groups in the market accounts for 79% of the total life insurance sector • A life insurance program in Israel may or may not include a risk component, may be sold as an insurance fund (managers' insurance or insurance for the self-employed) that has certain tax benefits, or as an individual program that is not an insurance fund and therefore, has no tax benefits • In the wake of reforms instituted in the life insurance products market and the structure of agents' commissions (levelling commissions over the life of the policy), as of 2004 old products were no longer being marketed. In their place, companies began marketing new insurance programs with the premiums divided into three components – savings, expenses and insurance coverage. Savings monies from the new policies accrue in a new participating portfolio
Re Insurance Market Overview	
<ul style="list-style-type: none"> • The insurance sector in Israel is characterized by a high degree of concentration (although less than in the banking sector), with 81% of total premiums in the sector concentrated in the hands of the five largest insurance groups • Despite the almost equal split between general insurance (53%) and life insurance (47%), in the case of reinsurance premiums the situation is completely different – with only 16.5% coming from life insurance • Furthermore, the level of life insurance reinsurance has fallen in recent years from 5.3% in 2004 to 4.2% in 2006 • Between the various insurance groups, it can be seen that the Harel, Migdal and Clal transfer 32%, 30% and 29% respectively of their total general insurance premium to reinsurance • In addition, the Harel and Clal represent 51.4% of total general insurance reinsurance premiums 	

Source: EIU (2007)



Skilled Labour Pool

The FS industry currently employs around 89,000 Israelis

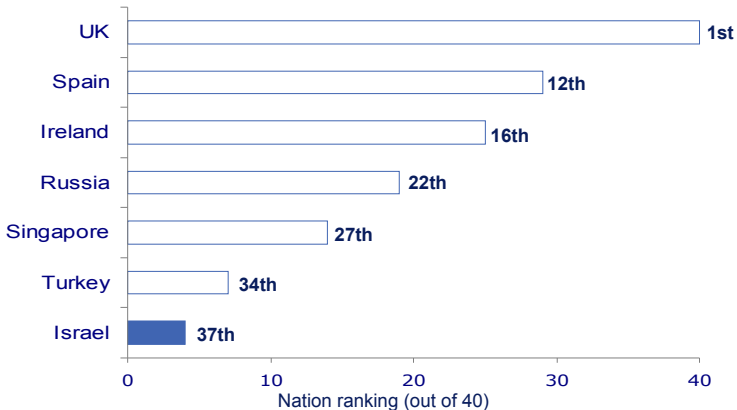
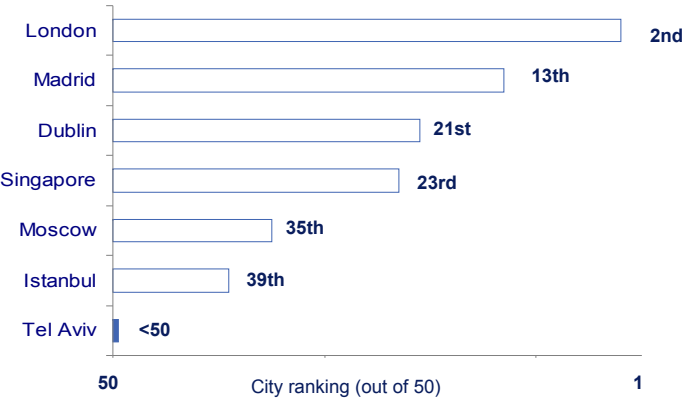
Overview	Tertiary Education
<ul style="list-style-type: none"> • In 2007 Israel had a total population of 7.180 million • Average population growth was 1.8% since 2003 • Immigration continued to decline in 2007 (18,129) and was the lowest since 1988 • Resident demographics: <ul style="list-style-type: none"> – Aged between: 0-14 (26%), 15-64 (64%), 65+ (10%) – Mean age: 28.9 • The civilian labour force, which consists of employed and unemployed Israelis, was 2.894 million in 2007 – 56.3% of working age population • The participation rate among the ultra-Orthodox population is very low • The number of non-Israeli workers was 235,600 (2007) – 6.3% from total employees • Unemployment rate in 2007 was 7.3% 	<ul style="list-style-type: none"> • In 2006 the percentage of persons aged 25-64 holding an academic degree was one of the highest in the world at 29 % – same as in the US, and higher than the OECD average of 25% • Education spend per student (% GDP per capita) is around 26% • In 2008 there were 73 institutions of higher education, including 8 universities, 27 academic institutions which are not universities, 38 institutions for training teaching staff • Four Israeli universities are included in the European Top 100 • All universities, and some colleges, are subsidized by the state, and students pay only a small part of the total cost of tuition • In Israel, most students begin their studies aged 20-24, which is later than in other countries – this is due to compulsory military service • About a third of all students study Social Science and Business related subjects • In recent years, the number of students studying social sciences, humanities, business management and mathematics has increased considerably • About a third of all students in universities are graduate students, a high percentage relative to other developed countries • The language of instruction in all of the institutions of higher education is Hebrew, although several offer a few courses or programmes in other languages. For example there are MBA programmes in English in Tel Aviv and Bar Ilan universities
<h4 data-bbox="212 874 1102 933">Financial Services Professionals</h4> <ul style="list-style-type: none"> • Israel's financial services industry (banking, insurance and finance) employs approximately 89,000 citizens (2008) • The number of employees in financial services expanded rapidly over the period 2005-2008 – 6.5% annual average change • The real wage growth in financial services was 7% between 2005-2007 • In 2007 the real wage was stable, despite the continued extensive recruitment of personnel in the industry 	

Source: EIU (2007), National Statistics Office, UNESCO



Image & Perceptions

Tel Aviv was rated 105th out of more than 200 cities in Mercer Quality of Living survey

Brand Strength	Commentary																																
<p data-bbox="414 427 819 451">Anholt Nation Brands Index, Q2, 2007</p>  <table border="1" data-bbox="291 462 1025 874"> <thead> <tr> <th>Country</th> <th>Ranking</th> </tr> </thead> <tbody> <tr><td>UK</td><td>1st</td></tr> <tr><td>Spain</td><td>12th</td></tr> <tr><td>Ireland</td><td>16th</td></tr> <tr><td>Russia</td><td>22th</td></tr> <tr><td>Singapore</td><td>27th</td></tr> <tr><td>Turkey</td><td>34th</td></tr> <tr><td>Israel</td><td>37th</td></tr> </tbody> </table> <p data-bbox="369 901 696 925">Anholt City Brands Index, 2007</p>  <table border="1" data-bbox="280 941 963 1340"> <thead> <tr> <th>City</th> <th>Ranking</th> </tr> </thead> <tbody> <tr><td>London</td><td>2nd</td></tr> <tr><td>Madrid</td><td>13th</td></tr> <tr><td>Dublin</td><td>21st</td></tr> <tr><td>Singapore</td><td>23rd</td></tr> <tr><td>Moscow</td><td>35th</td></tr> <tr><td>Istanbul</td><td>39th</td></tr> <tr><td>Tel Aviv</td><td><50</td></tr> </tbody> </table>	Country	Ranking	UK	1st	Spain	12th	Ireland	16th	Russia	22th	Singapore	27th	Turkey	34th	Israel	37th	City	Ranking	London	2nd	Madrid	13th	Dublin	21st	Singapore	23rd	Moscow	35th	Istanbul	39th	Tel Aviv	<50	<ul data-bbox="1153 406 1993 885" style="list-style-type: none"> • Israel ranked 37th out of 40 countries assessed in the Anholt Nation brands index, which surveys 25,000 consumers from around the world on their brand perceptions of countries • Israel ranked 35th/130 in the WEF The Travel & Tourism Competitiveness Index which includes: T&T Regulatory framework, Business environment and infrastructure and Human, cultural and natural resources • Tel Aviv was rated 105th out of 215 cities in Mercer HR Consulting Quality of Living Survey 2007 • In 2006 Jerusalem ranked 53th out of 60 cities assessed in the Anholt City Brands Index, which ranks world cities according to consumer responses regarding six aspects (e.g. perceptions about the economic and educational opportunities on offer in each city)
Country	Ranking																																
UK	1st																																
Spain	12th																																
Ireland	16th																																
Russia	22th																																
Singapore	27th																																
Turkey	34th																																
Israel	37th																																
City	Ranking																																
London	2nd																																
Madrid	13th																																
Dublin	21st																																
Singapore	23rd																																
Moscow	35th																																
Istanbul	39th																																
Tel Aviv	<50																																

Source: WEF (2007), Anholt "Nation Brands Index 2007", Anholt "City Brands Index 2007", Mercer "Quality of Living Index 1007"



Political and Economic Stability

Israel is focused on maintaining the positive economic growth experienced in previous years

System of Government

- Politics in Israel takes place in a framework of a parliamentary representative democratic republic, whereby the Prime Minister of Israel is the head of government, and of a multi-party system
- Executive power is exercised by the government and legislative power is vested in the Knesset (Israel's parliament)
- The Judiciary is independent of the executive and the legislature
- The Knesset consists of 120 members who are elected for 4-year terms through party-list proportional representation
- The President of the State of Israel fulfills mainly ceremonial duties and is not a part of the three branches of government
- Israel does not have a constitution, but it does have a number of basic laws that govern how the government is structured, rights of individuals and similar matters

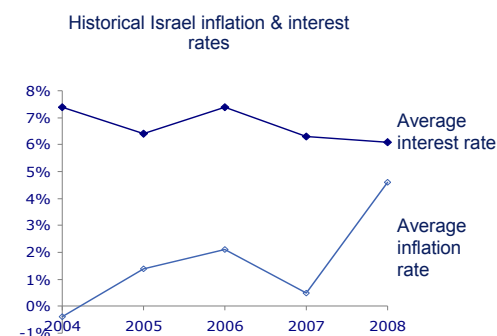
Economic Policy

- Maintaining the positive economic developments of the last years – rapid growth, stability– is Israel's main challenge in terms of economic policy:
- Fiscal Policy: Government operates within a spending target regime to reduce public debt/GDP ratio
- Investment: The State of Israel encourages investments from both Israeli and foreign residents by offering a wide range of incentives and benefits (Encouragement of Capital Investment Law, the R&D Industrial Encouragement Law and others)
- Poverty and labor market: The policy of reducing poverty focuses on easing entry into the labor market
- Monetary Policy: Monetary policy operates within an inflation-target regime to maintain price stability
- Trade Policy: Israel's trade policy is enhanced by a wide range of international agreements and commercial arrangements with numerous countries and international bodies

Political Landscape

- The seventeenth Knesset began its tenure in March 2006, headed by Ehud Olmert from the political party Kadima ("Forward")
- The major political forces are centrist Kadima (29), left wing Labour and Meretz (24), right wing Likud and Mafdal (21), religious parties (18), immigrants (11), Israeli Arabs (7) and a senior citizens party (7)
- Over period 1996-2006 Israel has had 4 different governments, owing in great part to the low-threshold proportional representation electoral system
- Despite the presence of numerous small parties and interest groups, there is broad political consensus on key issues of economic policy, including maintaining a general government budget deficit below 3% of GDP, keeping inflation within a 1-3% target band and attracting greater foreign investment

Economic Stability



EIU Country Risk Ratings, 2008

Sovereign risk	A
Banking sector risk	BBB
Economic Structure risk	BBB
Political Risk	BBB
Currency Risk	A

Source: EIU (2008)



Infrastructure

Israel has a number of small start-ups that are successfully developing new ICT technologies

Transport	Telecoms & IT
<ul style="list-style-type: none"> • Israel has an advanced road network spanning over 17,446 km of roads, of which 144 km are expressways. The network spans all of the country • Israel has a well developed bus route system, and buses are the country's main form of public transport • The Egged Bus Cooperative, Israel's largest bus company, is the second largest in the world, and operates routes throughout the country • Israel has 7 ports and harbors. 6 on the Mediterranean Sea and one on the Gulf of Aqaba (Red sea) • As of 2008 Israel has 853 km of railways. Israel railway has been developed much over the 10 years, from 5.6 million passengers a year to 32 • Israel's air transport infrastructure ranks 52nd/133, in the WEF Travel & Tourism rankings (2008): <ul style="list-style-type: none"> • Departures per 1,000 population 50th/133 • Quality of air transport infrastructure 39th/133 • International air transport network 27th/133 • Ben Gurion International Airport's new terminal (Terminal 3), opened in November 2004, can handle over 10 million passengers per year • Optional extension of the terminal can increase it's capacity to 16 million passengers per year 	<ul style="list-style-type: none"> • Telecommunications contributed approximately 4% of the GDP in 2007 • In 2007, the average ratio of household communications and transportation expenditures to total household consumption expenditure was 20% • Telecommunications is one sector that has been growing growing steadily, even in years of economic crisis • Between 1998-2007, the average growth rate was 6.8%. The main drivers of this growth are the cellular, the Internet and the multi-channel television fields. The growth of the telecommunications market emphasizes the strength and positive effect of this market on the Israeli economy • Israel's Information Communications Technology (ICT) infrastructure ranks 24th out of 133 countries in the WEF Travel & Tourism rankings (2008) • The penetration rate of mobile phone subscription exceeds 100% (over 7.7 million mobile subscribers) • Internet penetration is also growing quickly. Five major and about 70 smaller Internet service providers serve more than three million users, including above 60% of households and above 80% of businesses • Multi-channel subscriber TV market is currently comprised of two major television operators competitors: HOT and a single DBS (Direct Broadcasting Satellite) operator who began operations in July 2000 using Israel's AMOS-1 communications satellites • Hundreds of active start-up companies (approximately 800 in 2005) are developing a variety of new technologies, mostly related to information processing, and many in the telecommunications field • On April 2008 Israel launched its third communications satellite named Amos-3 • Israel communications satellites serves clients in three service regions: Middle East, Europe and eastern coast of USA • Transmission and communication services given by this satellite include: direct distribution of TV and radio translations, TV and radio translations to communication centres, distribution of internet services, data transmissions to communication networks

Source: Telecommunications in Israel, Ministry of Communications (2008), WEF Travel & Tourism rankings (2008)



Ease of Doing Business

Israel is among the top 30 countries for the ease of doing business

Bureaucracy

- The World Bank 2008 Ease of Doing Business survey ranks Israel 29th overall out of 178 economies:

Detailed World bank ease of business rankings, Israel (2008)

Category	Rank
Starting a business	17th
Dealing with licenses	109th
Employing workers	87th
Registering property	152th
Getting credit	7th
Protecting investors	5th
Paying taxes	69th
Trading across borders	8th
Enforcing contracts	102th
Closing a business	40th

178 1
Global country ranking (out of 178)

- Israel ranked 2nd (after Saudi Arabia) out of 17 countries in the ranking of Middle East and North Africa region
- Israel is among the top 10 countries in the “Protecting investors”, “Getting Credit” and “Trading across borders”
- IMPA is the Israeli Financial Intelligence Unit (FIU) established so as to assist in the investigation and prevention of money laundering and terror financing related crimes, and as part of the global effort regarding such crimes

Level of Government Intervention

- Israel's economy is 66.1% free, according to the 2008 Index of economic freedom assessment, which makes it the world's 46th freest economy. Its overall score is 1.5 percentage points higher than last year, reflecting improved scores in investment freedom and financial freedom. Israel is ranked 4th out of 17 countries in the Middle East/North Africa region, and its overall score is much higher than the regional average

Category	Percentage
Labor Freedom	64%
Fdm fm Corruption	59%
Property Rights	70%
Financial Freedom	60%
Investment Freedom	80%
Monetary Freedom	82%
Government Size	35%
Fiscal Freedom	56%
Trade Freedom	87%

0% 20% 40% 60% 80% 100%

Israel's ten economic freedoms (Index of Economic Freedom, 2008)
Key: 100 = most free

Transparency and Corruption

- According to Transparency International, Israel is ranked 33th/180 in the 2008 World Corruption Perceptions Index and 1st/14 in the Middle East region

Source: World Bank “Doing Business 2008”, Heritage “Index of Economic Freedom 2008”, Transparency International (2008)



Lifestyle

Israel is world known for its rich history and numerous ancient and holy sites

Overview	Amenities
<ul style="list-style-type: none"> • Israel is a developed country, located in a region that is geographically and climatically diversified. There are snow-capped mountains in the north alongside dry wildernesses in the south, and desolate areas alongside modern lively cities • Israel's ethnic and religious mosaic is rich and fascinating, and it has numerous cultural institutions and entertainment centres • Thanks to its rich history and sanctity for the three monotheistic religions, it has many ancient and holy sites • Israel's income from tourism in 2007 was \$ 2.4 billion, a growth of 26% from 2006 • Tel Aviv was rated 105th out of 215 cities in Mercer HR Consulting Quality of Living Survey 2007 	<ul style="list-style-type: none"> • The total expenditure on educational institutions in Israel as percentage of GDP is 6.9% • There are eight universities and more than forty colleges teaching a wide variety of courses and subjects • The percentage of persons aged from 25-64 holding academic degree is one of the highest in the world at 29% • Transport in Israel comprises a network of buses, taxis and modern trains, one international airport and three local ones • In the latest WEF Travel and Tourism competitiveness report, Israel was ranked 14th for health and hygiene, 32nd for tourism infrastructure, 36th in ground transport infrastructure and 52nd in air transport infrastructure out of a total of 133 countries
Leisure	Cost of Living
<ul style="list-style-type: none"> • Israel has many vacation sites that offer a variety of leisure and sports activities. You can walk among sanctified historical and archaeological treasures, wander among fascinating geological formations, or stroll through unique nature sites and panoramas. The choices of recreation are virtually unlimited • Israel has a huge variety of attractions, over 75 museums, 115 national parks and 380 nature reserves • The tourism sector has grown at an average rate of 16% between 2003 and 2007 (in 2006 -0.7% due to the war during the summer months) • Tel Aviv is a perfect city for tourists and people who love having fun and have a passion for night life, offering every possible type of evening entertainment – it is often referred to as “the city that never stops” 	<ul style="list-style-type: none"> • Tel-Aviv was 14th in the ‘Mercer Global Cost of Living Index 2008’, which made it the most expensive city in the Middle East • In 2007, the average household expenditure on goods & services in Israel was \$ 3,000 per month, increased from \$2,500 in 2006 • The average expenditure on rent in Israel is 23%, transportation & communication 20%, food 17%, and education, culture & entertainment 13% out of the total household expenditure • Local goods, especially food products (agricultural, meat and dairy products), are of excellent quality and are in most cases cheaper compared to imported products

Source: Israel Tourism ministry, www.gov.il, EIU, Mercer “Global Cost of Living 2008”, WEF (2007), The Travel & Tourism competitiveness report 2009, Israel's Statistical department, UNESCO



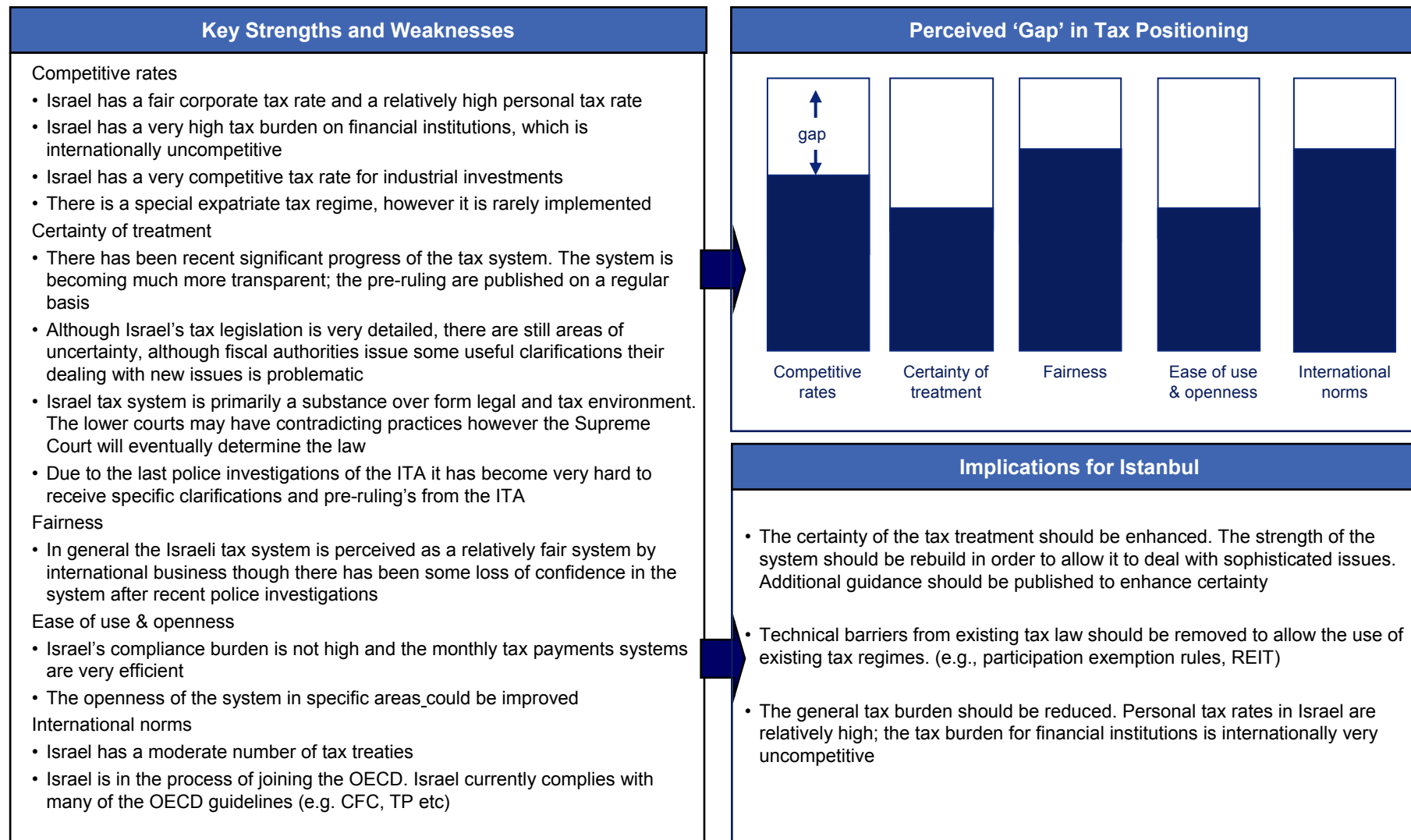
Financial Environment

Improving... but still a way to go

Rates	Compliance and Administration
<p>Corporation Tax</p> <ul style="list-style-type: none"> • The main tax rate on taxable profits is 27% (reducing to 25% by 2010) • Special tax rate for Industrial investments in Israel according to the Law of Encouragement of Capital Investment the effective tax rate for foreign shareholders (after WHT on the dividend) can be as low as 15% • Israeli legal entities are taxed on worldwide income • All expenses (subject to certain specific exceptions) are deductible providing that they are economically justifiable, aimed at generation of income and supported by relevant documentation • Capital gains on the sale of capital assets are taxed today at a rate that ranges between 27% - 25%. By 2010 the rate will be 25% • Offsetting losses against taxable profits is generally allowed and carry forward of losses is not limited <p>Personal Tax</p> <ul style="list-style-type: none"> • Progressive tax rate 10% - 47% (44% by 2010) for residents on most types of worldwide income • 20% on capital gain derived from 2003 (25% for substantial shareholder); 20% or 25% on dividends; 15% or 20% on interest • Regular rates for non-residents on Israeli sourced income • Proposed reforms to enhance benefits for returning and new citizens <p>Withholding Tax</p> <ul style="list-style-type: none"> • 25% on all taxable income paid to a foreign resident, unless a lower rate apply according to a treaty; <p>VAT</p> <ul style="list-style-type: none"> • Standard rate of 15.5% charged on sales of most goods and services. • Some reduced rates/exemptions apply <p>Other</p> <ul style="list-style-type: none"> • VAT is not applicable to financial institution however they are required to pay additional 15.5% tax on their profits and salaries (36.5%ETR) • No stamp duty requirements on documents 	<ul style="list-style-type: none"> • The tax year is the calendar year • An annual profits tax return must be filed by May 31th • VAT, estimations of corporate or personal tax, and salary withholding taxes are paid on a monthly basis. The monthly system is relatively efficient • Israel has gone through a major tax reform in 2003 changing its tax system from territorial to personal; most of the current changes are a by-product of that reform • Israel tax authorities top officers were under police investigation last year which led to the removal of the head of the ITA. This is led to a loss of confidence and respect for the system and it is has become a tougher system to deal with • The pre-ruling institution was established and the pre-rulings are published on a regular basis
	<h3 data-bbox="1133 858 2020 919">International Aspects</h3> <ul style="list-style-type: none"> • Israel is party to about 50 tax treaties most of which follow the OECD Model. • Israel is in the process of joining the OECD • Israel transfer pricing rules generally follow the OECD arm's length principal. Transfer pricing has become a significant concern for Israeli companies operating abroad • Israel has both general anti-avoidance tax provisions, and specific anti-avoidance rules including CFC rules • Israel has a participation exemption regime, however due to the complexity of the law and its conditions it was never used • Income of foreign branches is taxable in Israel, no additional branch tax (unless the branch is an Approved Enterprise)



Strengths, Weaknesses and Implications





Availability of Professional Services

Israel is home to a number of international consultancies, but not many foreign law firms

Overview	Lawyers
<ul style="list-style-type: none"> • There is a substantial presence of the 'big 4' in Israel, who together employ around 3,900 people • There are additional international accounting firms with representation in Israel such as: Grant Thornton, BDO etc. • Besides the big 4 firms providing services at a premium, there are a number of smaller local companies offering similar services at lower rates 	<ul style="list-style-type: none"> • The Israel Bar Association was established in 1961 as an autonomous statutory entity, under the Bar Association Law -1961, in order to incorporate the lawyers in Israel and to assure the standard and integrity of the legal profession • The Bar Association is a body corporate, and is subject to inspection by the State Comptroller • Membership is mandatory and is a pre-requisite to practicing law in Israel. All elected officers, including the President, function on a voluntary basis • The number of active lawyers in Israel as at May 2007 was 35,575 • Israel's big four law firms (HFN, Goldfarb, MG&LB, BGA) have 85 to 140 lawyers each
Accountants	Consultants and Other Professionals
<ul style="list-style-type: none"> • The authority that supervises the profession in Israel is delegated by law to the Israel CPA Council • The council is a statutory body subordinate to the Ministry of Justice and headed by the general manger of the Ministry of Justice. The Auditors Law and the bylaws set accordingly regulate matters concerning licensing, exams, and continuous supervision of the profession in Israel • The Institute of Certified Public Accountants in Israel is a voluntary body of licensed accountants which was established 75 years ago • Presently, over 11,000 Israeli Certified Public Accountants are members of the Institute • The Israeli body which is a member of IFAC is the Institute of Certified Public Accountants in Israel (ICPAI). It is a voluntary body in which approximately 80% of the auditors in Israel are members 	<ul style="list-style-type: none"> • Israel has a full spectrum of consulting providers, including leading IT, HR & strategy consulting firms • A number of international consulting firms are located in Israel.

Source: "Big Four" websites, The Institute of Certified Public Accountants, Bar Association



Cost of Doing Business

Israel has a number of initiatives in place aimed at encouraging investment in the country

Labour Costs	Inward Incentives
<ul style="list-style-type: none"> • In the global 'Ease of Doing Business' rankings by the World Bank Israel was ranked 87th (out of 178) for Employing Workers <ul style="list-style-type: none"> – Average non-wage labour cost = 6% of salary – Average firing cost = 91 weeks of salary (4 times more than the 22 weeks for the UK) • According to surveys quoted in The Marker financial daily, in 2007 the gross mean monthly wage was as follows: <ul style="list-style-type: none"> – Accountants: \$4,000-\$5,000 – Financial Analysts: \$ 3,000-\$ 4,500 – Legal Officers: \$8,300 – Economists: \$3,000 – \$4,500 • For most employees, overtime is paid at the rate of 125% for the first two hours and 150% for subsequent hours each day • Employees are entitled to special compensation for work on Saturdays and holidays • In addition to salary, the employer is required to pay/contribute various social benefits, as follows: National Insurance (Social Security), Severance pay, Sick leave, Vacation, Recuperation pay, Pension Fund, Fund for postgraduate and professional studies 	<ul style="list-style-type: none"> • The State of Israel encourages investments from both Israeli and foreign residents by offering a wide range of incentives and benefits, through a number of laws and regulations • The government's major tools for investment are the Encouragement of Capital Investment Law and the R&D Industrial Encouragement Law • In order to complement the revised Law for the Encouragement of Capital Investments the government has decided to establish an additional program to increase employment in the outlying areas of Israel as well as specific centres with high unemployment • The Manpower Training Department in the Ministry of Industry, Trade and Labor actively assists industrial companies to train workers in the different disciplines and professions as required by the company
	Office Costs
	<ul style="list-style-type: none"> • Rental cost per square metre of office space (per year) <ul style="list-style-type: none"> – Jerusalem: \$72-\$204 – Tel Aviv: \$144-\$216 – Haifa: \$126-\$180 • Municipal Tax per square metre of office space (per year) <ul style="list-style-type: none"> – Jerusalem: \$14-\$60 – Tel Aviv: \$20-\$64 – Haifa: \$17-\$33

Source: World Bank "Doing Business 2008", CBRE



Regulatory Philosophy and Structure

Regulatory environment has room for improvement

Regulatory Philosophy

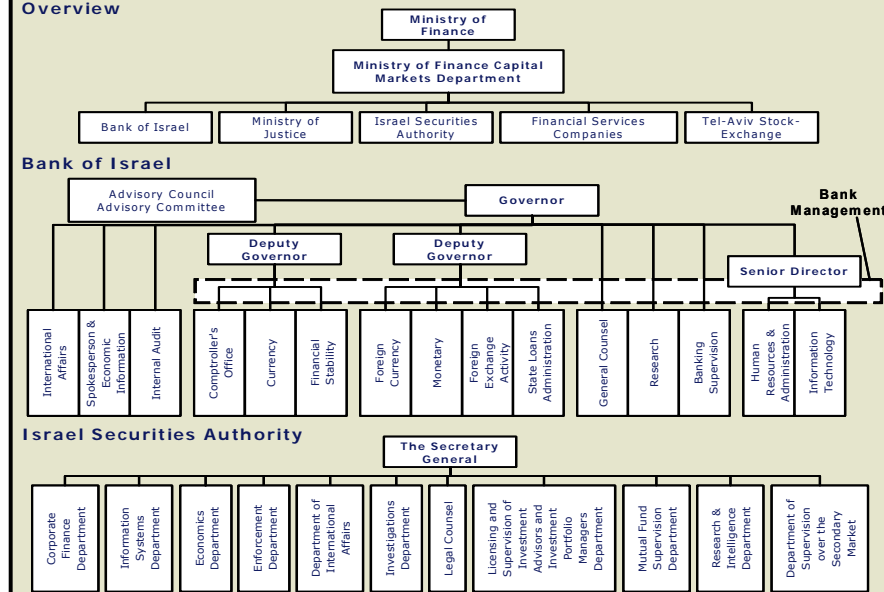
- ISA mission and implementation: a strong enforcer of the Israel Securities Laws and an independent agency financed through the fees collected from the regulated organizations. Main mission: protect the public investing in securities. Regulation includes focus on transparency, improved disclosure of financial information, corporate controls, governance and ethics. ISA pursue this mission through targeted policy reforms
- TASE aims to promote business ethics in the capital markets and in its listed companies, and to boost public confidence in the field of investments
- BOI: changes in central bank thinking (1) emphasis on the independence of the central bank as a major component of in fulfilling its functions and achieving its targets; (2) need for central bank transparency and accountability in its policy

Key Regulatory Bodies

- The Capital Market, Insurance and Savings Division of the Ministry of Finance: monitors the insurance sector, designs policy to encourage savings, initiates adaptation of the institutional structures
- The Israel Securities Authority: protects the interests of the public investing in securities
- The Bank Supervision department of the Bank of Israel covers licensing procedures, sets norms and limitations, inspects and assess, encourages/develops market supervision
- The Anti-trust Authority: mandated to prevent market power through merger control and anti-cartel enforcement, to restrain abuse by dominant firms of their positions
- The Tel-Aviv-Stock Exchange
- The Israel Money Laundering Prohibition Authority

Regulatory Structure

Overview



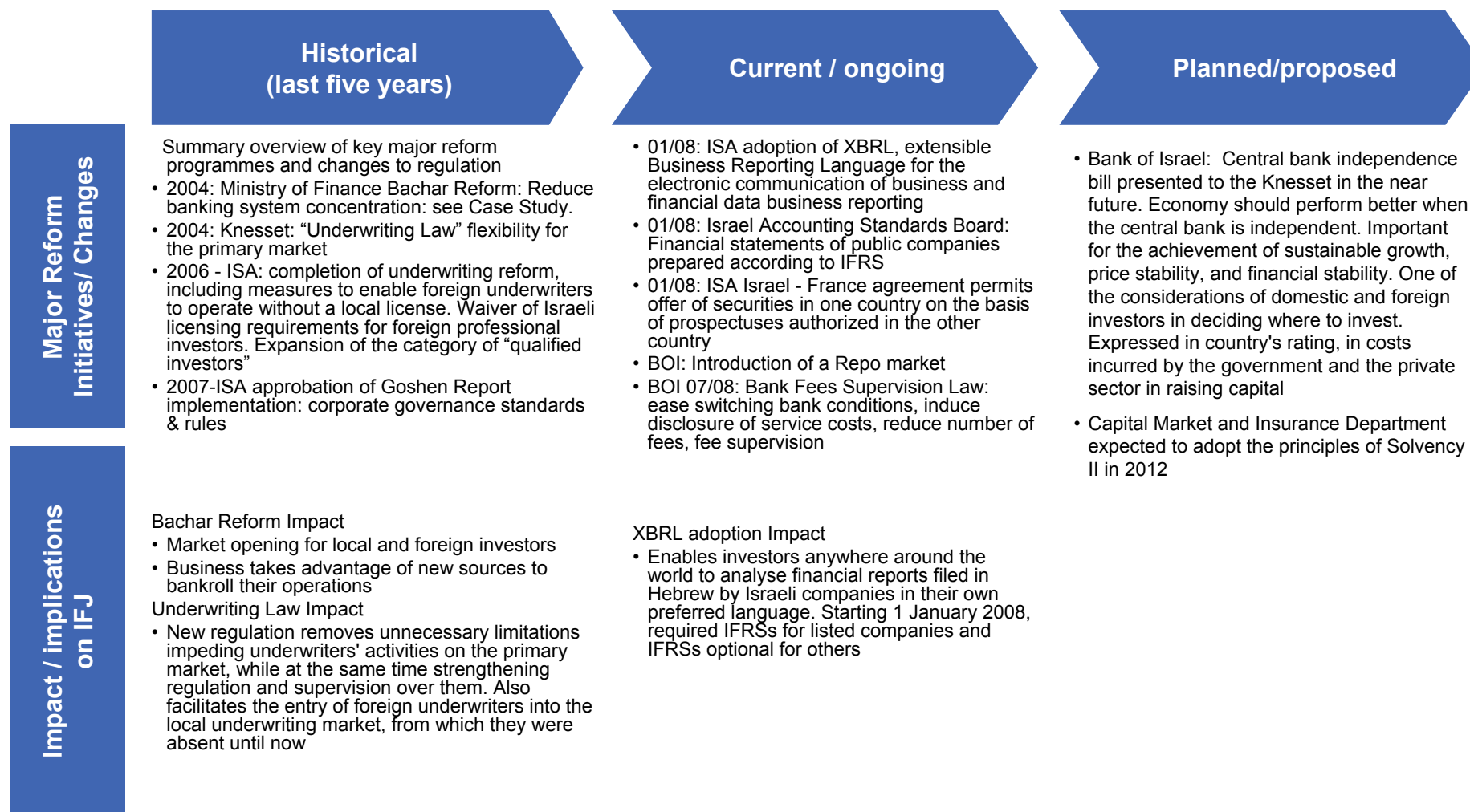
Key implications for international competitiveness

- Existing Regulators appear to be performing their roles well and have clear priorities and change agendas
- However, there is a degree of overlap between regulators
- Co-ordination and approach to liaising / communicating with industry is relatively weak



Development of Regulatory Environment

Dramatic development of the non-banking financing sector



Source: www.isa.gov.il; Address by the Governor Stanley Fisher to the Forbes Conference 04/08



Key Aspects of Regulatory Environment (1/3)

Increasing harmonization and internationalization

International Compliance (AML/CFT)	International Standards
<ul style="list-style-type: none"> • Israel Money Laundering Prohibition Authority (IMPA) manages, processes, secures Data warehouse, accumulates reports received, upon suspicion of money laundering activity, disseminate reports to the competent authorities • Key strengths • Cooperation achieved within “The Egmont group”. IMPA also engaged in co-operation with IMF & FATF • Progress made in improving AML supervision. BoI required banks to undertake reviews by external auditors of AML and has benefited from an evaluation by the MoneyVal • Key weaknesses • Report on Money Laundering of the U.S. Dep’t. of State’s puts major diamond trading countries, among them Israel, on the list of some 50 major money laundering countries in 2008. Israel’s diamond industry fares well in the report. Knesset bill imposes anti-money laundering rules on the sector. Customs Authority intercepts unreported diamond shipments <p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> • Israel has made good progress regarding FATF requirements to date, however a number of areas could be improved • Particular regard should be paid to requiring Designated Non-Financial Businesses and Professions to report money laundering offences 	<ul style="list-style-type: none"> • IFRS is now widely used. Extensive changes made by the ISA to improve disclosure and strengthen enforcement of standards. ISA has made the use of IFRS mandatory for all listed companies (except for the banks) from 2008 • Core Principles for Systemically Important Payment Systems Supervision of the payment/settlement system: introduction in 2007 of a real time gross settlement system for payments • Progress being made on implementation of the Basel II capital standards. BOI has set a target end of 2009 for banks to adopt the standardized approach. Realistic target given limited work done by the BOI and the banks, before early 2007. Banks preparing for new standards, enhancing existing economic capital models for more advanced approaches • Capital Market and Insurance Department expected to adopt Solvency II principles in 2012. Considerable differences between current capital requirement and those of Solvency II. Intermediate stage between today and full implementation <p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> • While Israel plans to adopt a wide range of international standards, it is not perceived to be as strong as competing jurisdictions, in particular EU / US

Source: www.impa.justice.gov.il; Diamondtopics.com; IMF, 2008, EIU



Key Aspects of Regulatory Environment (2/3)

Rapid pace of regulatory changes and multiple regulators do not ease market entry

Responsiveness to Market and Ease of Entry
<ul style="list-style-type: none"> • Companies traded on US/UK markets can list their securities on the TASE with no additional regulatory burden. French/Israeli agreement permitting offer of securities on the basis of prospectuses authorized in the other country • Investment incentives: Encouragement of Capital Investment Law. International Investments: no restrictions in trading TASE securities, exempt from capital gains tax • Key strengths • Public companies report using XBRL, taxonomy includes translation of IFRS terms into Hebrew, coherent for international investors. ISA enables public to access data in real-time via internet through MAGNA • Key weaknesses • Rapid pace of regulatory change. Inconsistent agendas and regulatory bodies approaches • Example: Banking license not issued unless issued capital not less than a minimum amount recognized as inadequate <p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> • Regulators are not perceived as responding well to the market in line with business needs • The complexity and sometimes unclear boundaries of responsibility amongst regulators is not conducive to building an attractive business environment

Quality of Regulation and Consistency of Approach
<ul style="list-style-type: none"> • Regulation is only partly available in English • Bachar reform: Increased competition in asset management. See case study in appendix • Investment Freedom: Foreign investment restricted in some sectors and investments in regulated industries, such as banking, insurance, receipt of investment incentive benefits, require prior government approval • Residents /non-residents may hold foreign exchange accounts - no controls/restrictions on current transfers, repatriation of profits • Financial Freedom: Credit available on market terms - wide array of credit instruments. Supervision prudent. Bank ownership of insurance companies restricted <div style="text-align: center;"> <p>Regulatory Quality - 2007</p> <p>Source: "Governance Matters VII: Governance Indicators for 1996-2007 " by Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi, http://www.govindicators.org</p> </div> <p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> • Financial services regulations require rationalisation • Limited use of English places Israel at a disadvantage on the international stage

Source: www.impa.justice.gov.il; Diamondtopics.com; IMF, 2008, EIU



Key Aspects of Regulatory Environment (3/3)

Regulatory expertise exists, financial and human resources are scarce

Quality and Availability of Regulatory Staff	Independence / Legal Position of Regulator
<ul style="list-style-type: none"> • Regulators need to build the expertise necessary to support more complex regulatory system. Requires greater recruitment flexibility, competitive pay scales, in line with advanced countries. Authorities hire industry experts on a consultant basis but agree not optimal IMF • Supervisors of insurance companies and funds do not have sufficient resources to undertake necessary research into the effect new developments, collect and analyze information received, conduct on-site inspections. Insurance Commissioner do not have sufficient budget. Beyond outsourcing of some inspection, ISA should retain in-house capacity for inspections • ISA: At the end of December 2005, 133 positions have been filled <p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> • Quality of regulatory staff is perceived to be relatively good however, to support a more complex system a wider and deep skills base will be required • Attracting international experience will require larger salary spend 	<ul style="list-style-type: none"> • ISA: independent agency financed entirely through the fees collected from regulated entities • BOI: Governor appointed by the President of Israel for 5 years, at the recommendation of the government. 2 deputies appointed by the government in consultation with Governor • BOI: Transparency and accountability: The new law will require the Bank to account for its decisions and policies to the Knesset, the government and the public in a clear, ordered fashion, as part of the of the areas of the Bank's responsibilities, and as another mechanism of external supervision over the Bank (not yet voted) • Insurance supervisor: In line with international practice, needs independence to set solvency standards; enforce managerial changes in companies and resolve failing institutions, and powers to perform group wide supervision. Legal process to achieve this complex and lengthy <p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> • Work to improve the transparency and accountability of BOI is ongoing and should act to increase trust in the regulator • Regulators should adopt principles that define their direction and allow the organisations to be audited in a clear manner that aims to avoid political distractions

Source: www.impa.justice.gov.il; Diamondtopics.com; IMF, 2008, EIU



International Market Confidence in Regulatory Environment

Growing confidence

International Market Confidence											
<ul style="list-style-type: none"> • Sep 2007: FTSE announced that it has approved the promotion of Israel, from "advanced emerging" to "developed market" status, effective June 2008. TASE expects to attract more from the estimated \$2-2.5 trillion in funds that track the FTSE Indices; funds that track developed markets will be required to add Israel to their holdings. Areas examined by the FTSE Policy Group include Israel's regulatory environment, custody and settlement arrangements, the efficiency of the dealing landscape and the derivatives market • Catherine Kinney, President of NYSE Group: 'Israel is exceptional compared to emerging markets – there is high economic growth here, an advanced stock exchange, a stable banking system and considerable technological progress. There is no other emerging market that enjoys all of these components <p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> • Israel is recognised in many quarters as having strong and stable growth compared to other emerging markets • However, interviewees have argued that Israel does not offer strong enough attractions to drive relocation over other markets • The Israeli market also suffers from a lack of recognition amongst the international community as a potentially attractive option for re-locating business 	<ul style="list-style-type: none"> • 2007: S&P raised the country's long-term foreign-currency sovereign and long-term local-currency credit ratings • 2008: Fitch upgraded Israel's sovereign credit rating • 2008: Moody's lifted Israel's key ratings to reflect country's proven resiliency in the face of global & local economic and political shocks. Government foreign and local currency bond, foreign currency ceiling for bank deposits upgraded. <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p>Risk assessment</p> <table border="1" style="width: 100%; text-align: center;"> <thead> <tr> <th>Sovereign risk</th> <th>Currency risk</th> <th>Banking sector risk</th> <th>Political risk</th> <th>Economic structure risk</th> </tr> </thead> <tbody> <tr> <td>BBB</td> <td>BBB</td> <td>BBB</td> <td>BBB</td> <td>BBB</td> </tr> </tbody> </table> </div>	Sovereign risk	Currency risk	Banking sector risk	Political risk	Economic structure risk	BBB	BBB	BBB	BBB	BBB
Sovereign risk	Currency risk	Banking sector risk	Political risk	Economic structure risk							
BBB	BBB	BBB	BBB	BBB							

Source: www.impa.justice.gov.il; Diamondtopics.com; IMF, 2008, EIU

Contents

Comparative study profiles:

- London
- Moscow
- Dublin
- Madrid
- Israel
- **Singapore**
- Istanbul



Singapore as a Financial Centre

Singapore successfully established itself as one of the leading financial centres

Background & history

- Singapore's development as an international financial jurisdiction began in the late 1960s. Prior to that the country was relatively poor but it successfully leveraged its abundant cheap labour combined with educational reform (Singapore singled out education as a means of improving country productivity) to have a productive workforce
- Today there is a large and diversified group of both local and foreign institutions (around 600) located in Singapore and offering a wide range of financial products and services, including trade financing, foreign exchange, specialised insurance services and others
- Total assets of financial institutions based in Singapore amounted to S\$1.93 trillion by end of 2008
- Three decades after Singapore has been established as an international financial jurisdiction, it has become the largest trading centre for emerging-market currencies in Asia, is one of the world's fastest growing domestic bond markets

Capital Markets

- The Singapore Exchange Limited (SGX) was inaugurated on 1 December 1999, following the merger of the Stock Exchange of Singapore (SES) and the Singapore International Monetary Exchange (SIMEX)
- SGX is Asia-Pacific's first demutualised and integrated securities and derivatives exchange. As at the end of 2008 there were 762 listed companies with a market capitalisation of \$658 Bn
- Listed companies and securities market operations are regulated by the Monetary Authority of Singapore and come under the Securities and Futures Act and the Financial Advisors Act
- SGX took a 5% stake in the Bombay Stock Exchange in 2007
- SGX revenues come mainly from the securities and derivatives market. Derivatives account for around a quarter of SGX's revenue, and SGX is the only exchange in the region that trades more derivative contracts related to foreign indices than domestic

Strategy and product focus

- Singapore positioned itself as a politically stable country with little corruption and highly skilled, multi-lingual population
- Monetary Authority of Singapore identified several key strengths of Singapore as an international financial jurisdiction:
 - Pro-business environment; consistently recognised as one of the best places to do business
 - Excellent infrastructure; unique location and sophisticated telecommunications network
 - Cost competitiveness; competitive tax rate environment and cost competitive office space
 - Skilled workforce and attraction of international talent
 - Strategic location in a region of opportunities; well-placed to serve the fast-growing markets of the Asia Pacific region
- Forward-looking regulations have helped Singapore grow new market segments such as Islamic Banking and REITs

Current situation and progress

- Singapore's estimated GDP is \$192 Bn (2008)
- In 2007, Singapore's financial services sector constituted around 12% of the GDP and provided jobs for more than 220,000 people
- Home to more than 600 financial institutions serving investors around the world, with many global companies choosing Singapore for their treasury headquarters and a number of Asia's top companies choosing to list on the SGX
- Fourth largest foreign exchange trading centre in the world, and a growing Asia-Pacific centre for wealth management
- Singapore is the second largest OTC derivatives trading centre in Asia, capturing more than 10% of global OTC commodities
- 20% of the world's physical oil trade is done out of Singapore
- At the end of 2007, assets under management (AUM) in Singapore grew 32% year on year to reach S\$1.2 trillion

Source: Contact Singapore, Singapore Economic Development Board, Singapore Exchange Limited "Summary Annual Report 2008", EIU



Financial Services Market

Financial services contribute 12% to Singapore's GDP and employ more than 220,000 people

Overview of domestic economy

- Singapore has a GDP of \$187.1 Bn (2007), 2008 GDP is estimated to be \$192 Bn (2008)
 - GDP per capita (2007) was \$41,704
 - Real GDP growth was 7.1% over the period 2003-2007
- Financial services contributed 12% of total GDP in 2007 = \$22.5 Bn
- The US and Malaysia are Singapore's key trading partners:
 - Exports: Malaysia (12.9%), Hong Kong (10.4%), China (9.7%)
 - Imports: Malaysia (13.1%), US (12.3%), China (12.1%)
- Singapore recorded a trade surplus of \$47 Bn in 2007
- Financial and Insurance Services receive the highest proportion of FDI (around 38% of total FDI)

Financial services market headcount

- In 2007, Singapore employed around 221,195 people in financial services
- The number of people working in financial services more than doubled between 2003 and 2007, with around a 100,000 employed in FS in 2003
- Singapore is an attractive destination for foreign FS professionals
- Foreign professionals seeking employment consistently rate Singapore attractive due to the open recruitment policies, low personal taxation and a quality standard of living
- More than 600 financial institutions operate in Singapore

Financial services market size

- Domestic assets of finance companies grew from S\$10.6 Bn in May 2007 to S\$12.7 Bn in May 2008

Total assets and liabilities of financial institutions

Commercial Banks S\$ Mn, 2008	668,481
Merchant Banks S\$ Mn, 2008	72,908
Finance Companies S\$ Mn, 2008	12,586
Asian Currency Units \$ Mn, 2007	912,949

Financial services market structure & growth

- Top 3 domestic banks hold more than 90% of total assets
- In 2008, Singapore had 113 commercial banks (6 domestic and 107 foreign), as well as 51 merchant banks

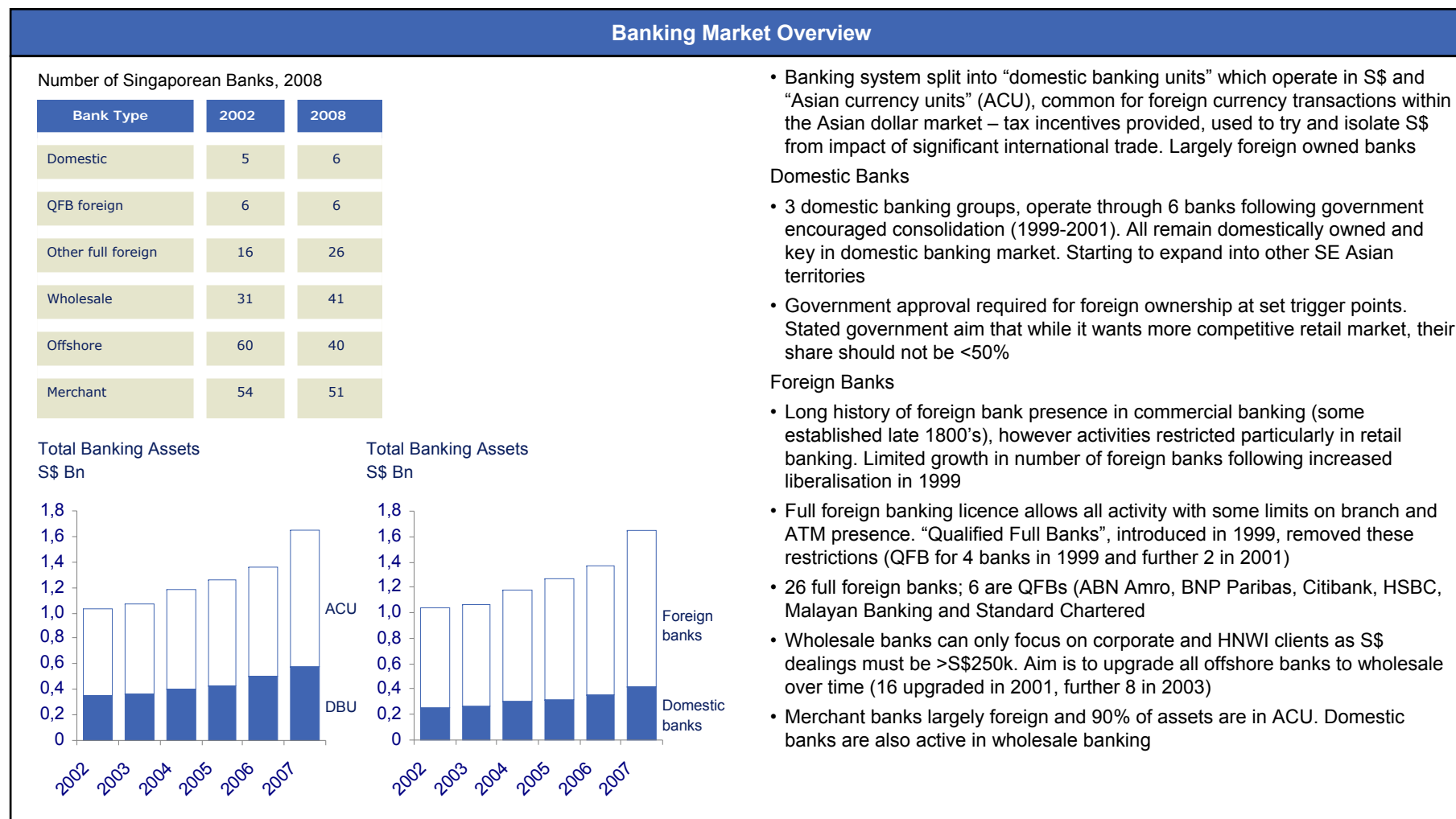
Banking	
Total lending by financial sector, 2007	182.20 (% GDP)
Total lending to the private sector, 2007	120.28 (% GDP)
Insurance	
All: Total premiums written, 2007	8.79 (% GDP)
Life: Total premiums written, 2007	6.17 (% GDP)
Funds	
Pension: Total assets, March 2008	53.65 (% GDP)
Mutual: Total assets, 2007	16.04 (% GDP)
Factoring turnover, 2007	2.77 (%GDP)

Source: EIU, Singstat



Singapore's Banking Market

Large presence of foreign banks reflects the international nature of banking sector

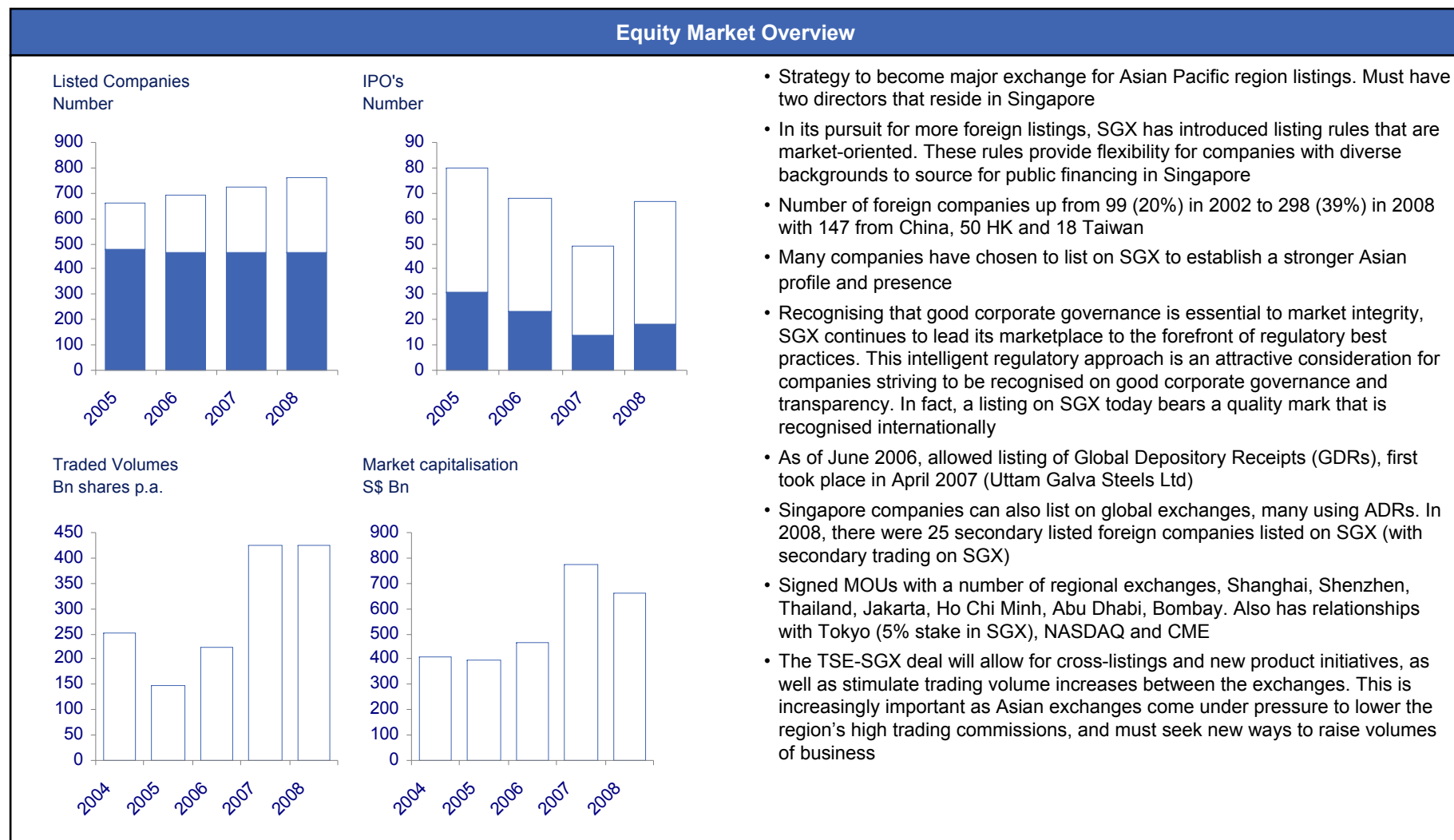


Source: EIU



Singapore's Equity Market

Singapore is Asia's international capital market for the listing and trading of equities



Source: EIU, SGX



Singapore's Fixed Income Market

Singapore is a key global player in OTC derivatives, commodities and Forex markets

Fixed Income Market Overview

Value of Bonds Listed
\$ Bns

Region	Value (\$ Bns)
India	~0.4
Singapore	~0.35
Taiwan	~0.3
Aus	~0.1
HK	~0.08
Shanghai	~0.05
NZ	~0.02

Excludes:
Osaka: \$4.8 Bn
Tokyo: \$4.7 Bn
Korea: \$0.8 Bn

- Singapore has a significant fixed income securities market within Asia Pacific:
 - 5th in capitalisation behind Korea, Tokyo, Osaka and India
 - 4th in traded value behind Korea, India, Shanghai
 - Significantly larger than HK, Thailand, Australia and NZ
- Market value has grown at 13% p.a. since 2001, with strongest growth in the corporate foreign currency market of 22% p.a.
- Strong growth in foreign currency denominated structured debt in recent years. Foreign issuers predominate in the foreign currency market
- Active steps taken by government to encourage depth and liquidity of the market with MAS's Debt Market Committee
 - Issuing government bonds and at longer maturities despite no finance requirement for them
 - Tax concessions
 - Increasing access to S\$ market for foreign companies

Outstanding Government Securities
S\$ Bn

Year	Value (S\$ Bn)
2002	~55
2003	~60
2004	~70
2005	~75
2006	~85
2007	~95

Derivatives Market Overview

- Singapore is the second largest over the counter (OTC) derivatives centre in Asia
- The number of futures derivative contracts traded on the SGX for the year ended March 2008 increased by 33.4% to 48.8 Mn, from 36.5 Mn
- In May 2006, SGX launched the SGX AsiaClear, Asia's first and only OTC clearing facility for oil swaps and FFAs
- AsiaClear is growing fast. The value of contracts cleared in the 1H08 was \$3.8 Bn, up from \$1.3 Bn in the 1H07

Commodities Market Overview

- Singapore is the world's 3rd largest oil refining centre, top bunker port and the Asia Pacific centre for the pricing and trading of oil and rubber
- 20% of the world's physical oil trade and half of the world's rubber trade is done out of Singapore
- SGX partnered the Chicago Board of Trade to form Joint Asian Derivatives Exchange (JADE), an Asian commodity derivatives market. Its first product, rubber futures, was launched in 2006, followed by crude palm oil futures

Other Financial and Capital Markets Overview

- Singapore is also one of the first countries in Asia to have launched Real Estate Investment Trusts successfully
- Singapore is the 4th largest foreign exchange trading centre in the world (BIS). FX Average daily turnover volume was \$229 Bn in October 2007
- International financial sector and corporate debt issues outstanding were 31.54% of the GDP at the end of 2007

Source: EIU, WEF, MAS, Deloitte research and analysis, Islamic Finance News, Finance Connect Singapore, SFEMC



Singapore's Insurance Market

There is room for growth in Singapore's life and non-life insurance markets

General Insurance Market Overview

- In 2000, Singapore lifted the moratorium on admission of new direct general insurers and removed the 49 percent limit on foreign shareholding in locally-owned direct insurers
- Since then, the industry landscape has evolved considerably, and at the end of 2008 July there was a network of 60 direct insurance companies, 26 reinsurance companies and 63 captives
- There are 29 general insurance companies operating in Singapore
- The General Insurance Association (GIA) was formed when Singapore became an independent Republic and is the industry representative of all non-life insurance companies transacting business in Singapore
- Motor insurance is the largest class of insurance, accounting for 30 per cent of the entire general insurance market
- General insurance penetration remains low in Singapore – measured by gross premiums as a percentage of GDP its insurance density was 1.5% in 2005, lower than many other countries (e.g. insurance density is 1.8% in Malaysia and more than 3% in Britain)
- Singapore is a strong regional insurance and reinsurance hub and the largest domicile in the Asia Pacific for captive insurers
 - 16 of the top 25 global reinsurance groups have presence in Singapore
 - 5 of top 10 global insurance and reinsurance brokers have established offices in Singapore

Life Insurance Market Overview

- 16 direct and 3 reinsurers are licensed by MAS to transact life insurance or reinsurance business in Singapore
- The life insurance industry put in a sterling performance in 2007:
 - Singaporeans are becoming more financial savvy and more knowledgeable about how particular life insurance products work for their needs, be it for their children's education, protection for their dependants or for retirement planning
 - New business premiums amounted to \$1.66 Bn (highest in five years)
 - Single premium sales totalled \$8.86 Bn (CPF sector accounted for 62%), and regular premium sales \$821 Mn
 - The tied agency channel contributed to the bulk of new business in 2007 (69% of new weighted business sales)
- A few regulatory and policy changes are taking effect in 2008 that will affect the industry and its customers – e.g. CPFIS sector will be impacted by investment restrictions (took effect from 1 Apr 2008) of S\$20,000 imposed on CPFIS-OA and CPFIS-SA balances
- Still room for growth, as according to LIA Singaporeans are grossly under-insured

Re Insurance Market Overview

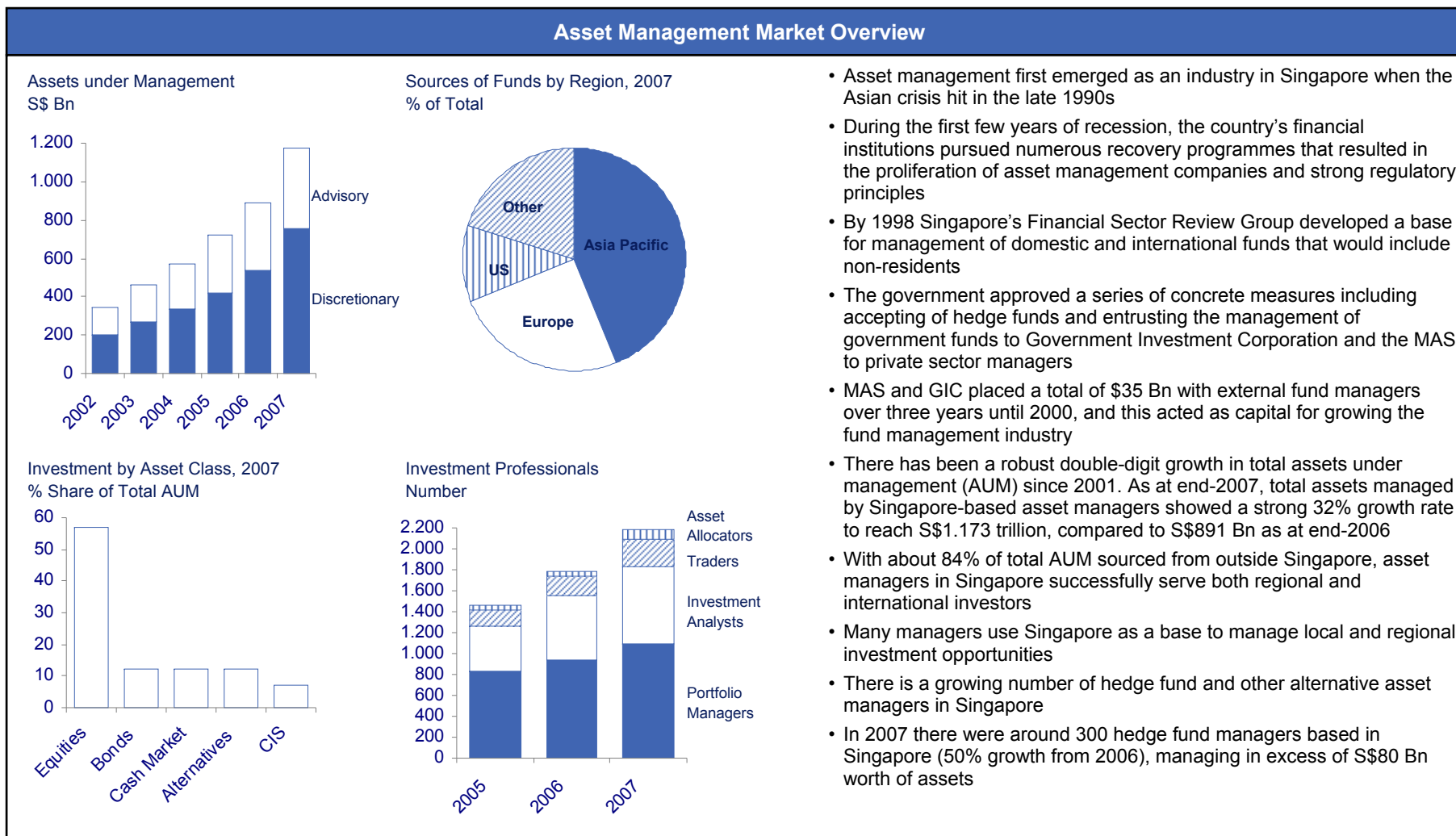
- According to MAS, Singapore is one of the largest reinsurance centres in the region. In total, there are 26 Reinsurers, representing the bulk of the world's biggest reinsurance companies, including Swiss Re and Allianz AG. Asia Capital Reinsurance Group, a start-up reinsurer, has also recently set up in Singapore with capital of \$620 Mn
- Lloyd's of London has replicated its London market structure in Singapore, and under Lloyd's Asia, a total of nine Lloyd's syndicates underwrite businesses from across Asia out of Singapore
- In assessing an application for life and/or general reinsurance licences, MAS takes into consideration several factors, and applicants with commitment to develop a significant portfolio of offshore business from Singapore receive favourable consideration
- Singapore Re is the largest player in the reinsurance market with approximately 21% of market share in terms of net premiums written

Source: Life Insurance Association, General Insurance Association of Singapore, Insurance Supermart, Allens Arthur Robinson "Insurance and Reinsurance Asia", IES



Singapore’s Asset Management Market

Asset management market recorded very strong growth since the last decade



Source: MAS “2007 Singapore Asset Management Industry Survey”, Perez “A Preview of the Asset Management Industry of Singapore”



Skilled Labour Pool

Singapore has good quality education system and is attractive to foreign FS employees

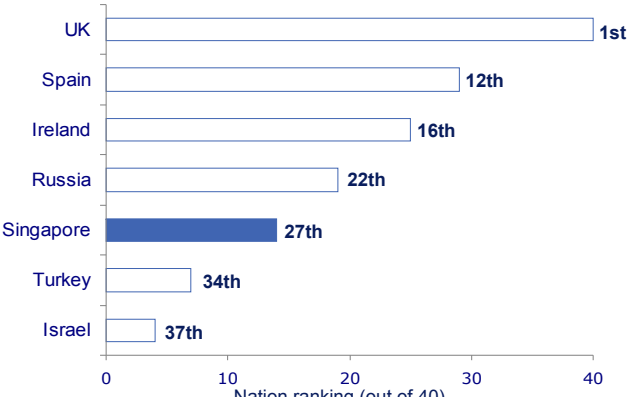
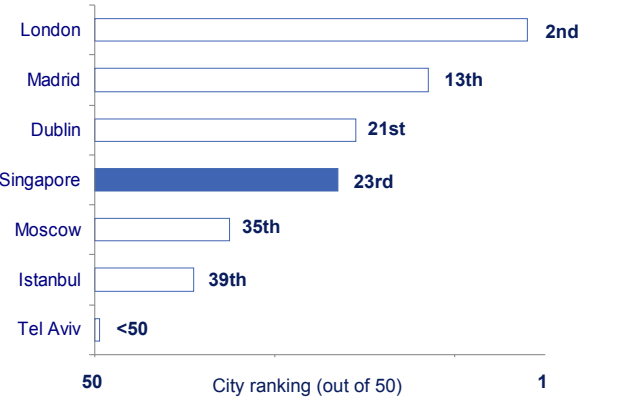
Overview	Tertiary education
<ul style="list-style-type: none"> • Singapore has a total population of 4.5 Mn (2007) of which approximately 3.61 Mn are residents • Resident demographics: <ul style="list-style-type: none"> – 13% aged between 15-24 years, 32% aged under 25 years, 59% aged between 25-64 years • The total resident labour force comprises 1.9 Mn people (2007); foreigners formed 30.1% of the city-state's total employment pool • Government spent \$1.49 Bn for universities in 2007 • Singapore is ranked 1st for having the best labour force (BERI Labour Force Ranking 2005-2007) and 2nd, after the US, for the most attractive environment for highly-skilled foreigners (IMD World Competitiveness) • Employment creation was 236,600 jobs in 2007 (61% went to foreigners), surpassing the record high of 176,000 jobs in 2006 	<ul style="list-style-type: none"> • There are 4 major universities in Singapore (in addition to a number of smaller institutes/colleges), several of which have coupled with international institutions to offer courses tailored to financial services (e.g. Berkeley-Nanyang Business School Advanced Management Programme) • Due to market demand, universities are increasingly offering double-degree programmes to increase graduates' versatility • In 2007, 65,746 students were enrolled in universities • The student intake in 2007 comprised 5,915 business & administration students and 2,834 accountancy students (together accounting for around 13% of student intake) • According to PwC, Singapore has 7 tertiary institutions ("full" universities and others) that are among the Top 500 Universities • Singapore also has three MBA's in the Top 100 Global MBA rankings 2009 (FT.com): INSEAD (France/Singapore) 5th, Nanyang Business School 24th and National University of Singapore School of Business 35th • Singapore ranks highly on quality of education in the WEF Travel & Tourism rankings (2009) <ul style="list-style-type: none"> – Quality of the educational system 2nd/133 – Extent of staff training 3th/133 • With four official languages in Singapore, the majority of population speak more than one language • In Singapore, English is the language of the administration and the commerce; there are around 5.1 English speakers per 100 people • Foreigners may encounter language problems as many Singaporeans use Singlish (a mix of English and other languages) to communicate – in 2000 the government launched Speak Good English Movement to try and counter the problem
Financial services professionals	
<ul style="list-style-type: none"> • Singapore's financial services industry employs circa 106,300 people (residents only) <ul style="list-style-type: none"> – This makes up around 5.5% of the total resident labour force • Singapore adopts an open policy on admitting international talents to work in Singapore. The financial sector workforce comprises a large and diverse mix of local and international talent and expertise • To support continuous learning and upgrading of the financial sector workforce, Monetary Authority of Singapore set up a Financial Sector Development Fund (FSDF) in 2001 to co-fund worthwhile training and development efforts undertaken by the industry • Key players from the financial services industry, MAS, IBF and the Singapore Workforce Development Agency (WDA) also collaborated and implemented a Financial Industry Competency Standards framework in 2005, to raise the professional bar of the financial sector workforce and training providers 	

Source: WEF (2009), PwC "Cities of Opportunity 2007", Ministry of Education, Ministry of Information, Communications and the Arts, EIU, NationMaster, Singstat



Image & Perceptions

Singapore is perceived to offer a skilled labour force and a quality standard of living

Brand strength	Commentary																																
<p data-bbox="392 443 795 467">Anholt Nation Brands Index, Q2, 2007</p>  <table border="1" data-bbox="313 478 940 877"> <thead> <tr> <th>Country</th> <th>Ranking</th> </tr> </thead> <tbody> <tr> <td>UK</td> <td>1st</td> </tr> <tr> <td>Spain</td> <td>12th</td> </tr> <tr> <td>Ireland</td> <td>16th</td> </tr> <tr> <td>Russia</td> <td>22th</td> </tr> <tr> <td>Singapore</td> <td>27th</td> </tr> <tr> <td>Turkey</td> <td>34th</td> </tr> <tr> <td>Israel</td> <td>37th</td> </tr> </tbody> </table> <p data-bbox="392 901 705 925">Anholt City Brands Index, 2007</p>  <table border="1" data-bbox="313 941 940 1340"> <thead> <tr> <th>City</th> <th>Ranking</th> </tr> </thead> <tbody> <tr> <td>London</td> <td>2nd</td> </tr> <tr> <td>Madrid</td> <td>13th</td> </tr> <tr> <td>Dublin</td> <td>21st</td> </tr> <tr> <td>Singapore</td> <td>23rd</td> </tr> <tr> <td>Moscow</td> <td>35th</td> </tr> <tr> <td>Istanbul</td> <td>39th</td> </tr> <tr> <td>Tel Aviv</td> <td><50</td> </tr> </tbody> </table>	Country	Ranking	UK	1st	Spain	12th	Ireland	16th	Russia	22th	Singapore	27th	Turkey	34th	Israel	37th	City	Ranking	London	2nd	Madrid	13th	Dublin	21st	Singapore	23rd	Moscow	35th	Istanbul	39th	Tel Aviv	<50	<ul data-bbox="1153 406 1982 750" style="list-style-type: none"> • Singapore ranked 27th out of 40 countries assessed in the Anholt Nation brands index, which surveys 25,000 consumers from around the world on their brand perceptions of countries • Singapore also ranked 23th out of 50 cities assessed in the Anholt City Brands Index, which ranks world cities according to consumer responses regarding six aspects (e.g. perceptions about the economic and educational opportunities on offer in each city) • The effectiveness of the marketing and branding of Singapore was ranked 3rd/133 globally in the WEF Travel & Tourism rankings (2009) • Singapore was rated as “Asia’s no. 1 place to live, work and play” by Mercer HR Consulting
Country	Ranking																																
UK	1st																																
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Source: WEF (2009), Anholt “Nation Brands Index 2007”, Anholt “City Brands Index 2007”



Political and Economic Stability

Singapore is both politically and economically stable

System of government

- Form of government: Parliamentary republic, whereby the President is chief of state and a unicameral parliament is headed by the Prime Minister and the Cabinet
- Executive power is exercised by the government and legislative power is vested in government and the Parliament (the legislature)
- Parliament consists of 90 members, 84 elected and 6 nominated by the President (cannot vote on constitutional matters or expenditure of funds), and the constitutional provision requires that there must be at least 3 sitting opposition members
- Voting in elections is compulsory
- The Chief Justice, senior judge and six judges of the High Court are appointed by the President. The Judiciary is independent of the executive and the legislature

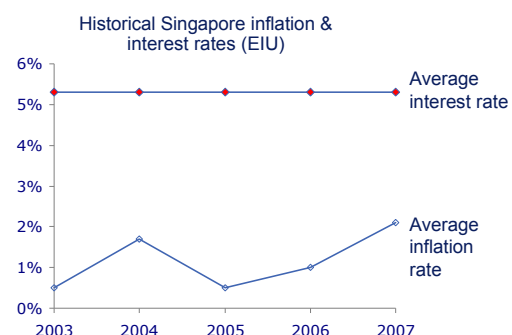
Economic policy

- Singapore's economic policy is to promote the creation of national wealth through sustained and stable economic growth. The Singaporean government seeks to ensure that the trading system is open and transparent (e.g. streamlined procedures for smooth flow of goods in and out of Singapore)
- The private sector plays the key role in economic development while the government provides an environment conducive for private sector business activities
- Promoting free trade in goods (no import or export restrictions, no controls on foreign exchange and no protectionist measures) coupled with the provision of efficient trade infrastructure, as well as higher-value added activities in the manufacturing and services sectors
- Pro-business and pro-foreign investment with competitive and attractive tax environment

Political landscape

- The current government, which was re-elected in May 2006, has been formed by The People's Action Party (PAP), who won 67% of the total votes and gained 82 out of 84 seats. The PAP won their twelfth consecutive term in the office since 1959
- Lee Hsien Loong, party leader of the PAP since 2004, has also been the Prime Minister of Singapore since 2004
- All contests were between the PAP and one opposition party, whose 47 candidates for the election was a large increase from 29 candidates in the 2001 election. There was no independent candidate participating in the election, which did not happen since 1980
- The election featured large turnouts at election rallies of some of the opposition parties, something unheard of since the 1980s, although the PAP dismissed the significance of the crowds

Economic stability



EIU Country Risk Ratings, 2008

Sovereign risk	AA
Banking sector risk	AA
Economic Structure risk	A
Political Risk	AA
Currency Risk	AA

Source: EIU (2008), Association of Southeast Asian Nations



Infrastructure

Singapore has advanced ICT infrastructure and good regional and international air links

Transport	Telecoms & IT
<ul style="list-style-type: none"> • Singapore is one of the best connected countries in the world, with sophisticated and extensive sea, air and ground transport links • Getting around the island is easy with Singapore’s highly efficient Mass Rapid Transit system, as well as bus and taxi services (fleet of 20,407 taxis) • Singapore’s port, PSA Corporation, is the busiest container port in the world, offering shippers a choice of 200 shipping lines with links to around 600 ports in 123 countries • The port handles around a fifth of the world’s total container transshipment throughput and 6% of global container throughput • In April 2008 the Port of Singapore won its 20th best seaport in Asia award, conferred at the 22nd Asian Freight and Supply Chain Awards • Singapore’s air transport infrastructure ranks very high, 15th/133, in the WEF Travel & Tourism rankings (2009): <ul style="list-style-type: none"> – Departures per 1,000 population 18th/133 – Quality of air transport infrastructure 1st/133 – International air transport network 2nd/133 • Changi International Airport, which has won more than 250 awards over the course of years, is linked to 185 cities in 58 countries (served by 81 scheduled airlines), with 4,186 flights per week ferrying passengers and cargo to and from around the world • The airport is ranked as one of the world’s busiest airports by passenger traffic • Changi International Airport opened a third and now the largest terminal in January 2008 that can handle an additional 22 Mn passengers per year, bringing the airport’s total handling capacity to 70 Mn passengers per year 	<ul style="list-style-type: none"> • Over the years, Singapore has put in place an advanced infocomm infrastructure that has helped it gain a competitive advantage in the world of globalised and networked countries • Singapore’s Information Communications Technology (ICT) infrastructure ranks 17th out of 133 countries in the WEF Travel & Tourism rankings (2009) • Singapore has one of the highest mobile phone penetration rates in the world at 127% in February 2008. Fixed line household penetration stood at 95.4% • Singapore is one of the major telecommunications hubs in the Asia Pacific region with submarine cable capacity of 28 Tbps, and an important hub where regional and international submarine cable systems interconnect • Singapore is the world’s second most network-ready country according to WEF’s Global Information Technology Report. Furthermore, the latest Accenture’s e-government study placed Singapore 1st among 22 countries, ahead of the US • Within Singapore, the broadband network reaches some 99% of the population • A study conducted by Infocomm Development Authority of Singapore (IDA) reveals a household broadband penetration of 79.2%. International and regional internet connectivity stands at 27.6 Tbps to over 100 countries • In 2007 the Singaporean government launched an extensive island-wide wireless initiative (Wireless @SG) where users can enjoy free indoor and outdoor seamless wireless broadband access for three years at most public places • Singapore is keen to keep its leadership and innovation status in the infocomm sector, and one example of that is IDA’s recent launch of iN2015, a national infocomm masterplan for Singapore

Source: Singapore Economic Development Board, Contact Singapore, Accenture “Leadership in Customer Service: Delivering on the Promise”, IDA, WEF (2009)



Ease of Doing Business

Singapore is easy to do business in with low corruption and government intervention

Bureaucracy

- The World Bank 2009 Ease of Doing Business survey ranks Singapore 1st overall out of 181 economies:

Detailed World bank ease of business rankings, Singapore (2009)

Factor	Ranking
Starting a business	10th
Dealing with licenses	2th
Employing workers	1st
Registering property	16th
Getting credit	5th
Protecting investors	2nd
Paying taxes	5th
Trading across borders	1st
Enforcing contracts	14th
Closing a business	2nd

181 150 Global country ranking (out of 181) 175

- For the second year running, Singapore topped the rankings on the ease of doing business
 - Singapore consistently scores in the top 10 for each factor assessed with the exception of 'registering property' and 'enforcing contracts' where it ranks 16th and 14th
 - Unsurprisingly, for a centre that prides itself on the availability and skills of its labour pool, Singapore is the leader among 181 countries on the ease of employing workers. Singapore also has low average firing costs, at only 4 weeks of salary
- Singapore is also ranked 1st overall for 'trading across borders', ahead of big Asia Pacific economies such as Japan and China:
 - Time for export = 5 days
 - Time for import = 3 days

Level of government intervention

- Singapore is ranked the 2nd most economically free country in the global Index of Economic Freedom and 2nd out of 30 countries in the Asia Pacific region in 2008. Singapore scored '87.1% free' vs. world average of 59.5% and an Asia Pacific average of 58.7%

Freedom Category	Score (%)
Business freedom	97.8%
Trade freedom	90.0%
Fiscal freedom	90.3%
Fdm fm Government	93.9%
Monetary freedom	88.9%
Investment freedom	80.0%
Financial freedom	50.0%
Property rights	90.0%
Fdm fm Corruption	94.0%
Labour freedom	99.0%

Singapore's ten economic freedoms (Index of Economic Freedom, 2009)

Key:
 100 = most free
 | = world average

Transparency and corruption

- Singapore is ranked 4th/180 in the World Corruption Perceptions Index and 2nd/32 in the Asia Pacific region (2008, Transparency International), with 1st being the country with the lowest perceived level of corruption
- In the Transparency International Global Corruption Barometer 2007 Report, 88% of Singaporean respondents evaluated their government's efforts to fight corruption as being effective

Source: World Bank "Doing Business 2009", Heritage "Index of Economic Freedom 2009", Transparency International (2008)



Lifestyle

Singapore offers high quality amenities and invests a lot in leisure

Overview	Amenities
<ul style="list-style-type: none"> • The earliest known mention of Singapore was a 3rd century Chinese account that described it as an “island at the end of the peninsula” • In the 18th century the British established Singapore as a trading station and after WW2 it officially became a Crown Colony, a status which it kept until 1965 • Singapore is made up of one main island and 63 surrounding islets. It is a cosmopolitan city with a majority Chinese population, diverse set of religions and four official languages • Singapore was ranked 11th for quality of life out of 111 countries in the EIU Quality of Life index (2005) • Singapore has seen record performance in the tourism sector, and since March 2004 has had 48 consecutive months of growth in visitor arrivals. The average occupancy rate reached 87% in 2007 	<ul style="list-style-type: none"> • Singapore’s educational system is ranked 2nd/133 in World Travel & Tourism rankings (2009) • The standard of medical practice in Singapore ranks among the highest in the world. There are 28 hospitals and specialty centres with 6,748 medical doctors delivering healthcare in a dual system of public and private sector players • Singapore is a leading medical tourism destination with over 400,000 international patients coming for treatment in 2007 • Singapore is one of the safest countries in the world with very low crime rates. This is due to harsh penalties and the state taking a tough line on antisocial issues in general (e.g. littering) • Transport in Singapore comprises a network of taxis, buses and modern Mass Rapid Transport rail system
Leisure	Cost of living
<ul style="list-style-type: none"> • Singapore has three National Museums, and a large number of other museums maintained by various private and para-governmental agencies. The city also has a range of theatres and historical buildings • Singapore is renowned for its colourful and exciting nightlife, with a host of nightclubs, 24-hour shopping malls and 24-hour eating places • The tourism sector is an important pillar of Singapore’s economy, accounting for 4% of GDP and S\$10.8 Bn in tourism receipts • The growing importance of the tourism sector has been reflected in the recent development taking place in Singapore: hosting of inaugural Formula One, the development of two integrated resorts (opening in 2009 and 2010), as well as the hosting of the Youth Olympic Games in 2010 	<ul style="list-style-type: none"> • Singapore was 13th in the ‘Mercer Global Cost of Living Index’ 2008, up from 14th in 2007, 1st being the city with the highest cost of living • The cost of living is among the highest in Asia, although compared to countries in other parts of the world such as Europe the cost is relatively low, with basic items such as food and clothing reasonably priced • Imported goods are rather expensive, although alternative local products are available cheaply • The most substantial cost is home rental, with the private rental market concentrating almost exclusively on expatriates (many enjoy a Housing Allowance from their employers) • The locals enjoy the provision of low cost public housing

Source: Contact Singapore, Singapore Tourism Board, Visit Singapore webpage, EIU, Mercer “Global Cost of Living 2008”, WEF (2009)



Singapore Taxation System Overview

Very attractive, business friendly regime

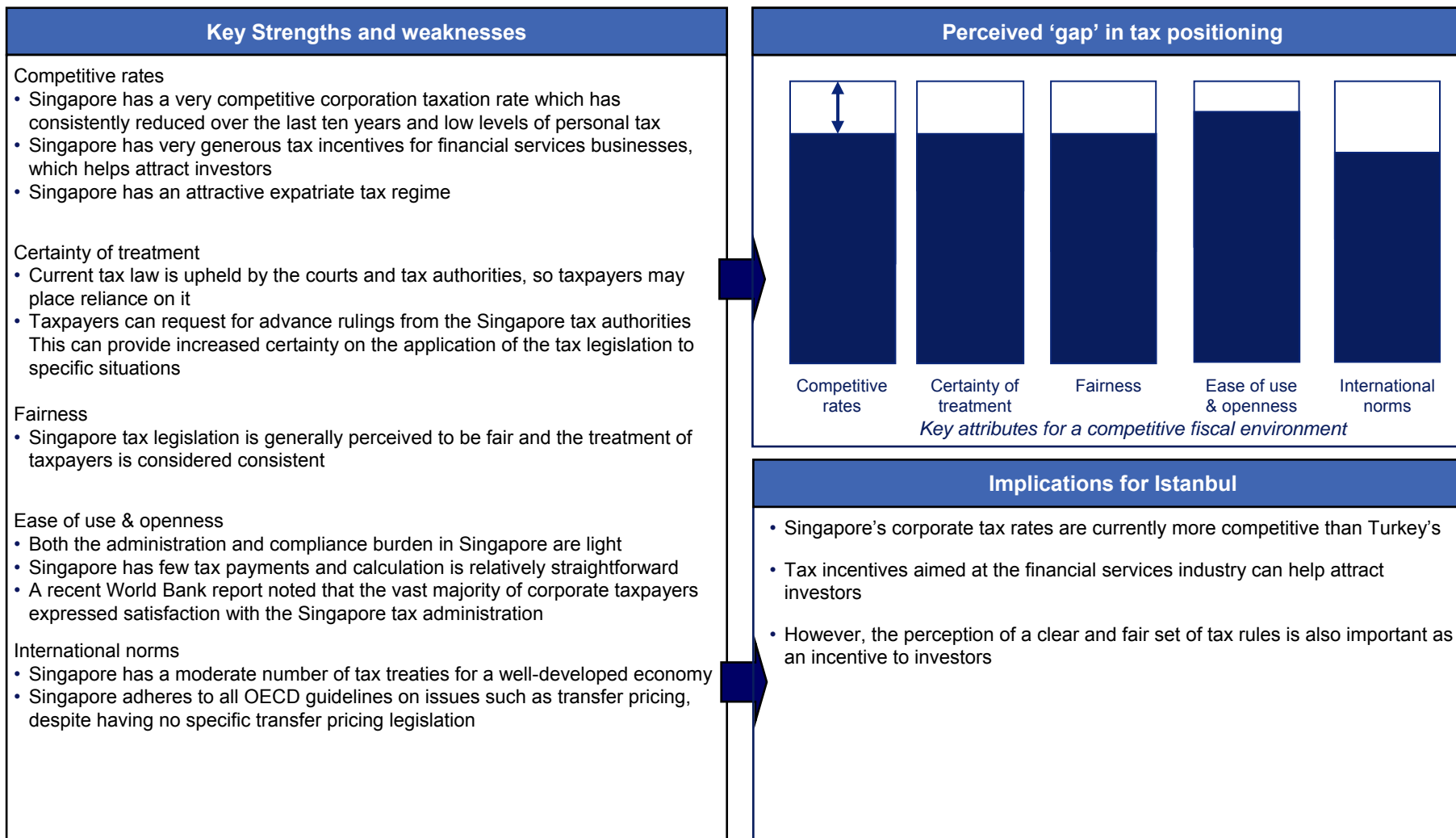
Rates
<p>Corporation Tax</p> <ul style="list-style-type: none"> • The main tax rate on taxable profits is 18% • In addition 75% of first SGD 10,000 and 50% of the next SGD 290,000 of chargeable income is exempt from tax. • Certain financial sector companies (e.g. fund managers, securities and offshore insurance companies) are taxed at reduced rates of 5-10% • Resident and non-resident companies are taxed on all Singapore sourced income and worldwide profits deemed received in Singapore • A company is Singapore tax resident if its place of central control and management is in Singapore • Companies can generally deduct revenue expenditure from gross profits that is wholly and exclusively incurred to generate income • Capital gains are not taxed in Singapore • Offsetting losses against taxable profits is generally allowed and carry forward of losses is possible, potentially indefinitely. Losses up to SGD 100,000 can generally be carried back for one year (subject to tests) • Group relief of losses is also possible in the current year against profits of other group companies <p>Personal Tax</p> <ul style="list-style-type: none"> • Progressive tax system for resident individuals with rates ranging from 0-20% based on Singapore sourced taxable income • Special “non-domicile” regime which benefits expatriates <p>Withholding Tax</p> <ul style="list-style-type: none"> • 0% on dividends, 15% on interest payments, 10% on royalties <p>VAT</p> <ul style="list-style-type: none"> • Goods and services tax imposed on most goods, services and imports. 7% standard rate, some goods receive a reduced rate of 0% or exempt treatment (e.g. export goods and international services) <p>Other</p> <ul style="list-style-type: none"> • Stamp duty (1-3% on immovable property and 0.2% on purchase of stocks and shares) • Employers’ pay 14.5% social security on the first SGD 4,500 of monthly earnings (for citizens earning over SGD 1,500 per month)

Compliance and Administration
<ul style="list-style-type: none"> • The tax year is generally the calendar year, although companies may opt for a different year • The statutory filing deadline will be 30 November 2008 for the year of assessment 2008 and 31 October with effect from the following year • Taxes are usually paid in one instalment one month after the issue of the notice of assessment • Companies may pay their taxes in (up to 10) instalments, based on estimated income • Companies must submit their estimated chargeable income within 3 months of the end of the financial year • Singapore’s compliance and administrative burden is relatively low in comparison to many other developed economies

International Aspects
<ul style="list-style-type: none"> • Singapore is party to more than 50 tax treaties • The treaties often exempt interest, royalties and licensing payments from Singapore and foreign withholding taxes • Singapore adheres to OECD guidelines on issues such as transfer pricing, despite having no specific transfer pricing legislation. However Singapore is not an OECD member state • Thin-capitalisation provisions do not currently exist in Singapore • “Controlled foreign company” rules do not currently exist in Singapore



Strengths, Weaknesses and Implications





Availability of Professional Services

Law and accountancy firms are well developed, although the big 4 firms are less present

Overview	Lawyers
<ul style="list-style-type: none"> • There is a substantial presence of the 'big 4' in Singapore, who together employ around 5,600. • Besides the big 4 firms providing services at a premium, there are a number of smaller local companies offering similar services at lower rates 	<ul style="list-style-type: none"> • The legal sector employs around 8,800 people and the number of lawyers with practising certificates stands at around 3,500 • Singapore's big four law firms (Allen & Gledhill, Wong Partnership, Drew & Napier and Rajah & Tann) have 250 to 285 lawyers each • The employment outlook for the legal services looks positive, and it is estimated that in 2008 legal firms will be increasing their headcount by up to 25% to cope with demand • Growth areas include commercial litigation, corporate work and intellectual property. Singapore's Competition Act was passed in 2004 and is being implemented in phases and this is also seen as another potential area of growth • Singapore is also recognised as the leading choice for dispute resolution in Asia
Accountants	Consultants and other professionals
<ul style="list-style-type: none"> • The Institute of Certified Public Accountants of Singapore (ICPAS) is the national organisation of the accountancy profession in Singapore. It was established in June 1963 as the Singapore Society of Accountants (SSA) • ICPAS has close to 20,000 members and/or Certified Public Accountants • ICPAS caters for the training and professional development of its members through courses conducted by its training arm, the Singapore Accountancy Academy (SAA) • Possible to study for ACCA qualification, and from September 2008 onwards ICPAS will also offer ICAEW's ACA qualification • ACCA has the largest accounting student population in Singapore with over 16,000 registered students 	<ul style="list-style-type: none"> • Singapore has a full spectrum of consulting providers, including leading IT, HR & strategy consulting firms • A number of international consulting firms are located in Singapore.

Source: Contact Singapore, ICPAS, ACCA Singapore



Cost of Doing Business

Singapore office costs are high and increasing, as are labour costs

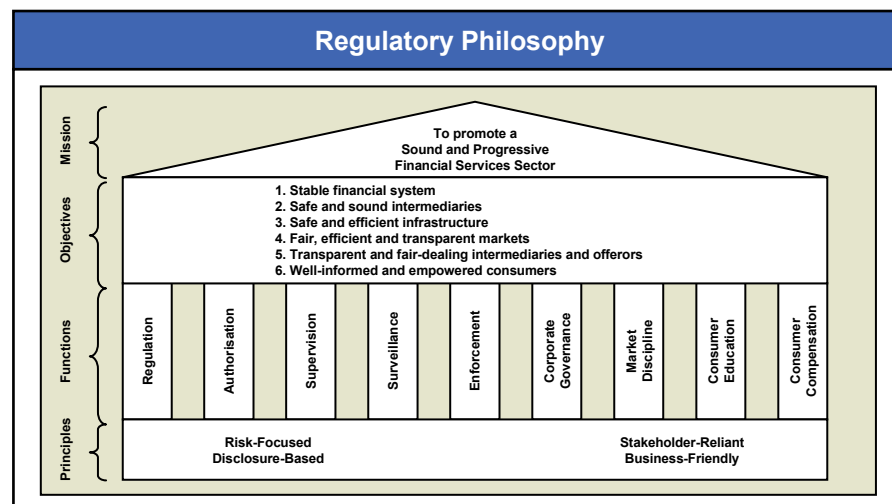
Labour costs	Inward incentives	
<ul style="list-style-type: none"> • The global 'ease of doing business rankings' by the World Bank rank Singapore 1st (out of 181) for Employing Workers <ul style="list-style-type: none"> – Average firing cost = 4 weeks of salary (5.5 times less than the 22 weeks for the UK) • Salaries in Singapore are among the most competitive in Asia. According to the Ministry of Manpower statistics, in 2007 the gross mean monthly wage in Singapore Dollars was as follows: <ul style="list-style-type: none"> – Accountant: S\$4,068 – Financial Analyst: S\$5,278 – Legal Officer: S\$7,564 – Business Management Consultant: S\$6,266 • Compensation packages offered in Singapore are globally competitive and among the highest in the Asia Pacific region • Companies, in particular those that employ expatriates, provide local-term packages that are supplemented with housing, cost of living allowances, childcare and similar benefits 	<ul style="list-style-type: none"> • Singapore's tax rates are low for both individuals and corporations • Contact Singapore is an alliance of the Singapore Economic Development Board and Ministry of Manpower, whose aim is to attract global talent to work, invest and live in Singapore. The association has offices in Asia, Europe and North America • Singapore put a host of measures in place to attract foreign talent. For example, it takes less than two weeks to get employment passes for foreign staff • The government and the private sector have set up a number of programmes to help businesses take-off and to develop further. They cater to both local and foreign companies and entrepreneurs • Examples include Financial Investor Scheme, whereby foreign investors with substantial capital and good entrepreneurial track record can apply for permanent resident status 	
	<th data-bbox="1135 890 2024 949">Office costs</th>	Office costs
	<ul style="list-style-type: none"> • Rental cost per square metre of office space <ul style="list-style-type: none"> – Singapore was 9th in the global 50 CBRE index of office costs - 1st being the most expensive, (2008) – Total current occupation cost \$/annum: <ul style="list-style-type: none"> – \$1,500 per sq. metre (105% increase over last 12 months) – Costs per sq. metre are 'gross' & reflect all occupancy costs • In the 12 months ended March 2008, Singapore listed 3rd in the 50 fastest growing occupancy costs locations rankings 	

Source: CBRE "Global index of office costs 2008", Contact Singapore, Ministry of Manpower, World Bank "Doing Business 2009"



Regulatory Philosophy and Structure

Singapore’s financial services market operates under a single regulator



Key Regulatory Bodies

- The Monetary Authority of Singapore (MAS) serves as the central bank and was established by the MAS Act in 1971
 - MAS supervises and regulates commercial banks, merchant banks, insurance companies and other financial institutions and is responsible for the control and supervision of the securities industry
 - It acts as the government’s banker and financial agent and its functions include issuing securities on the government’s behalf. It also acts as the government’s agent for loans raised in capital markets abroad and it manages part of Singapore’s official foreign reserves
- Accounting and Corporate Regulatory Authority
 - A statutory board created in 2004 that every business operating in Singapore must be listed with

Regulatory Structure

- The Board of Directors is responsible for the policy and general administration of the affairs and business of MAS and informs the Government of the banking and credit policy of MAS. The Board is ultimately accountable to the Parliament of Singapore through the Minister in charge of MAS
- For day-to-day administration, the MAS Act vests the Managing Director with power to make decisions and exercise all powers that may be exercised by MAS

MAS organisational chart

Key implications for international competitiveness

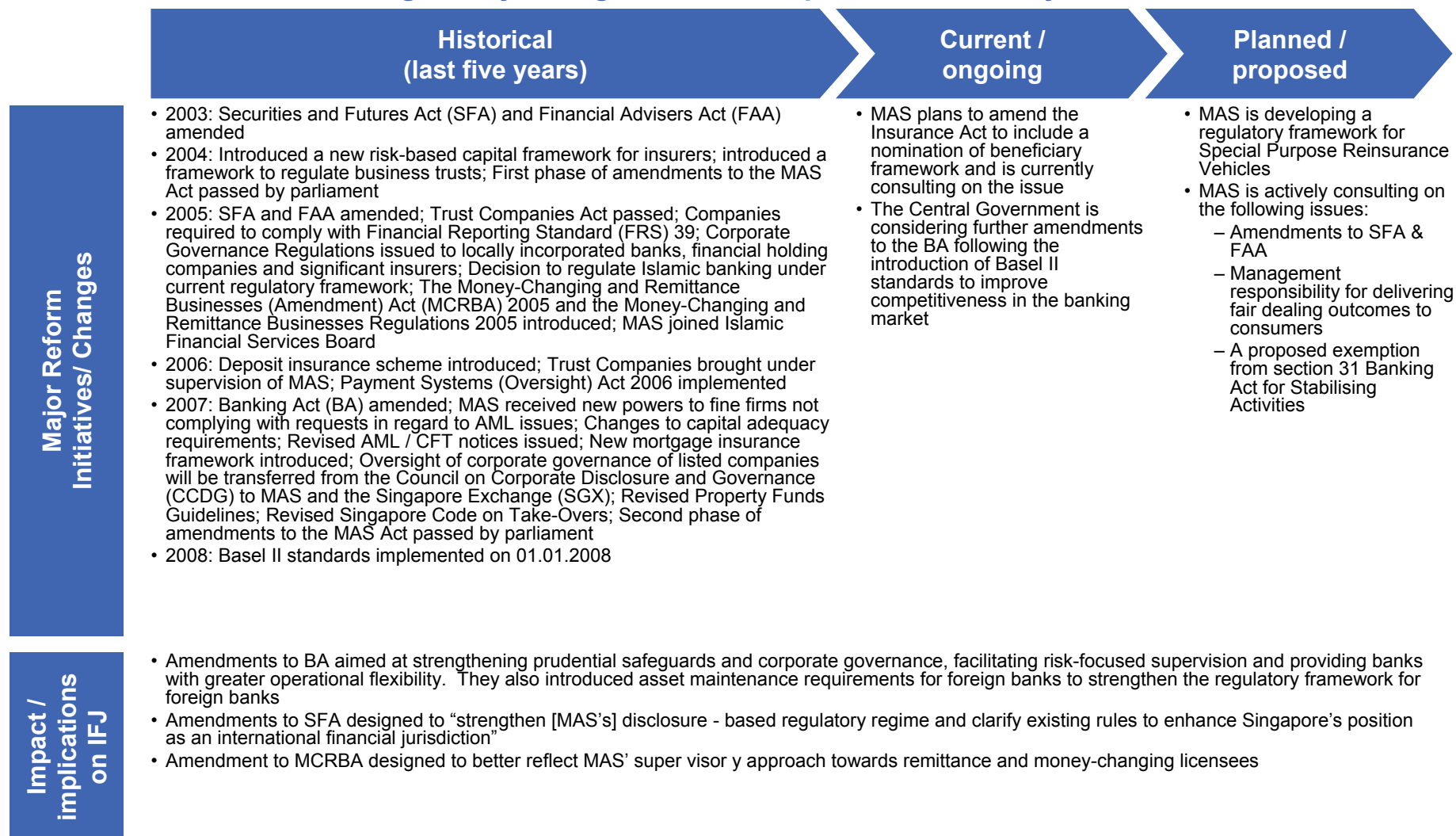
- Single regulator approach benefits from integration (scale, understanding, specialisation)
- There are potential conflicts due to the integration of prudential conduct, market conduct and macro economic policy setting, however these have not caused significant problems to date

Source: Objectives and Principles of Financial Supervision in Singapore, MAS; www.mas.gov.sg; EIU; MAS Organisational Chart, MAS, September 2007; Deloitte experts



Development of Regulatory Environment

Considerable amounts of regulatory changes have been passed in recent years



Source: EIU; MAS Annual Reports (2003-2007); MAS Annual Report (2007-2008); www.mas.gov.sg ; Deloitte experts



Key Aspects of Regulatory Environment (1/3)

Singapore compares favourably against international standards

International Compliance (AML/CFT)	International standards																																				
<ul style="list-style-type: none"> Singapore's AML / CFT efforts are centred on having a sound and comprehensive legal, institutional, policy and supervisory framework, maintaining a low domestic crime rate, fostering an intolerance for domestic corruption, ensuring an efficient judiciary, and preserving a long established culture of compliance and effective monitoring of the measures implemented <div data-bbox="271 635 1048 890"> <p>Ratings of compliance with FATF Recommendations (2007)</p> <table border="1"> <caption>Ratings of compliance with FATF Recommendations (2007)</caption> <thead> <tr> <th>Category</th> <th>Compliant</th> <th>Largely compliant</th> <th>Partially compliant</th> <th>Non-compliant</th> <th>Not applicable</th> </tr> </thead> <tbody> <tr> <td>Nine special recommendations</td> <td>100%</td> <td>0%</td> <td>0%</td> <td>0%</td> <td>0%</td> </tr> <tr> <td>International co-operation</td> <td>~20%</td> <td>~80%</td> <td>0%</td> <td>0%</td> <td>0%</td> </tr> <tr> <td>Institutional and other measures</td> <td>~20%</td> <td>~80%</td> <td>0%</td> <td>0%</td> <td>0%</td> </tr> <tr> <td>Preventative measures</td> <td>~20%</td> <td>~80%</td> <td>0%</td> <td>0%</td> <td>0%</td> </tr> <tr> <td>Legal systems</td> <td>~20%</td> <td>~80%</td> <td>0%</td> <td>0%</td> <td>0%</td> </tr> </tbody> </table> </div> <p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> Singapore is compliant or largely compliant with the majority of FATF's recommendations The size and growth of Singapore's private banking and asset management sector poses a significant money laundering risk based on known typologies 	Category	Compliant	Largely compliant	Partially compliant	Non-compliant	Not applicable	Nine special recommendations	100%	0%	0%	0%	0%	International co-operation	~20%	~80%	0%	0%	0%	Institutional and other measures	~20%	~80%	0%	0%	0%	Preventative measures	~20%	~80%	0%	0%	0%	Legal systems	~20%	~80%	0%	0%	0%	<ul style="list-style-type: none"> The Accounting Standards Council (ASC) intends to adopt IFRS and has published a roadmap to do so MAS participates in a wide range of international and regional groups including: the Bank for International Settlements, the Financial Stability Forum, the Basel Committee's International Liaison Group, the Accounting Task Force, the International Organisation of Securities and Commissions, the International Association of Insurance Supervisors Executive Committee, the Islamic Financial Services Board and the Executive's Meeting of East Asia-Pacific Central Banks Singapore has also entered into a number of trade agreements to facilitate financial integration both regionally and bilaterally Singapore operates a comparatively laissez-faire approach to hedge fund regulation MAS implemented Basel II standards on 01.01.2008 Following statements by regulators in the US and Switzerland warning that the Basel II framework may need tightening, MAS has said it will continue to monitor international developments and review its rules as necessary <p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> MAS is closely harmonised with the international community
Category	Compliant	Largely compliant	Partially compliant	Non-compliant	Not applicable																																
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Source: Third Mutual Evaluation on AML and CFT – Singapore, FATF, March 2008; EIU; The Financial Times; MAS Annual Report 2007-2008; www.asc.gov.sg



Key Aspects of Regulatory Environment (2/3)

MAS is very commercially focused

Responsiveness to market and ease of entry

- MAS operates a division that is focused on supporting businesses set up in Singapore
- Every business in Singapore must be listed with the Accounting and Corporate Regulatory Authority. The Singapore Business Federation Act 2001 mandates that every local or foreign company with paid-up capital of S\$500K+ must become a member of the Singapore Business Federation
- Under the Companies Act of 1984, basic corporate forms and organisational requirements follow the British and Australian pattern
- Singapore offers a number of investment incentives
- Although acquisitions do not require official approval, the Singapore Code on Takeovers and Mergers prescribes rules for the process for both takeovers and mergers. The rules were modelled on the UK's City Code on Takeovers and Mergers

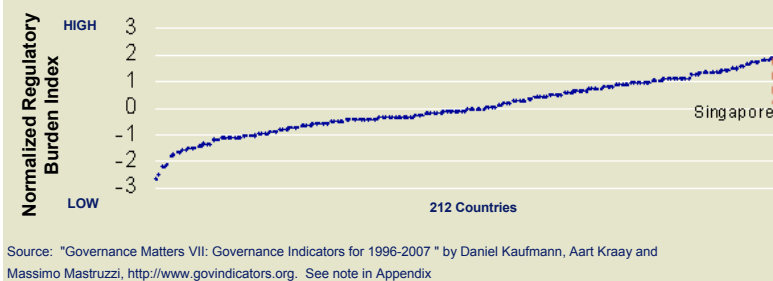
Key implications for international competitiveness

- MAS is highly focused on drawing new business to Singapore
- This is particularly targeted on attracting companies that might consider basing themselves in Hong Kong

Quality of regulation and consistency of approach

- EIU claims that the legal system is highly effective in dealing with business disputes and reaching decisions quickly. It also argues that no favouritism is shown to domestic companies on legal matters and that contracts are easily enforceable, with virtually no risk that foreign assets will be expropriated

Regulatory Quality - 2007



Key implications for international competitiveness

- Singapore has a very high quality regulatory regime



Key Aspects of Regulatory Environment (3/3)

Singapore is considered to operate a high quality approach to regulation

Quality and availability of regulatory staff	Independence / legal position of regulator
<ul style="list-style-type: none"> • MAS and the Institute of Banking & Finance (IBF) are currently working to implement the Financial Industry Competency Standards (FICS) framework • Launched in 2006, FICS aims to be a comprehensive quality assurance framework with a certification and accreditation system aimed at raising the quality of Singapore's financial workforce and training providers • By the end of FY07, 36 financial institutions had sent staff for FICS-accredited training and assessment co-funded by the Financial Sector Development Fund (FSDF). In addition, six major financial institutions had implemented FICS within their internal training / assessment infrastructure • MAS's Financial Supervision Group (FSG) launched the FSG Faculty of Peers to develop and deepen its supervisory expertise and to harness synergy within the group. It also launched the Finance Scholarship Programme (FSP) under the FSDF which aims to build up a critical mass of specialists in areas such as financial engineering, risk management and insurance to support the expansion of high-end and complex activities in the financial sector <p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> • MAS draws staff from around the region and has successfully attracted employees with strong skill sets 	<ul style="list-style-type: none"> • The Board of Directors of MAS is appointed by the President. The Chairman of the Board is appointed by the President on the recommendation of the Cabinet • MAS has considerable operational autonomy. The Board of Directors is responsible for the policy and general administration of the affairs and business of MAS, while the Managing Director is vested with the authority for day-to-day administration. MAS formulates and implements Singapore's monetary policies and is the regulatory agency of financial institutions • In a financial stability review, the IMF commented that MAS should reduce the potential for conflicts of interest arising from the multiple official responsibilities of the Chairman of the MAS. MAS argued that there was no immediate need to change the status quo but that it would review the MAS Act to further strengthen accountability and transparency <p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> • MAS has a high level of operational autonomy • There are some concerns over the multiple responsibilities of the MAS chairman, however the regulator is confident that there are no significant issues to be dealt with

Source: www.mas.gov.sg; MAS Annual Report 2007-2008; The South East Asian Central Banks (SEACEN) Research and Training Centre; Singapore: Financial System Stability Assessment, IMF



International Market Confidence in Regulatory Environment

Singapore has built a strong reputation as a pro-business environment

International market confidence													
<p>General</p> <ul style="list-style-type: none"> In 1999, MAS opened a promotional offices in New York and a representative office in London “If you're looking at where to go if you're planning to take a regional approach, Singapore makes a lot of sense, for conventional banking, Islamic banking, investment banking, anything.” - Vince Cook, CEO, Islamic Bank of Asia, 2007 Singapore’s banking regulatory environment is perceived to be very strong International investors have voiced concerns that Singapore needs to address its laissez-faire approach to regulating hedge funds. MAS reviewed its regulatory approach following the collapse of the \$242 Mn Aman Capital Global fund in 2005 but the no major reform initiatives have been instituted “The Singapore regulator is the first one I have come across that has a department that is dedicated to helping you to establish an office in the country” – Regional compliance Officer (Singapore), Large Investment Manager 	<p>IMF, 2008</p> <ul style="list-style-type: none"> “While the financial system is sound, risks from increasing integration with international financial markets should be closely monitored and managed to maintain the stability and growth of the financial sector” “The authorities appropriately view safeguarding financial sector growth and stability as crucial to Singapore’s heightened role as a global financial centre” <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p>Risk assessment</p> <table border="1" style="width: 100%; text-align: center;"> <thead> <tr> <th>Sovereign risk</th> <th>Currency risk</th> <th>Banking sector risk</th> <th>Political risk</th> <th>Economic structure risk</th> <th>Country risk</th> </tr> </thead> <tbody> <tr> <td>A</td> <td>A</td> <td>A</td> <td>AA</td> <td>A</td> <td>A</td> </tr> </tbody> </table> </div> <p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> MAS actively markets itself to the international community The regulatory regime is regarded as adequate and supportive of business objectives 	Sovereign risk	Currency risk	Banking sector risk	Political risk	Economic structure risk	Country risk	A	A	A	AA	A	A
Sovereign risk	Currency risk	Banking sector risk	Political risk	Economic structure risk	Country risk								
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Source: The Financial Times; The Global Financial Centres Index, The City of London, March 2008; Singapore: 2007 Article IV Consultation, March 2008; www.mas.gov.sg; Deloitte experts; Singapore: Country Risk Service, EIU, March 2009; Deloitte interviews

Contents

Comparative study profiles:

- London
- Moscow
- Dublin
- Madrid
- Israel
- Singapore
- Istanbul



Istanbul as a Financial Centre

Istanbul has significant potential to develop into an international financial jurisdiction

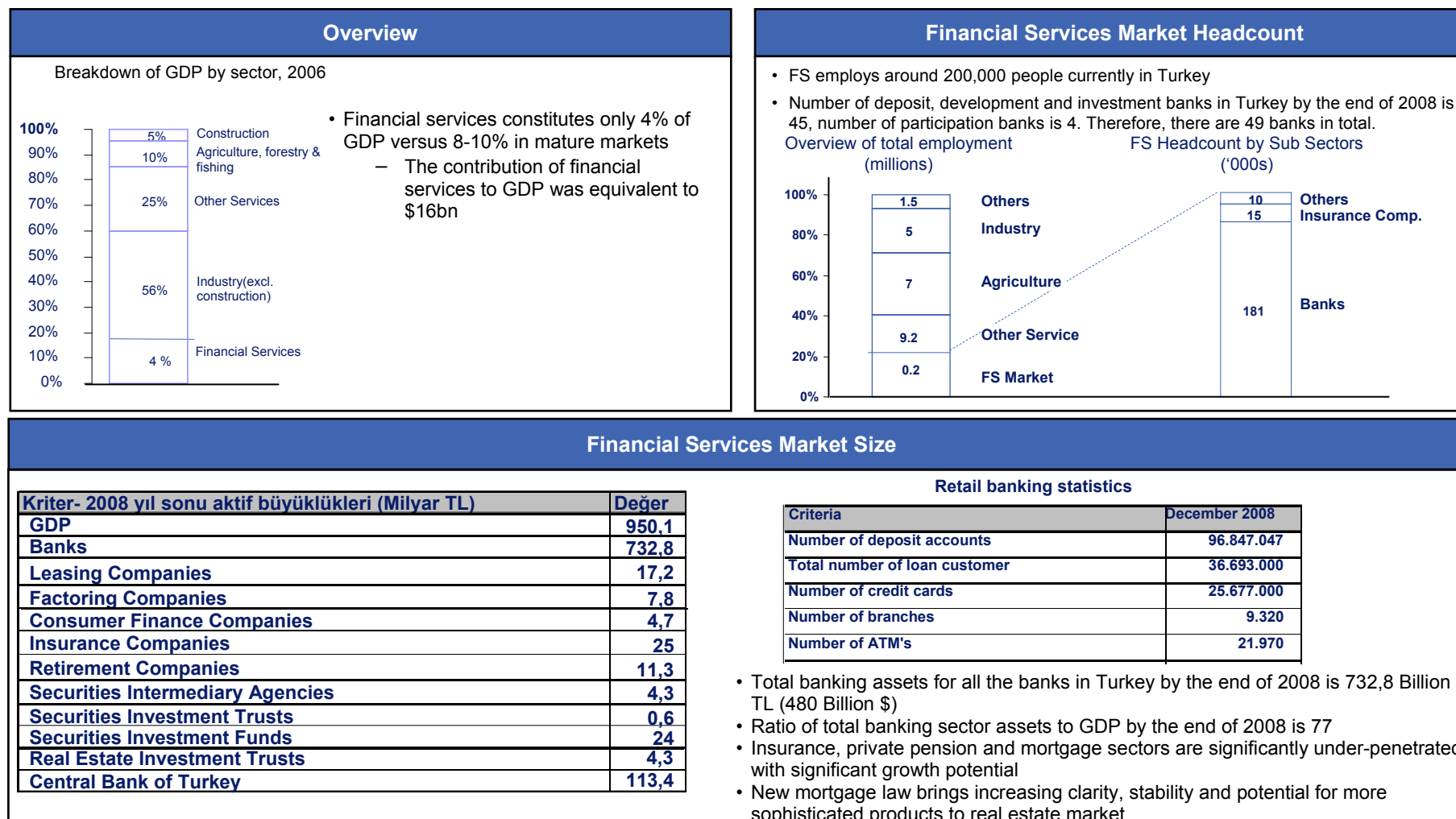
Background & History	Capital Markets
<ul style="list-style-type: none"> • Istanbul is an important financial centre in the region, but has recently started working towards becoming an international financial jurisdiction in its own right • Historically, Istanbul offered good access to a number of rapidly growing regions and countries • Turkey has huge growth potential, combining a large and fast-growing economy with a relatively under-penetrated financial services market • There are numerous growth opportunities in many areas of financial services market, with focus on strong banking market as well as fast growth of other markets such as the equity market 	<ul style="list-style-type: none"> • Although still relatively small compared to its EMEA counterparts, ISE has grown considerably in recent years • Stock market capitalisation is relatively weak compared with more mature countries, but consistent with other transition economies • Bond markets are relatively undeveloped, and corporate bonds in particular are virtually nonexistent due to historical sovereign debt issues • According to FIA 2008 1st half data, TurkDEX is the world's 20th exchange according to future contracts' trading volume. • Securitization of asset backed products is expected to grow to 200 BN USD in ten years
Strategy and Product Focus	Current Situation and Progress
<ul style="list-style-type: none"> • With a substantial economy, Turkey is a player of scale. Its regional significance continues to increase with strengthening economic ties with neighbouring countries • Commercial banking in Turkey is better developed than the immediate peers / competitor IFJs • Istanbul has significant latent potential in skilled labour and revenue generation. These constitute real strengths on which Istanbul can compete, and which direct regional competitors will find it extremely difficult to match • Istanbul is also strongly differentiated against competitors on lifestyle and cost of doing business 	<ul style="list-style-type: none"> • In Turkey, financial services constitutes around 4% of GDP versus 8-10% in mature markets, indicating there is much scope for further growth • Overall, Turkish financial indicators have improved significantly in the past few years • Financial services currently employ around 200,000 people in Turkey • Insurance, private pension and mortgage sectors are under-penetrated and have significant growth potential • Istanbul is hoping to be regionally dominant within the next decade and become one of the five truly international financial jurisdictions in the next 30 years

Source: EIU (2008)



Financial Services Market

Turkey's domestic financial services market is worth some \$16Bn

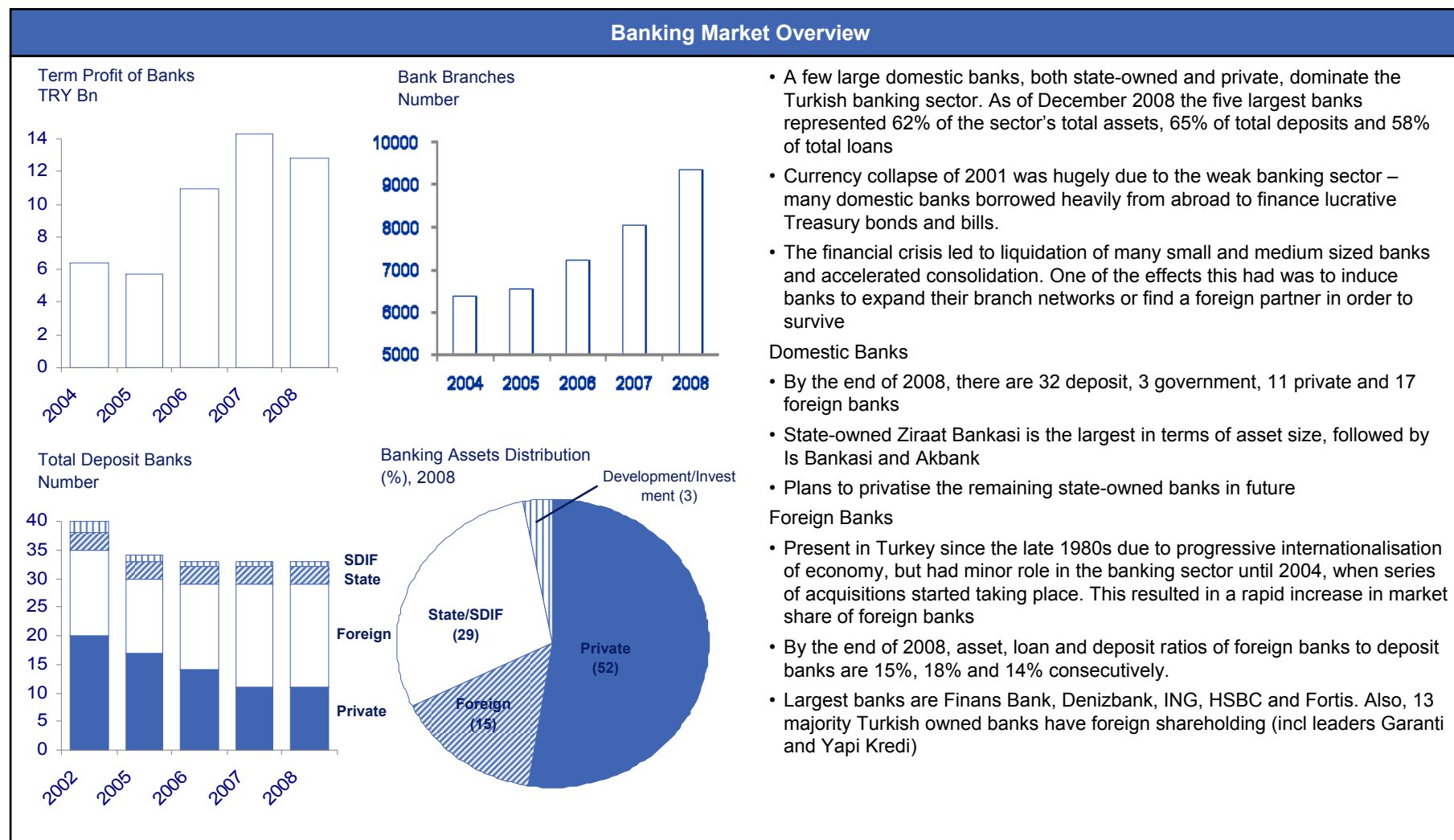


Source: World Development Indicators (2006), EIU 2008 Country Finance, BAT



Turkey's Banking Market

A few large banks dominate the Turkish banking sector

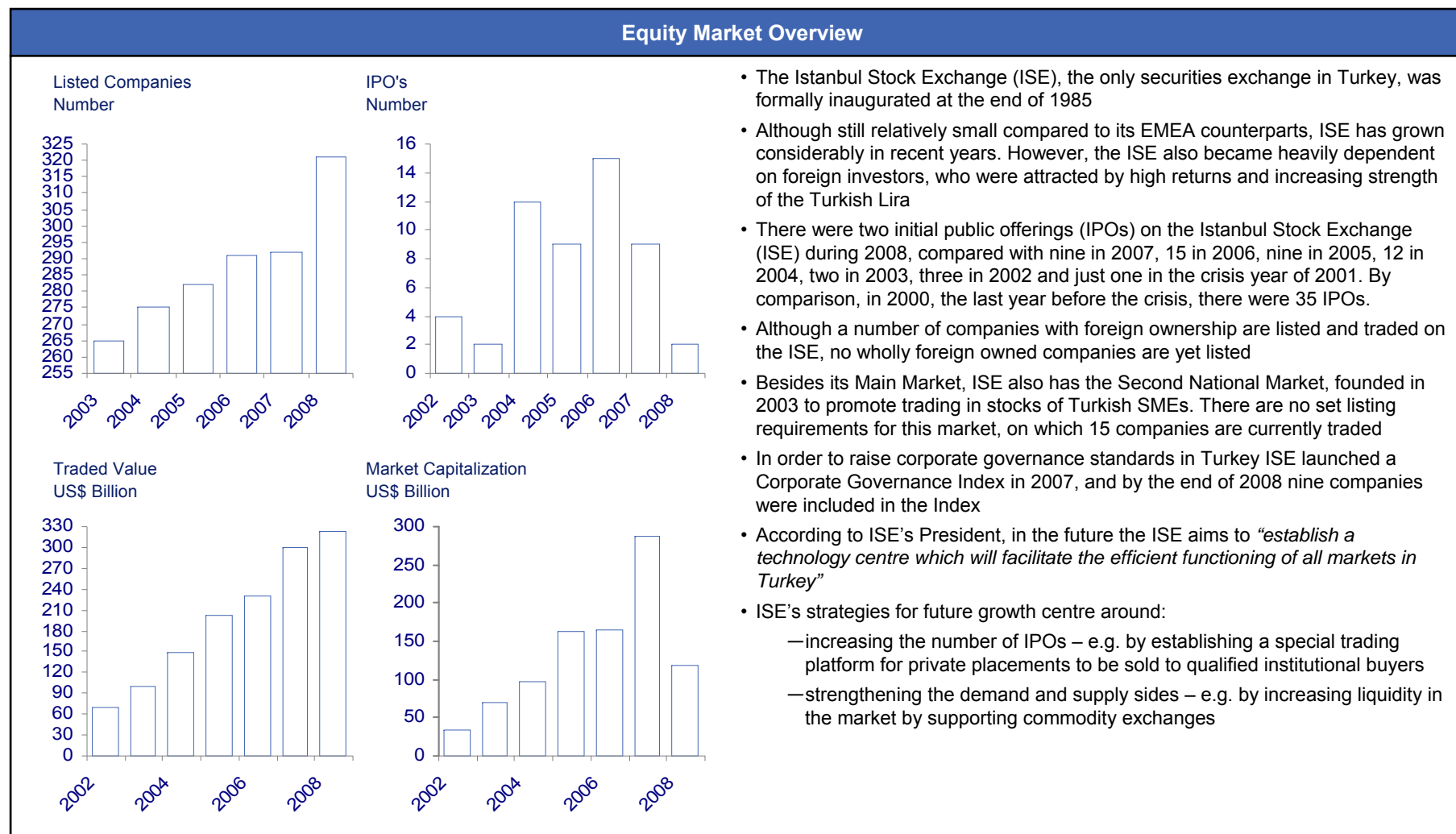


Source: EIU (2008), The Banks Association of Turkey



Turkey's Equity Market

The ISE has grown in recent years, yet remains a relatively small market

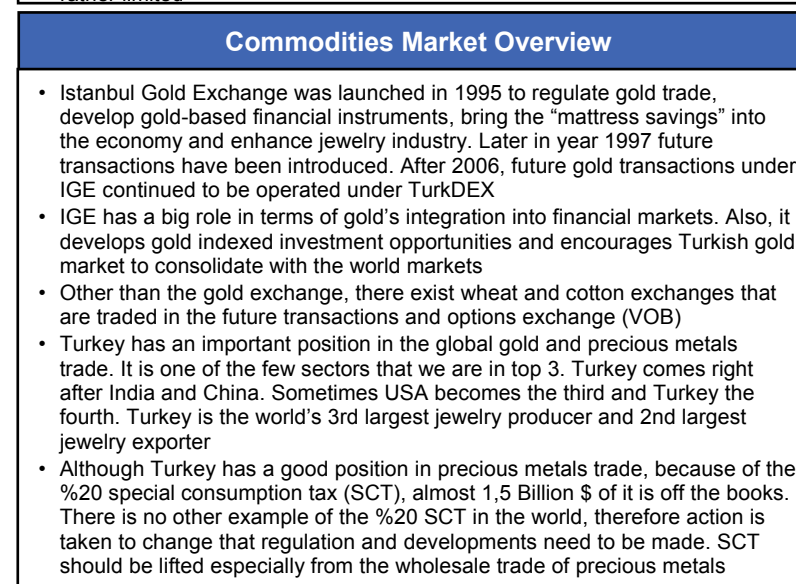
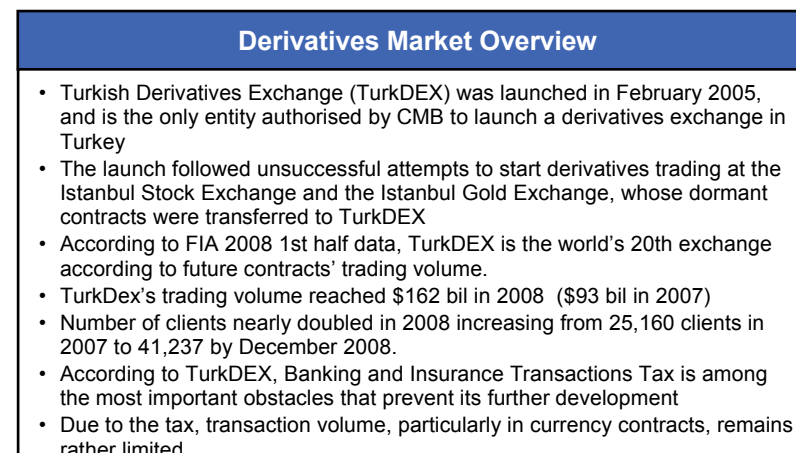
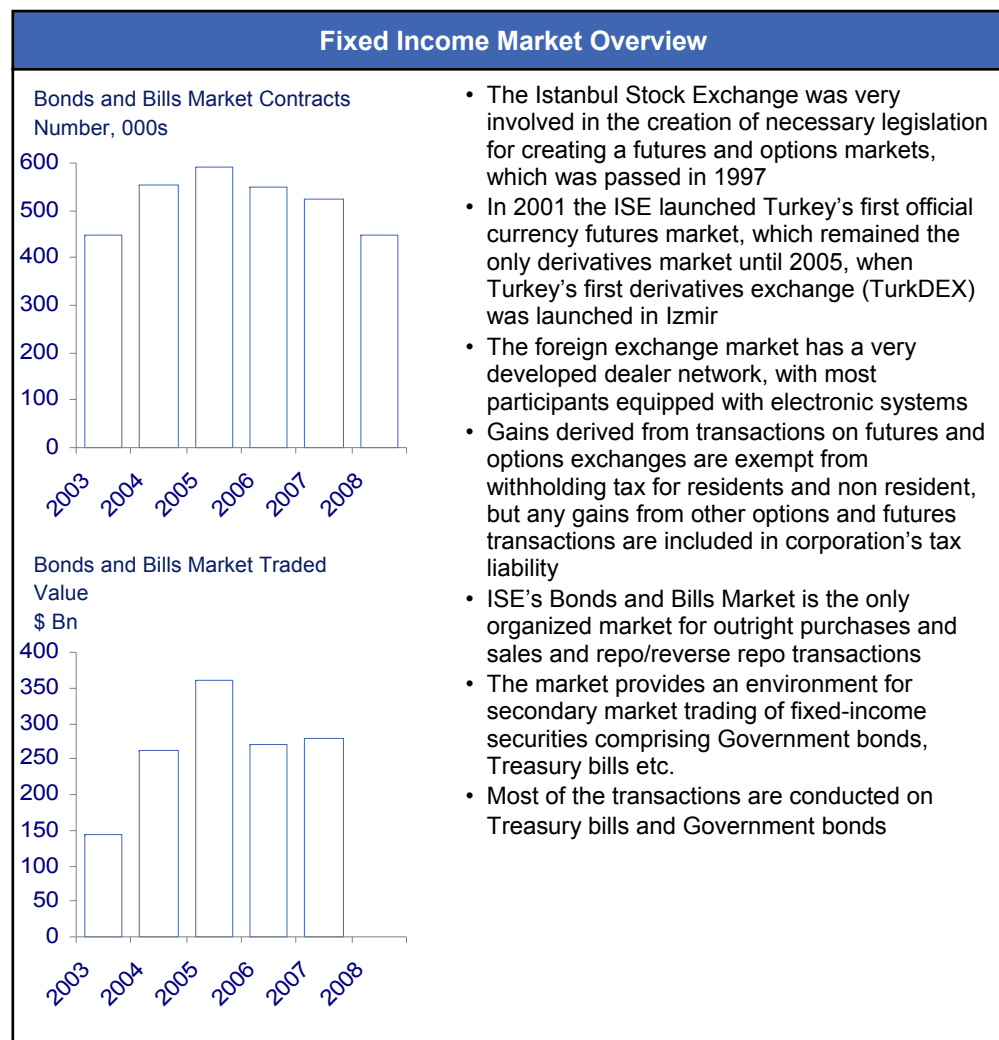


Source: ISE "Factbook 2008", EIU (2008), ISE "Turkey Beyond 2008"



Turkey's Fixed Income Market

Turkey lacks more advanced fixed income products



Source: EIU (2008), UNCTAD "Commodity Exchanges in a Globalized Economy", TurkDEX, ISE "Factbook 2008"



Turkey's Insurance Market

The insurance sector was hindered by the economic recession of 2001

Life and General Insurance Market Overview																						
<p>Premiums \$ Mn</p>	<ul style="list-style-type: none"> In 2008, a total of 36 non-life, 23 life and 2 re-insurance companies were active in Turkey. In 33 of these firms, foreigners' share was above 70% By the end of 2008, top 5 companies in Non-Life Insurance premium production are AXA Sigorta AŞ, Anadolu Anonim Türk Sigorta Şirketi, Ak Sigorta AŞ, Allianz Sigorta AŞ and Güneş Sigorta AŞ. Market share of these companies in Non-Life Insurance is 47,4% In life insurance premium production, top 5 companies are Anadolu Hayat Emeklilik AŞ, Başak Groupama Emeklilik AŞ, Avivasa Emeklilik ve Hayat AŞ, Garanti Emeklilik ve Hayat AŞ and Yapı Kredi Emeklilik AŞ. Total share of these companies in Life Insurance is 64,2% There was a large increase in the number of insurance companies during the liberalisation of the sector in 1990s, however, due to 2001 financial crisis and generally intense competition and low profit margins several insurers went into liquidation. After the year 2007, especially because of the foreign investors' big interest, number of companies started to increase again 																					
<p>Insurance Market Premiums</p> <table border="1"> <thead> <tr> <th>Year</th> <th>Premium (US\$)</th> <th>Premium per capita (US\$)</th> </tr> </thead> <tbody> <tr> <td>2003</td> <td>3,3</td> <td>46,8</td> </tr> <tr> <td>2004</td> <td>4,7</td> <td>71,2</td> </tr> <tr> <td>2005</td> <td>5,8</td> <td>80,9</td> </tr> <tr> <td>2006</td> <td>6,8</td> <td>92,6</td> </tr> <tr> <td>2007</td> <td>8,4</td> <td>119,0</td> </tr> <tr> <td>2008</td> <td>9,1</td> <td>129,0</td> </tr> </tbody> </table>	Year	Premium (US\$)	Premium per capita (US\$)	2003	3,3	46,8	2004	4,7	71,2	2005	5,8	80,9	2006	6,8	92,6	2007	8,4	119,0	2008	9,1	129,0	<ul style="list-style-type: none"> Turkey has one of the lowest insurance expenditures among industrialized countries. Among the main reasons for low per capita premium income are low levels of personal income and deficiency of insurance knowledge %48 of all premiums is comprised of motor insurances. Fire insurance and health insurance come after the motor insurance The number of insurance agencies is estimated to be around 13,675, with a third in Istanbul Foreign insurers have historically been widely present in the Turkish market. Since 2005 there has been a renewed interest in the market. By the end of 2008 seven of the ten largest insurers had substantial foreign ownership The sector was very lightly regulated until the new Insurance Law was passed in 2007. Then, much compliance is achieved with the help of the law passed for EU and related secondary legislation Vehicle and earthquake insurance are compulsory in Turkey
Year	Premium (US\$)	Premium per capita (US\$)																				
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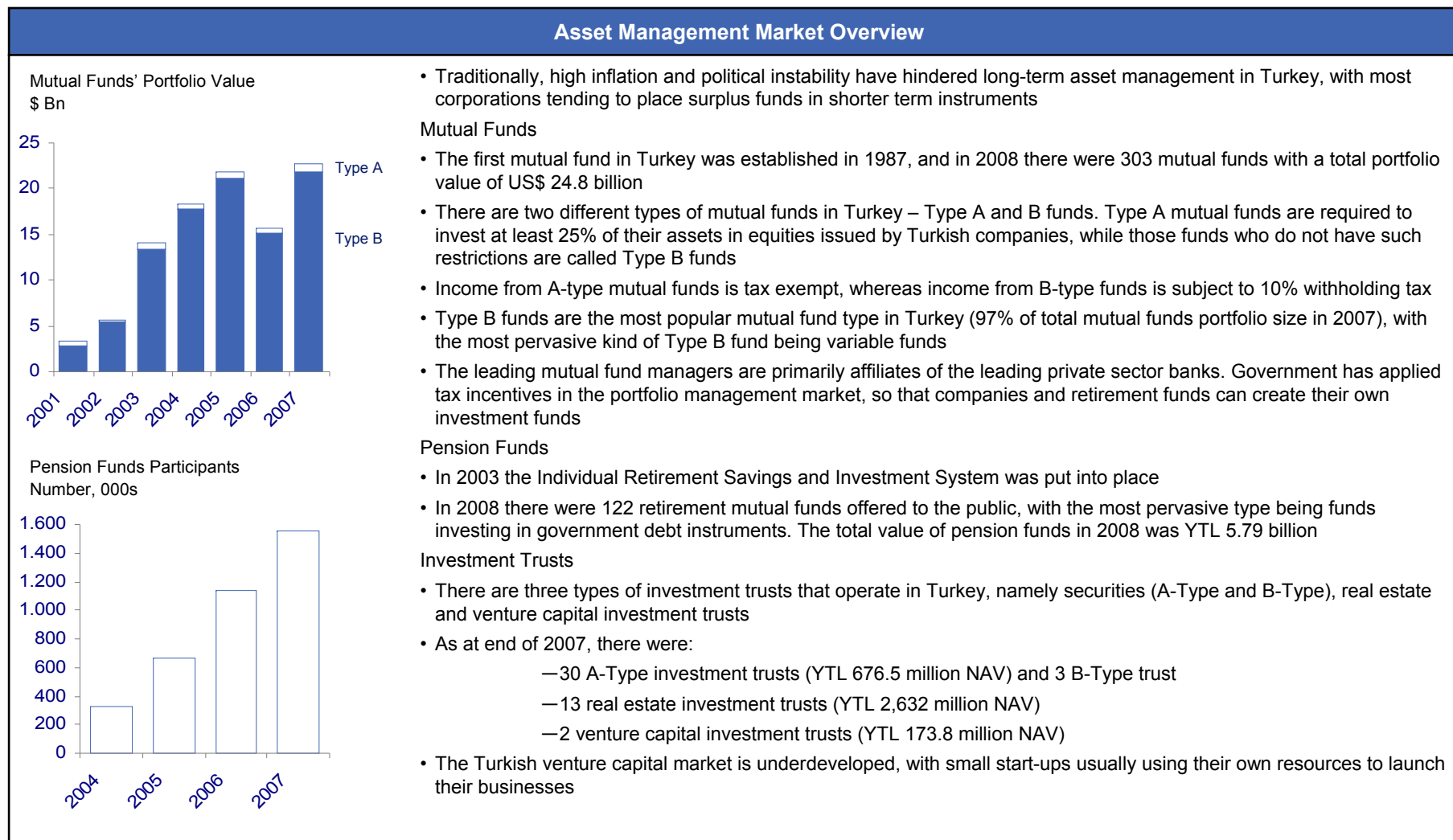
Re Insurance Market Overview
<ul style="list-style-type: none"> The company operating in the Turkey re-insurance sector is Milli Reasürans. Milli Reasürans was established by İsbank in 1929 as the first re-insurance company in Turkey. Until 1999, there were 4 re-insurance companies: Milli, Destek, Halk and İstanbul Reasürans Companies. Halk Re-Insurance has stopped operations in 1999, İstanbul Re-Insurance was closed in 2001 and Destek Re-Insurance was acquired by Milli Reasürans in 2004 Until 2006, Turkish companies were supposed to do at least 20% of all re-insurance agreements with Milli Reasürans In 2007, 30% of Turkey re-insurance market was Milli Reasürans's and the rest others' Milli Reasürans plans to increase its share in foreign operations from 5% to 25% so that local and foreign operations are balanced

Source: Turkish Undersecretariat of Treasury, Association of the Insurance and Reinsurance Companies of Turkey, EIU (2008)



Turkey's Asset Management Market

Turkish asset management market is currently in the development stage



Source: Capital Markets Board of Turkey, EIU (2008)



Product Opportunities in Turkish Financial Services

Turkey has a number of under-penetrated product opportunities

Market Structure & Product Opportunities	Product Opportunities (cont'd)
<p>Market structure</p> <ul style="list-style-type: none"> • The top ten banks in Turkey account for 85.7% of total banking assets (September 2008) • Through recent M&A, foreign market players are establishing a strong presence in Turkey's banking sector. The foreign share in banking assets increased from 3% to 14.9% between 2004-2008. <p>Capital markets</p> <ul style="list-style-type: none"> • The equity market provides an important source of financing for large enterprises but is still underdeveloped relative to its potential • The capital market has two well developed instruments: equities and the Government bills and bonds • Reforms of withholding tax on capital gains and interest designed to level the playing field between Government securities and other debt instruments are expected to support the re-emergence of the (currently non-existent) corporate bond market • Regulatory amendments have been proposed to allow brokerage firms to trade OTC derivatives on a cross-border basis, provided that detailed risk assessments are completed • By the end of 2008, insurance companies total asset size ratio to GDP is 2,8* • Global insurance company AIG, chose to establish its EMEA region management centre in Istanbul, which further demonstrates the potential of the Turkish insurance market • Turkey is the only country in the Middle East North Africa region with premiums increasing in all insurance markets: including general casualty, employees liability/workers' compensation, property and financial and professional markets • Insurance sector per capita income in Turkey is 129\$, very less than the global average 	<ul style="list-style-type: none"> • The insurance sector has a per capita revenue of \$119 in Turkey, this amount is well below the world average <p>Banking</p> <ul style="list-style-type: none"> • The market penetration ratios for banking remain low and have significant upside potential (loans/GDP of 30% vs. 167% average EU) • Consumer loans have grown with macroeconomic improvements • When household credit to GDP ratio is compared across countries, Turkey has a very low penetration rate (10.4%) while developed countries have a much higher rate (58%) • Derivative markets, structured finance products, factoring and leasing are increasing and becoming matured and believed to offer a huge potential in the coming years • Securitization of asset backed products is expected to grow to US\$200 billion in the next ten years
	<p style="text-align: center;">Products in Decline</p> <ul style="list-style-type: none"> • Consumer loans, which grew rapidly from 2002-2006, have begun to decline <ul style="list-style-type: none"> – Non-performing loans in the SME segment are rising rapidly, causing the government to introduce a new programme called "Anatolian Approach" to restructure those non-performing loans • Government bills and bonds are declining due to the decreasing borrowing requirements of the Turkish Treasury • Mutual funds are declining due to the shift of savings towards term deposits, both YTL and FX • Health insurance, which was used as an alternative to pensions, is declining after the launch of pension funds

Source: EIU (2008), *BRSA



Skilled Labour Pool

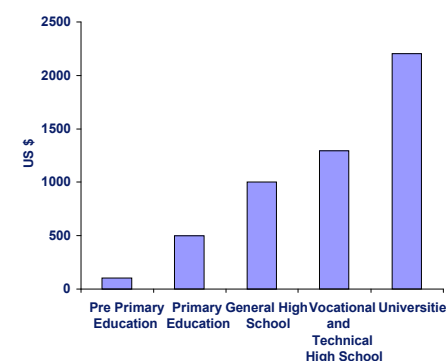
Turkey has a large, young and growing labour force but lacks specialist FS skills

Overview

- The total population of Turkey is 72 million
- Financial services employ approximately 200,000 people, with banks being the largest employers (181,527 people)
- Improving quality of education, industrial widening and annual labour force increases of 500k-700k are steadily increasing the average quality and skills of the current and potential labour force
- There is significant growth potential in the labour force considering 40% of the population is under 18 (equivalent to 30 million)
- The rate of female participation in the labour force is 25.3 %
- Private sector universities & technical colleges are expanding
- There is a big push by the Government to reach EU standards in education via EC & World Bank support
- The existing ‘white collar’ labour force is largely bilingual (Turkish and English)

Education

Education Expenditure per Student by Level of Education



- Education expenditure per GDP is lower than developed countries
- Budgeted education expenditure for 2007 was \$16Bn
- Human Development Index (education to income) ranked Turkey 76th among 179 countries in 2008. The adult literacy rate (15 yrs and older) is 83.7%

Education Levels in Financial Services

	Primary School	Elementary/ High School	College Graduates	Master/Phd Graduates
Deposit Banks	1,950	42,300	90,200	4,300
State Banks	790	16,000	22,000	900
Private Banks	650	19,000	51,000	2,300
SDIFs	10	200	200	10
Foreign Banks	500	7,100	17,000	1,100
Development and Investment Banks	75	1,100	3,000	400

- Number of post graduates is relatively low in the finance sector, especially in highly skilled activities such as investment banking
- College graduates comprise 70% of the labour force employed in banks, but only 3% of this number have a masters degree

Commentary

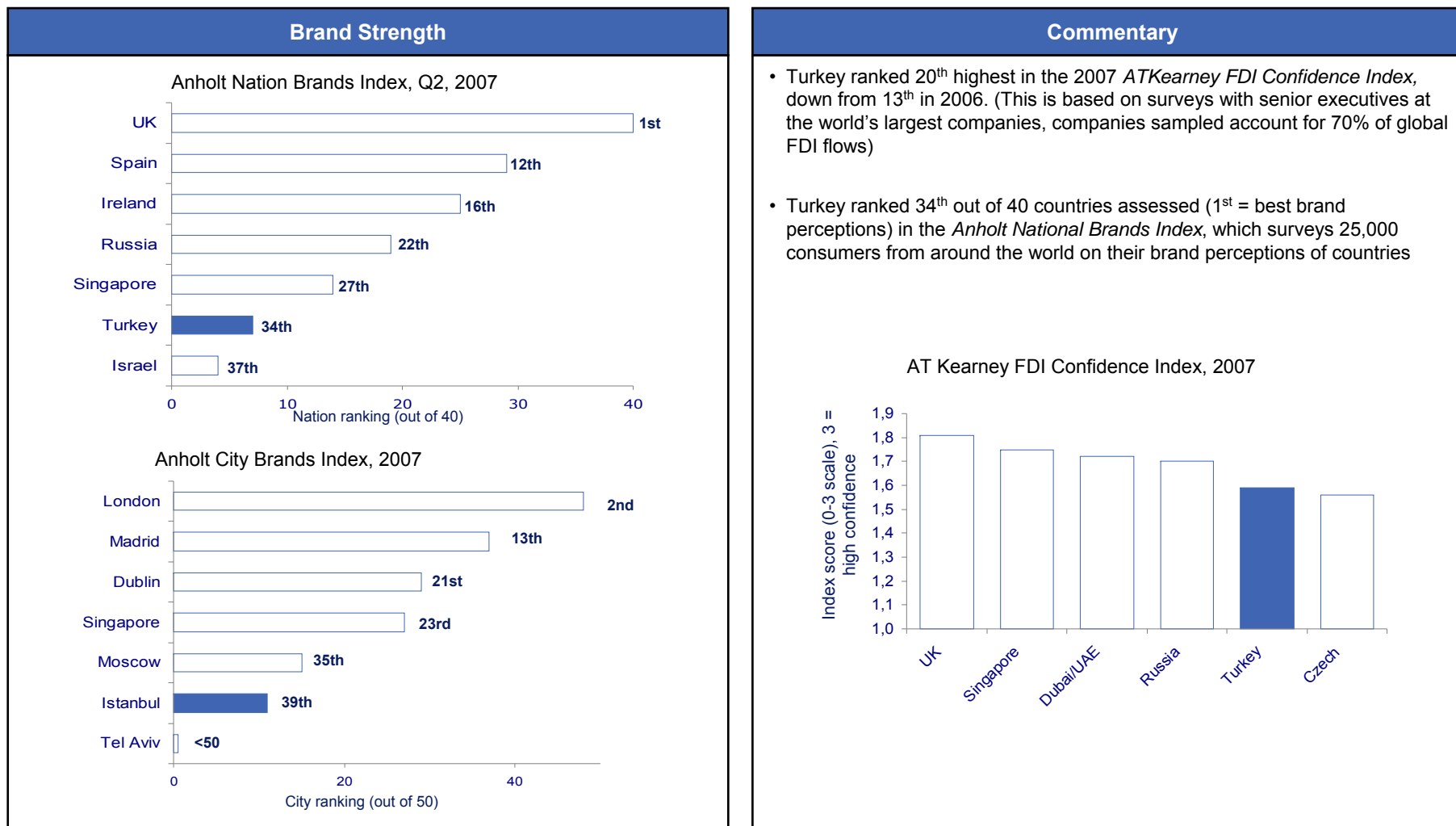
- The concentration of skilled labour is in retail banking. The labour force in investment banking, non-bank financial institutions and complex products is relatively small and limited in the skill sets it possesses
- There is a lack of sufficiently skilled vocational school graduates for back office functions
- Capital market professionals are supervised by the Capital Markets Board, which requires them to pass exams to obtain a license to be able to operate in most of the fields of finance in Turkey, to include pension funds, mortgage, real estate valuation, corporate governance, credit rating, derivative markets and clearing operations
- Turkey offers improving levels of business education, including top quality MBA programs, one of which was selected as “one of the best MBA programs in Europe” by Business Week and Frankfurter Allgemeine

Source: Turkey Labor Market Study, Summary Document of the World Bank, 2006, TURKSTAT, BRSA



Image & Perceptions

Turkey's 'brand' is perceived relatively poorly relative to key competing nations



Source: ATKearney FDI Confidence Survey (2007), Anholt Nation Brands Index (2007)



Political Stability

Turkish political system is on the whole perceived to be relatively stable

System of Government	Political Landscape
<ul style="list-style-type: none"> • Turkey is a secular, parliamentary, representative, democratic republic • The parliamentary system is based on the written constitution • The head of the state is the President who is elected every seven years by the Grand National Assembly • The Prime Minister is the head of government, and of the multi-party system • Executive power is exercised by the government • Legislative power is vested in both the government and the Grand National Assembly of Turkey which has 550 seats • Elections are held every 5 years with the rule of proportional representation and an election threshold of 10% for parties to be represented in the Grand National Assembly • The system is based on segregation of powers • The Judiciary is independent of the executive and the legislative powers. The freedom and independence of the Judicial System is protected within the constitution • The current constitution was adopted on November 7, 1982 after a period of military rule 	<ul style="list-style-type: none"> • The presidential elections triggered a major political crisis. With the Turkish army issuing a statement and wide international press coverage of demonstrations, the presidential elections had a negative impact on the perception of Turkey’s political stability abroad • The conservative Justice and Development Party (AKP), led by the prime minister, Recep Tayyip Erdogan, suffered a setback in the municipal elections on March 29th 2008, but remains by far the largest party in Turkey • The Economist Intelligence Unit’s 2008 democracy index ranks Turkey 87th out of 169 countries, up from 88th place in 2006 • Unemployment has increased due to global economic crisis in the world • Employment should be one of the biggest topics to be considered for the political stability

Sources: EIU Country Profile 2008



Economic Stability

Economic stability is constantly improving

Economic Stability

- Although there have been two major economic crises within the last decade, the introduction of the macroeconomic stability programme has aided serious improvements in economic stability
- Turkey has large domestic potential, exceeding that of immediate regional competition. Though the financial crisis hindered GDP growth (GDP grew by 1.1% in 2008) nominal GDP reached \$730bn in 2008
- Turkey has enjoyed continuous growth for the last 20 quarters and is now under the Euro region average of debt stock
- Key strengths of the Turkish economy include: commitment to EU accession, Independent Central Bank that is targeting inflation, structural reforms and a large consumer population
- Distribution of income within Turkey is improving
- Major future risks include:
 - High current account deficit & managed primary budget surplus
- Weak domestic demand in 2009-10 and lower commodity prices should offset the inflationary impact of a weaker lira. Consumer price inflation is expected to ease from an average of 10.4% in 2008 to around 4.5% in 2013
- According to the EIU forecasts a sharp reduction of the current-account deficit in 2009-10, as a result of weak import demand and lower international commodity prices, combined with IMF support will help to ease Turkey's external financing pressures. As commodity prices pick up again and domestic demand recovers, we expect the deficit to widen from about 1-2% of GDP in 2009-10 to about 4% in 2013

Government Intervention & Risk

- The Central Bank of Turkey is the monetary authority. The law states that the bank's priority is to achieve and maintain price stability
- The level of government intervention and control over resources is higher than for developed markets, but Turkey is still in a better position than most emerging markets
- Turkey is dedicated to continue its tight "inflation fighting" fiscal policy and to lower inflation together with interest rates to global norms, *"the inflation devil is dead, but never speak too soon"* (The Economist)
- The country and credit ratings of Turkey have been improving since 2002 and the ratings are about to reach lower limits of the "investable" segment but the "inflation fighting" programme and structural reforms should continue to further improve these ratings
- Total public debt / GDP reduced from 78.4% (2002) to 47.4% (2007)

Turkey risk ratings – rating agencies

Criteria	Rankings (2008)
Standard & Poor's F/X, L/T	BB-
Fitch F/X, L/T	BB-
Moody's B&N, F/X, L/T	Ba3

Turkey Country Risk Ratings, (2008 EIU)

Sovereign risk	BB
Banking sector risk	BB
Economic Structure risk	BB
Political Risk	BB
Currency Risk	B

Sources: EIU Country Profile (2008), EIU Country Report (2008), EIU Country Forecast (2009)



Infrastructure

Istanbul is well connected to major global cities but suffers from congestion

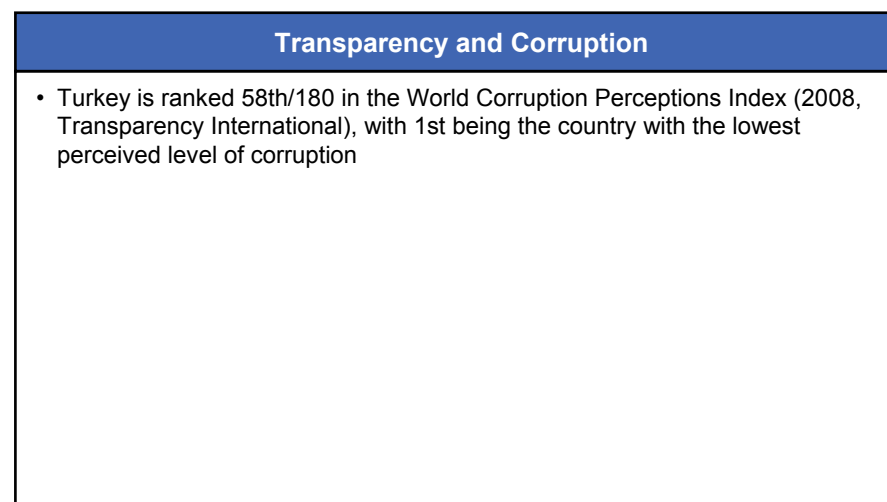
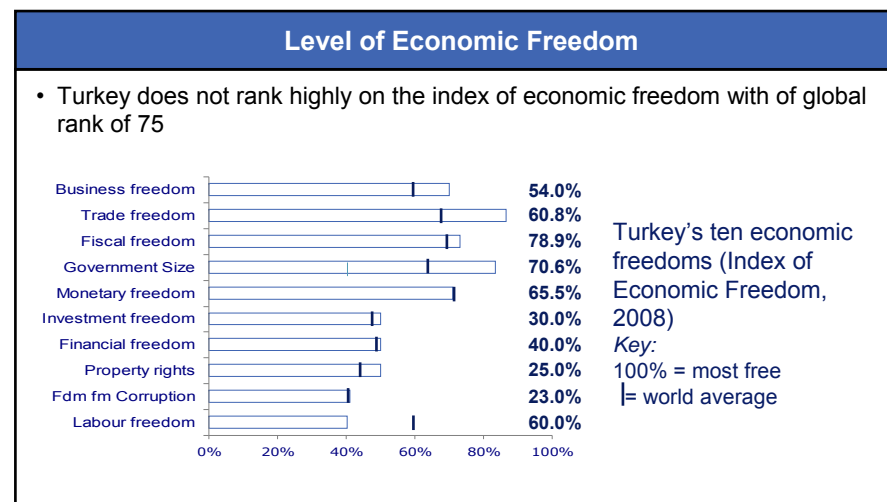
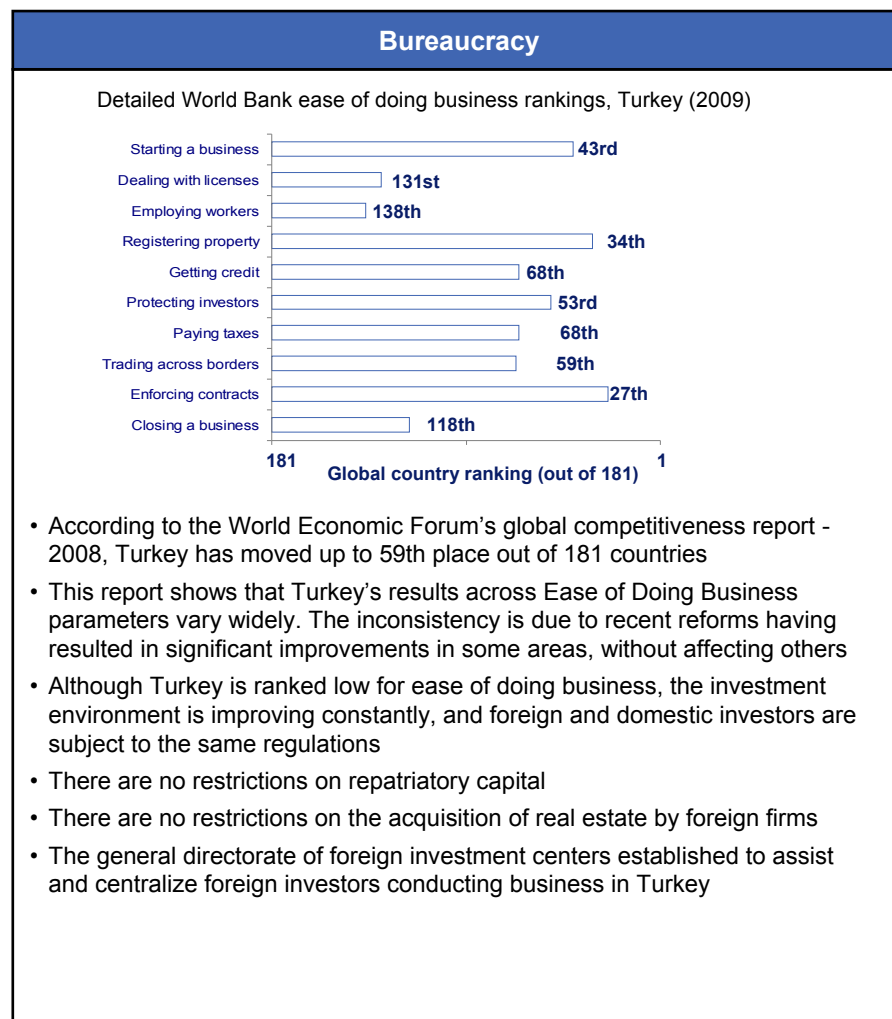
Transport	Telecoms & IT																														
<ul style="list-style-type: none"> • Turkey scores for 'Quality of Air transport infrastructure' in the <i>World Travel & Tourism index 2009</i> with the following rankings (out of 133 countries): <ul style="list-style-type: none"> - Number of operating airlines – 14th - Available seat kilometers – 25th - International air transport network – 52nd - Quality of air transport infrastructure – 55th • Istanbul currently has 2 airports with 6 Turkish airlines in operation • The total number of airports is expected to rise to 5 with another airport in the city, and 2 close-by airports that will be used for the city's transportation needs • A new railroad is planned, connecting Istanbul's European side to its Asian side through the Bosphorous • Traffic congestion (as for many other financial centers), is a major issue for the city • Metro systems are being developed rapidly with the aim of reaching 600km railroad in total <p>Flight distance and times to other financial centres</p> <table border="1" data-bbox="436 1005 878 1340"> <thead> <tr> <th>City</th> <th>Flight Distance</th> <th>Time (Hour)</th> </tr> </thead> <tbody> <tr> <td>Bahrain</td> <td>1700</td> <td>4</td> </tr> <tr> <td>Dublin</td> <td>1600</td> <td>4.25</td> </tr> <tr> <td>London</td> <td>1400</td> <td>4</td> </tr> <tr> <td>Moscow</td> <td>1000</td> <td>3</td> </tr> <tr> <td>New York</td> <td>4500</td> <td>11</td> </tr> <tr> <td>Paris</td> <td>1300</td> <td>3.5</td> </tr> <tr> <td>Tokyo</td> <td>5300</td> <td>11.5</td> </tr> <tr> <td>Warsaw</td> <td>850</td> <td>2.5</td> </tr> <tr> <td>Zurich</td> <td>1000</td> <td>3</td> </tr> </tbody> </table>	City	Flight Distance	Time (Hour)	Bahrain	1700	4	Dublin	1600	4.25	London	1400	4	Moscow	1000	3	New York	4500	11	Paris	1300	3.5	Tokyo	5300	11.5	Warsaw	850	2.5	Zurich	1000	3	<ul style="list-style-type: none"> • Turkey ranks 57th (out of 133 countries) in Information and communication technologies according to the <i>World Travel & Tourism index 2009</i> • The telecommunications market is dominated by competitive providers such as Turk Telecom, Vodafone, Turkcell and AVEA • Mobile Signature services offered by the GSM operators in Turkey are to be used to provide internet banking • The Turkish IT market is the 2nd fastest growing market in the CEEMEA at 15-20% sales growth p.a., behind Russia at 22% but ahead of China at 12% • However, there is still room for improvement in areas such as teleconference and data transfer services <p>Financial Industry IT Background</p> <ul style="list-style-type: none"> • The Turkish financial services industry is well served by the world's leading IT and telecoms service firms • IT usage in the Turkish finance sector is very dispersed. Financial institutions prefer to develop their own IT products in an attempt to differentiate themselves, rather than use off-the-shelf packages • However, financial institutions are expected to move towards specialized off-the-shelf products • The BRSA has recently made COBIT (Control Objectives for Information and Related Technology) audits mandatory in banks and in consolidated financial participations • These audits include not only IT, but also all business processes that include financial data
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Sources: TURKSTAT, WEF (2009)



Ease of Doing Business

Ease of doing business is improving but Turkey ranks poorly on labour freedom



Sources: Heritage “Index of Economic Freedom 2008”, World Bank “Doing Business 2009”, Corruption perceptions index 2008



Lifestyle

Istanbul is a world-class metropolitan city

Overview
<ul style="list-style-type: none"> Istanbul has a world-class heritage and has been capital to powerful empires such as the Roman, the Byzantine and the Ottoman Istanbul has a mix of habitants from different cultures and religions living harmoniously for decades Being the nearest Asian city to Europe and the nearest European city to Asia, Istanbul straddles both continents The city is also close-by to cradles of civilisation such as Ephesus and to the birthplace of Maria Magdalena and Saint Nicholas The weather is usually cloudy or rainy in winter and gets snowy from time to time. It is warm and bright during the spring and summer Rainfall is moderate. The number of sunny days per year is 189 on average

Amenities
<ul style="list-style-type: none"> There is widespread state provision of education and high calibre private schools are also available The healthcare system is comprised of public and private institutions. There are over 1,200 hospitals, of which 42 are university hospitals, and 250 private hospitals Public transportation: buses and metro are widely used, but improvements are needed in increasing capacity and improving maintenance As a consequence, most people prefer using private cars despite the heavy traffic in the city Security in the city is relatively good, although in recent times it has been on the decline As a counter measure, the city has implemented a large scale CCTV programme

Leisure
<ul style="list-style-type: none"> Istanbul is a true cultural centre with more than 57 museums, 145 theatres, 124 art houses Istanbul has been designated as the 2010 Culture Capital by the EU The city centre has excellent shopping facilities, is an hour from the beaches and 3 hours from skiing resorts Istanbul's nightlife is with 900 restaurants and 1840 bars, with a diverse range of cuisines on offer Istanbul was recently named "one of the coolest cities in the world" by Newsweek Istanbul is home to numerous international jazz, chill-out, classical music and cinema festivals There are 4 golf clubs of international standard. The number of country clubs has also risen over the past few years

Cost of Living																								
<p>Cities with the highest cost of living index, 2008</p> <table border="1"> <caption>Cities with the highest cost of living index, 2008</caption> <thead> <tr> <th>City</th> <th>Rank</th> <th>COL index (approx.)</th> </tr> </thead> <tbody> <tr> <td>Moscow</td> <td>1st</td> <td>145</td> </tr> <tr> <td>London</td> <td>3rd</td> <td>125</td> </tr> <tr> <td>Singapore</td> <td>13th</td> <td>110</td> </tr> <tr> <td>Tel Aviv</td> <td>14th</td> <td>105</td> </tr> <tr> <td>Dublin</td> <td>16th</td> <td>100</td> </tr> <tr> <td>Istanbul</td> <td>23rd</td> <td>95</td> </tr> <tr> <td>Madrid</td> <td>28th</td> <td>90</td> </tr> </tbody> </table> <ul style="list-style-type: none"> Financial services professionals can enjoy similarly high standards of life as in major world cities, with a much lower cost of living 	City	Rank	COL index (approx.)	Moscow	1st	145	London	3rd	125	Singapore	13th	110	Tel Aviv	14th	105	Dublin	16th	100	Istanbul	23rd	95	Madrid	28th	90
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Madrid	28th	90																						

Sources: EIU Country Profile 2008, Mercer "Cost of Living 2008"



Lifestyle (continued)

Istanbul has a diverse cultural heritage and has hosted many international events

Cultural Mosaic	Global Events and Hosting Capacity
<ul style="list-style-type: none"> • Istanbul’s population is an ethnic melting pot of peoples descending from Europe, Central Asia, Africa, and from Anatolia, Persia and Assyria • Paganism flourished in Istanbul before Christianity was established in the 4th century, when churches slowly began to appear • The city’s many ancient churches are treasures of early Christian spiritual and religious art • The first churches in Istanbul were the Havariyun Church, Haghia Sophia and Hagia Irine • Many churches were built up to the time of the Ottoman Conquest by many different sects i.e. Nestorians, Monotheists, Catholics, Orthodox, Assyrian, Gregorian, Dominican and Franciscans • The Greek, Armenian, Latin and Genoese also built their own churches • Istanbul is also the home of the Greek Orthodox Patriarchy, and has been so since the time when it was the capital of the Eastern Roman Empire • Istanbul is home to a number of mosques dating to the Ottoman period, including the famous Blue Mosque • Istanbul has numerous synagogues, built by Jews who fled persecution in Europe. The synagogues in Istanbul are as old as the churches. The first known synagogue was built in 318 A.D. 	<ul style="list-style-type: none"> • Improvements in modern city life in the form of art, cuisine, entertainment, cultural and sporting events have greatly contributed to the increasing number of participants attending international conferences and events • Istanbul has hosted many high profile events such as the UEFA Championship League Final, Eurovision Song Contest, NATO Summit, Formula 1 Grand Prix Istanbul and many international conferences such as: Habitat for Humanity, Alliance of Civilisations, World Radio Communication conference, World Poultry conference, International Union of Architects conference, and European Nuclear Medicine conference. World Accounting Congress, European Medical Oncology Congress, IEEE International Conference on Communication and World Psychiatry conference • In addition to the existing convention and exhibition venues in the city, two new centers will be in service next year with a total capacity of 10,000 people • The meeting capacity of the five star hotels in Istanbul in total is 43,000, 8 hotels have plenary rooms with over 1,000 seats • Istanbul has over 50,000 hotel rooms, the majority belonging to international chain hotels providing competitive prices along with international standards in service and traditional Turkish hospitality • The vast majority of Istanbul hotels have either been built or renovated in the past five to ten years • The Conrad Hotel in Istanbul has been awarded “the best business hotel of the Europe” award for the last 3 years

Sources: Life Style Index, EIU Country Profile 2006



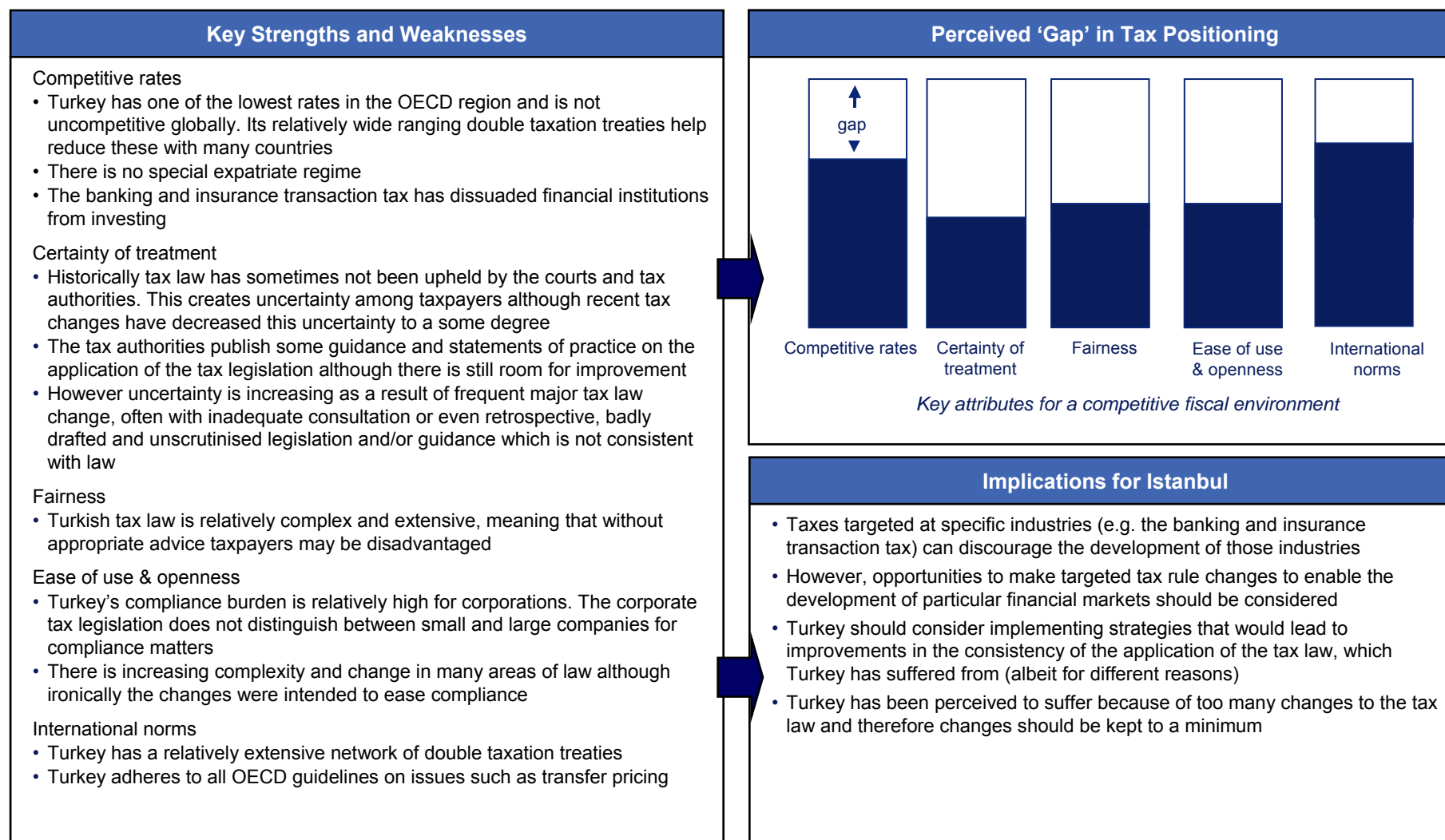
Taxation System Overview

Uncertainty remains despite reform

Taxable Income and Rates	Compliance and Administration
<p>Corporation Tax</p> <ul style="list-style-type: none"> • The main tax rate on taxable profits is 20% • Turkey resident companies are taxed on their worldwide income, with a credit for foreign tax • A company is Turkey tax resident if its legal seat or place of effective management is in Turkey • Generally expenses are deductible on an actual basis rather than on a provisional basis. Otherwise, most notable types of expenses are deductible • Capital gains are generally taxed as income. There is a corporate tax exemption for 75% of capital gains from equity shares and real estate that are held for more than 2 years subject to certain restrictions • Losses may be carried forward for a maximum period of five years. Turkey does not recognise the principle of loss carry back <p>Personal Tax</p> <ul style="list-style-type: none"> • Progressive rates up to 35% for employment income • Only 50% of dividend income taxable <p>Withholding Tax</p> <ul style="list-style-type: none"> • 15% on dividends, 0% on loan interest (for foreign banks and financial institutions), 10% for other interest (i.e. interest on loans obtained from non-financial entities), and 20% on royalties <p>VAT</p> <ul style="list-style-type: none"> • 18% standard rate charged on most transactions • Some reduced rates and exemptions <p>Other</p> <ul style="list-style-type: none"> • Banking and insurance transaction taxes (BITT) of 5 % are applicable (Excluding the exceptions specified in the Expense Tax Law, Clause 29) to monies collected by banks and insurance companies in relation to most transactions whereas reduced rates are applied to certain financial transactions • Employers' national insurance (20.5 % social security tax on payroll with a lower and upper limit) 	<ul style="list-style-type: none"> • Companies self-assess their corporation tax liability • Companies make quarterly advance payments of tax based on actual income, and must file a final corporate tax return by the 25th day (and make the final tax payment by the 30th day) of the fourth month following the year-end • Tax compliance is moderate to strong among large corporations and generally weaker in smaller, private companies—despite regular controls and fines. Some foreign investors claim this puts them at a comparative disadvantage
	<p style="text-align: center;">International Aspects</p> <ul style="list-style-type: none"> • Turkey has more than 60 tax treaties • Turkey generally adheres to OECD guidelines on most issues such as transfer pricing, thin-capitalisation and general anti-avoidance rules • “Controlled foreign company” rules potentially bring the profits of offshore subsidiaries within the Turkish tax net • Income of foreign branches (and dividends from foreign subsidiaries) are taxable (with credit for foreign tax including underlying tax suffered)



Strengths, Weaknesses and Implications





Availability of Professional Services

Professional services are improving constantly in Turkey

Overview	Lawyers
<ul style="list-style-type: none"> • The professional services serving the financial services industry are improving constantly in Turkey. IT services are already world class, accountancy services are improving rapidly due to IAS harmonization efforts • There is under-provision of international quality legal services, however there is considerable improvement in this area as the tendency of high quality college graduates to enter the legal profession increases • The 'big 4' accountancy firms are all present in Turkey and employ a total of approximately 2,000 people 	<ul style="list-style-type: none"> • The lack of availability of a sufficient number of suitably qualified lawyers to serve the financial services industry is a major issue in Turkey • Only 3 of the top 100 global law firms are present in Turkey, employing 34 people • There are around 58,000 legal professionals in Turkey overall, of which: <ul style="list-style-type: none"> – 21,500 are in Istanbul – 18,000 are active – 500 are able to serve internationally – Only 50-100 are able to serve within IFJ framework • There are 155 law offices in Turkey, of which 55 offices are located in Istanbul
Accountants	Consultants
<ul style="list-style-type: none"> • There are around 65,000 accountants in Turkey of which more than one thirds are located in Istanbul • Due to efforts to harmonize local GAAP with IAS, the quality of accountants is improving rapidly • ACCA and TÜRMOB (The Union of Chambers of Certified Public Accountants of Turkey) at Turkey signed a partnership agreement in 2004 which enables TÜRMOB members resident in Turkey to follow the ACCA Professional Scheme qualification and achieve ACCA membership 	<ul style="list-style-type: none"> • The IT consulting market is growing, especially in serving the finance services industry, driven by high competition in retail banking • Global firms are active in most competencies including supply chain management, CRM, ERP and performance management • There are an estimated 3000-3500 IT consultants • Business consulting market has mostly been dominated by the big 4 and international consulting companies

Source: EIU Country Profile 2008, Big4 websites, Deloitte research



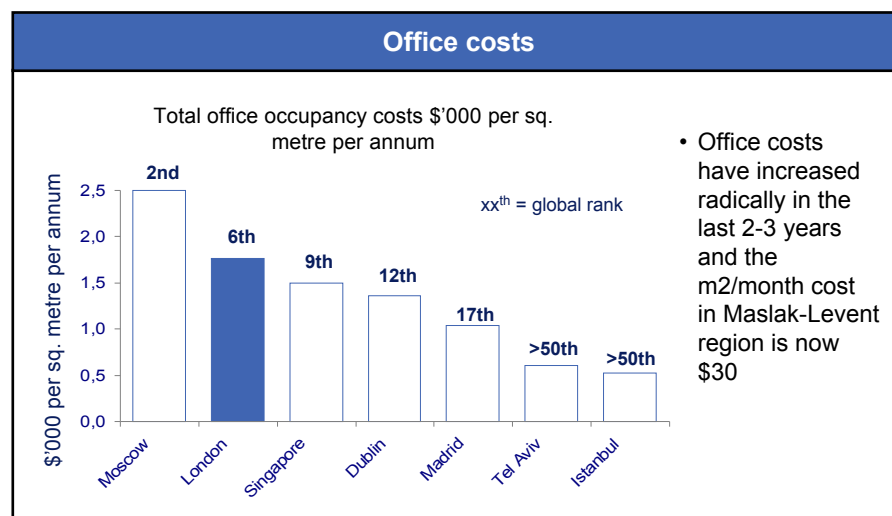
Cost of Doing Business

Istanbul is a relatively low cost city to do business in

Labour Costs	
Average gross compensation, 2008	
Position	Annual salary (\$)
Chief Executive	445,000
Head of Marketing	230,000
Head of Human Resources	215,000
Head of Finance	220,000
Purchasing Manager	185,000
Chief Accountant	150,000
Accountant	90,000
Executive Secretary	65,000
Computer-operations specialist	59,000
Clerical	23,000

Estimated average gross annual salaries for key positions (excluding jobs in banking and accounting)

Commentary
<ul style="list-style-type: none"> The government encourages investment with higher incentives for underdeveloped regions. Incentives are available for both Turkish and foreign investors Loans can be allocated in order to guide and encourage regional development, research and development (R&D), environmental protection, and investments in priority technology areas Government incentives tend to ease setting-up, getting credit and trading across borders for international businesses but the procedures are still discouraging for investors and need further input A consequence of the 2001 crisis is the the labour law which has been restructured to further protect the labour rights



Source: CBRE 2008, EIU Country Commerce 2008



Legal Environment

Turkey's judicial system is slow and bureaucratic, and lacks financial expertise

Overview of the Legal System	Training, Education and FS Skills
<ul style="list-style-type: none"> • Turkey has a civil law system that has its origins in the modernization of the legal system in the 1920s, which drew heavily on continental approaches: it was based on Swiss civil law and civil procedure; German commercial law, maritime law, and criminal procedure; Italian criminal law; and French administrative law • The Turkish legal system has changed significantly in the last 5 years, as Turkey has pushed through reforms in pursuit of membership of the EU • Turkey is also a member of the European Court of Human Rights • Turkey's legal system has greater experience with market mechanisms than legal systems in neighbouring formerly communist countries in eastern Europe and the CIS • Turkey scored 4.8/7 on property rights and 4.1/7 on strength of institutions in the WEF Global Competitiveness index 	<ul style="list-style-type: none"> • As in many Civil Law jurisdictions, judges are not appointed, or elected from among the best and most experienced lawyers. Instead, students choose to train for a judicial career early in the legal education process. This limits the scope for inducting advanced financial skills into the judicial system • Specialist FS skills are lacking across the entire spectrum of the legal system, including judges, lawyers and expert witnesses <ul style="list-style-type: none"> • “Of 18.500 active lawyers in the Istanbul...only 50-100 are adequate for an IFJ” (Partner, leading Turkish law firm) • This is reflected in the legal profession, with only 3 of the top 100 global law firms present in Turkey (with 34 lawyers) • “The lack of skilled judges and specialized courts causes serious issues in the legal system” (CEO, Asset Manager) • Salaries for judges are very low, exacerbating corruption issues, and limiting the ability to attract talented and skilled people <ul style="list-style-type: none"> – “Specialized courts must be established and special privileges must be given to the proceeding judges. The only problem is the remuneration package differences that is difficult to be accepted by conventional courts judges” (Executive, Turkish bank) • There have been some recent improvements: the Justice Academy was established in 2003 to train candidate judges and prosecutors, and provide continuing training of serving judges and prosecutors. However, specialist training in financial skills is still needed • There is also a lack of alternative bodies for arbitration, and pre-arbitration mechanisms such as mediation or conciliation are rare. However, there is growing awareness of the need to provide arbitration • The International Arbitration Law has recently been enacted, and the Istanbul Chamber of Commerce has studied the feasibility of an international arbitration centre in Istanbul
The Judicial System	
<ul style="list-style-type: none"> • A large backlog of cases and general inefficiency of the justice system is a key issue facing the Turkish <ul style="list-style-type: none"> – Trials last for long periods and are subject to repeated adjournments – “... the bankruptcy timeline is 2-10 years” (Business Association in Turkey) – Only 11% of firms surveyed said ‘courts were quick’ • However, aside from the time cost of prolonged legal proceedings, courts are not perceived to be expensive, with the cost of enforcing a contract at 5% of income per capita, lower than the CIS and EU8 • The system has also been criticized for the lack of independence of judges, and certainly of treatment in law • Specialised courts exist, but their scope is limited 	

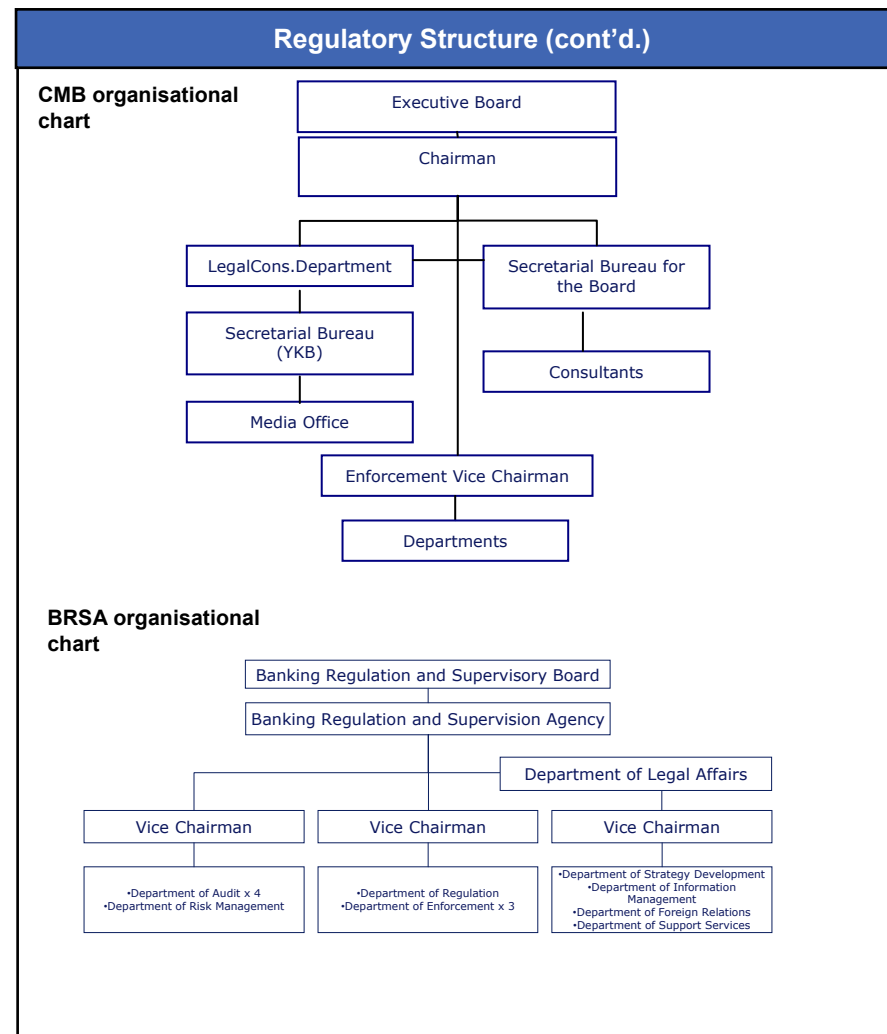
Source: World Bank Legal systems in transition economies, World Bank BEEPS2, search of public legal sources



Regulatory Philosophy and Structure

Three bodies regulate conduct of business and prudential issues

Regulatory Philosophy
<ul style="list-style-type: none"> The Banking Regulation and Supervision Agency (BRSA) mission statement: to safeguard the rights and benefits of depositors and to create the proper environment, in which, banks and financial institutions can operate with market discipline, in a healthy, efficient and globally competitive manner, thus, contributing to the achievement of long-run economic growth and stability of Turkey Capital Markets Board (CMB) mission statement: To make innovative regulations, and perform supervision with the aim of ensuring fairness, efficiency and transparency in Turkish capital markets, and improving their international competitiveness
Key Regulatory Bodies
<ul style="list-style-type: none"> BRSA: oversees banking, leasing, factoring, consumer finance, financial holding companies & asset management CMB: regulates and supervises the securities market & asset management Undersecretariat of the Treasury: regulates the insurance sector, bureaux de change, money lenders and supervising the incentives for domestic and foreign direct investments MASAK: Financial Crimes Investigation Board
<p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> Regulation is split between three core organisations, one of which is managed by a government department Regulatory bodies lack independent arbitration bodies and performance assessors There is some overlap between the regulators

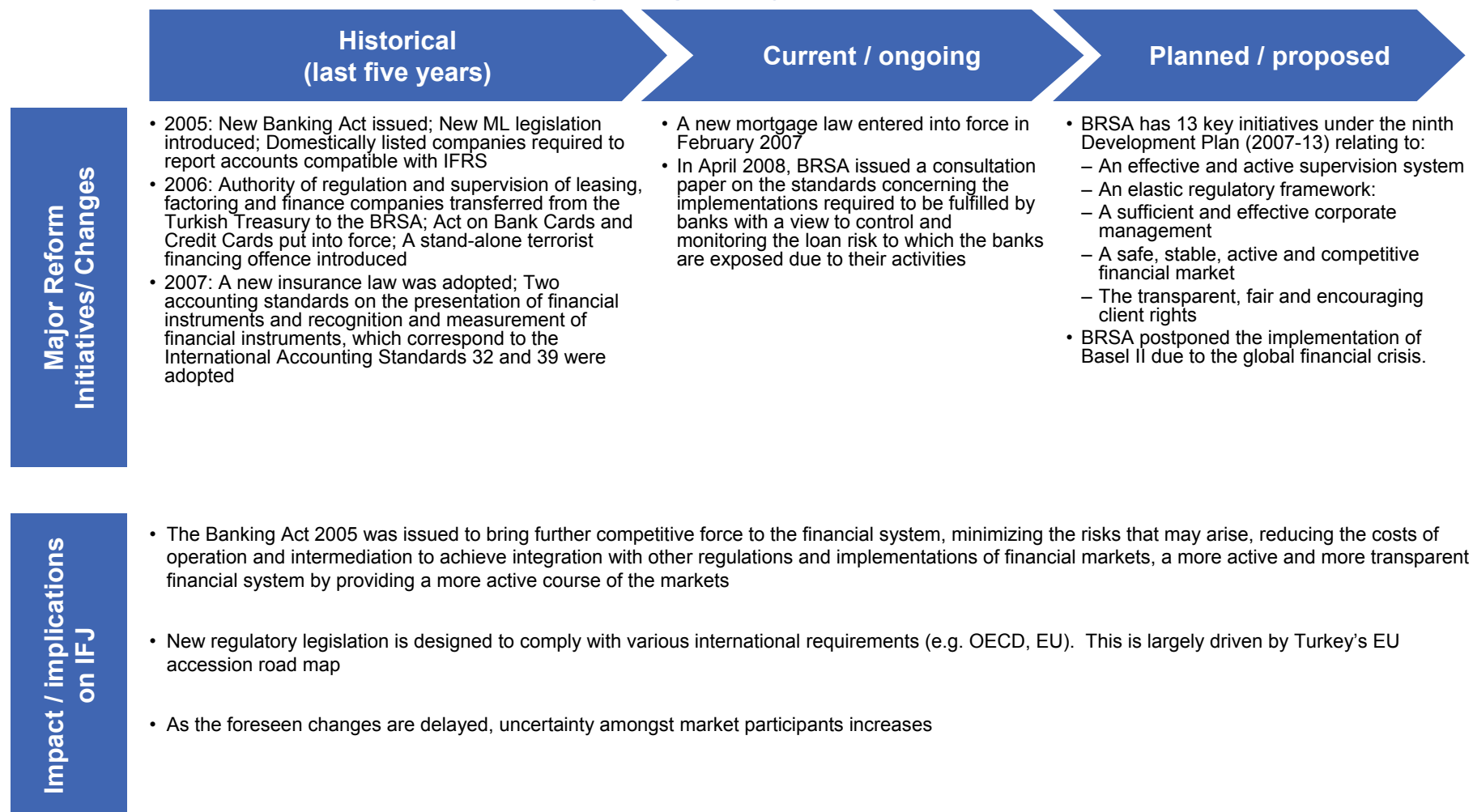


Source: BRSA Annual Reports; CMB Annual Report; Turkish Treasury; Deloitte analysis



Development of Regulatory Environment

EU accession plans drive much of Turkey's regulatory developments



Source: BRSA Annual Report; CMB Annual Report; EIU Country Profile and Country Finance; Deloitte Experts



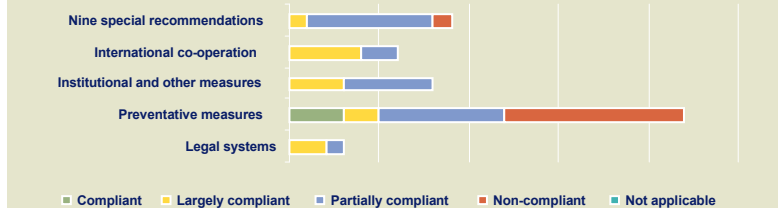
Key Aspects of Regulatory Environment (1/3)

Turkey is focused on international harmonisation but faces ML and CFT issues

International Compliance (AML/CFT)

- MASAK is the focal point for Turkish AML/CFT efforts which FATF describes as 'generally effective in its functions'
- Supervision is conducted by the FIU, the Banking Regulation and Supervision Agency, the Capital Markets Board and the Undersecretariat of Treasury. The AML/CFT system is overseen by a multi-agency Coordination Board for Combating Financial Crime
- FATF views Turkey's legal requirements to combat ML and CFT as generally comprehensive and notes that recent legislative changes have strengthened the system

Ratings of compliance with FATF Recommendations (2007)



Key implications for international competitiveness

- Does not perform well against FATF's recommendations, particularly in terms of preventative measures
- However, recent legislative changes are improving the system and MASAK is considered 'generally effective'

International Standards

- The Treasury claims that as of March 2007, 97% of European standards were being accepted as national standards
- Turkish Accounting Standards board adopted two accounting standards on the presentation of financial instruments and recognition and measurement of financial instruments, which correspond to the International Accounting Standards 32 and 39. As of 2007 all companies listed on the Istanbul Stock Exchange are required to follow IFRS
- From 2007 onward a new solvency regime was adopted for insurance, reinsurance, and occupational pension companies. It was designed to resemble the EU Solvency-I framework that is currently in force, but was also inspired by the ongoing Solvency-II study
- The BRSA has signed Memoranda of Understandings with regulators in 18 countries
- Turkey views Basel II as providing a significant opportunity for financial stability. The BRSA announced a road map for its implementation in 2005. Implementation was planned for 2009, However it has been postponed indefinitely due to the global financial crisis.

Key implications for international competitiveness

- Turkey is keen to meet EU and OECD standards
- However, there is some concern that regulatory changes have yet to encourage cultural changes within the financial services industry



Key Aspects of Regulatory Environment (2/3)

Turkey has yet to embed its approach to regulation and prove its efficacy

Responsiveness to Market and Ease of Entry

- The BRSA is responsible for approving applications to establish new banks with the approval of 5 out of 7 board members required. Banks resident in Turkey seek permission from the BRSA for mergers and liquidations and before establishing partnerships with individuals or corporations based outside the country
- The EIU notes that Turkey has generally presented a difficult operating environment for foreign companies, with many continuing to use funds supplied by parent companies and generated from their own cash flows. However, it argues that the regulatory environment has improved steadily, and that the economy has become less vulnerable to domestic and external shocks
- Total foreign ownership of banks in Turkey is around 19,8%. When the shares owned by foreign investors is added (17,5% of exchange shares), the total foreign ownership increases to 37,4%
- The Investment Support and Promotion Agency of Turkey and the Investment Portal of Turkey were established in 2006

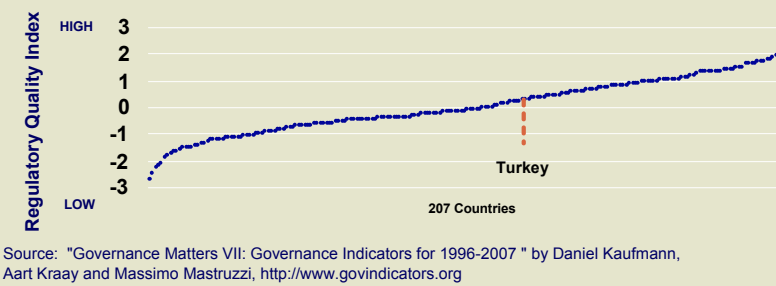
Key implications for international competitiveness

- The Banking crisis of 2001 encouraged a relatively strict approach to authorisation
- While there is a high level of foreign ownership of banks operating in Turkey, there is some evidence that Turkey is not an easy environment to establish a new financial services business

Quality of Regulation and Consistency of Approach

- The IMF praised the introduction of a full supervisory cycle “in line with international best practices” but noted that challenges remained in its implementation. It also argued that the integration between on-site supervision and the enforcement functions is not transparent, and this might lead to warranted supervisory actions being delayed or not undertaken

Regulatory Quality - 2007



Key implications for international competitiveness

- Turkey is aiming to develop a strong regulatory environment but has not yet been able to embed this approach successfully



Key Aspects of Regulatory Environment (3/3)

Regulators do not have sufficient independence or autonomy

Quality and Availability of Regulatory Staff	Independence / Legal Position of Regulator
<ul style="list-style-type: none"> • At year-end 2008, BRSA and the CMB conjointly employed more than 1,000 people • Members of the BRSB must have at least ten years of experience after completing higher education. Minimum one of the members must be a graduate of law faculty and one must have worked as vice chairman or main service unit manager in the BRSA • The CMB reports that by year-end 2007 there were 98 Independent Audit Companies operating in Turkey. Credit Rating Firms remained steady at 4 and Corporate Governance Rating firms rose at 1 • The Turkish regulators follow the civil service qualifications and pay scales. Staff sometimes have little direct commercial experience <p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> • Regulators are limited in attracting high quality staff by the civil service pay scales 	<ul style="list-style-type: none"> • The Banking Regulation and Supervision Agency is established as a public legal entity with administrative and financial autonomy • However, the IMF argues “in practice the BRSA lacks full operational independence in regulatory and budgetary matters. Before issuing a regulation, the BRSA must conduct consultations with the related Ministry and the Undersecretariat of the State Planning Organization” • The BRSB is appointed by the Cabinet. The term of office of the Board Chairman and members is six years and they cannot be removed from office before the expiry of their terms of office • The CMB’s Executive Board consists of seven Members / Commissioners. The Council of Ministers appoints two members from four nominations by the Ministry of State responsible for the Economy. The other five members are appointed from the nominations of the Ministry of Finance, the Ministry of Industry and Commerce, the BRSB, the Association of Trade Chambers and Exchanges, and the Association of Capital Markets Intermediary Institutions of Turkey

Source: BRSA Strategic Plan 2006-2008; BRSA Annual reports; Turkey: Financial System Stability Assessment, IMF, November 2007; CMB Annual Report 2006; Deloitte experts



International Market Confidence in Regulatory Environment

Turkey has yet to prove itself on the world stage

International Market Confidence											
<p>IMF</p> <ul style="list-style-type: none"> • “The BRSA has legal authority and capacity to identify unsafe and unsound banking practices and request the adoption of corrective actions. In recent years, there has also been improvements in implementations. <p>OECD</p> <ul style="list-style-type: none"> • “Since the crisis of 2001, an impressive package of fiscal consolidation and institutional reform has created a strong foundation for economic growth. As a result, GDP growth has been strong and stable, inflation has fallen, and the public debt burden has been significantly reduced. Yet the current account deficit is large, exchange rate movements have been volatile, and the recent increase in inflation and rising levels of private sector external debt draw attention to Turkey’s vulnerabilities and to the need for additional policies to contain risks” • Turkish banks seem to have a more conservative approach towards credit granting with the effect of the global crisis. The extent of currency mismatches in the private sector also suggests that the corporate sector may suffer significant costs in response to exchange rate depreciation. These could have potential repercussions on the banking system. Finally, despite significant progress, the quality of financial supervision can be stepped up further. So the effects of the global financial crisis can be minimized. 	<p>World Bank</p> <ul style="list-style-type: none"> • “There has been significant progress in recent years in improving the environment and framework for financial reporting in Turkey and currently further wide-scale reforms are in progress. In particular, a new draft commercial code will modernize statutory regulation of company financial reporting and will set a major challenge for the accounting and auditing professions in Turkey through the requirement to apply Turkish Accounting Standards based on IFRS and audits based in international Standards of Auditing (ISA)” • “International investors and credit rating agencies assess the overall transparency and disclosure levels of Turkey’s top companies as “unsatisfactory” and, in general, bankers do not feel they can “trust” the financial statements presented by prospective borrowers due to rampant “informality problems” <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p>Risk assessment</p> <table border="1" style="width: 100%; text-align: center;"> <thead> <tr> <th>Sovereign risk</th> <th>Currency risk</th> <th>Banking sector risk</th> <th>Political risk</th> <th>Economic structure risk</th> </tr> </thead> <tbody> <tr> <td>BB</td> <td>B</td> <td>BB</td> <td>BB</td> <td>BB</td> </tr> </tbody> </table> </div> <p>Key implications for international competitiveness</p> <ul style="list-style-type: none"> • Turkey has made impressive reforms following the 2001 banking crisis • The regulators need more independence and have yet to prove themselves • Harmonisation with international standards is developing but a trust deficit exists between the international community and local institutions 	Sovereign risk	Currency risk	Banking sector risk	Political risk	Economic structure risk	BB	B	BB	BB	BB
Sovereign risk	Currency risk	Banking sector risk	Political risk	Economic structure risk							
BB	B	BB	BB	BB							

Source: Turkey: Financial System Stability Assessment, IMF, November 2007; Policies to improve Turkey’s resilience to financial market shocks, OECD, 2006; Report on the Observance of Standards and Codes (ROSC) Accounting and Auditing, World Bank, March 2007; Turkey: Country Risk Service, EIU, May 2008; Deloitte experts

Appendices

1) Data sources consulted

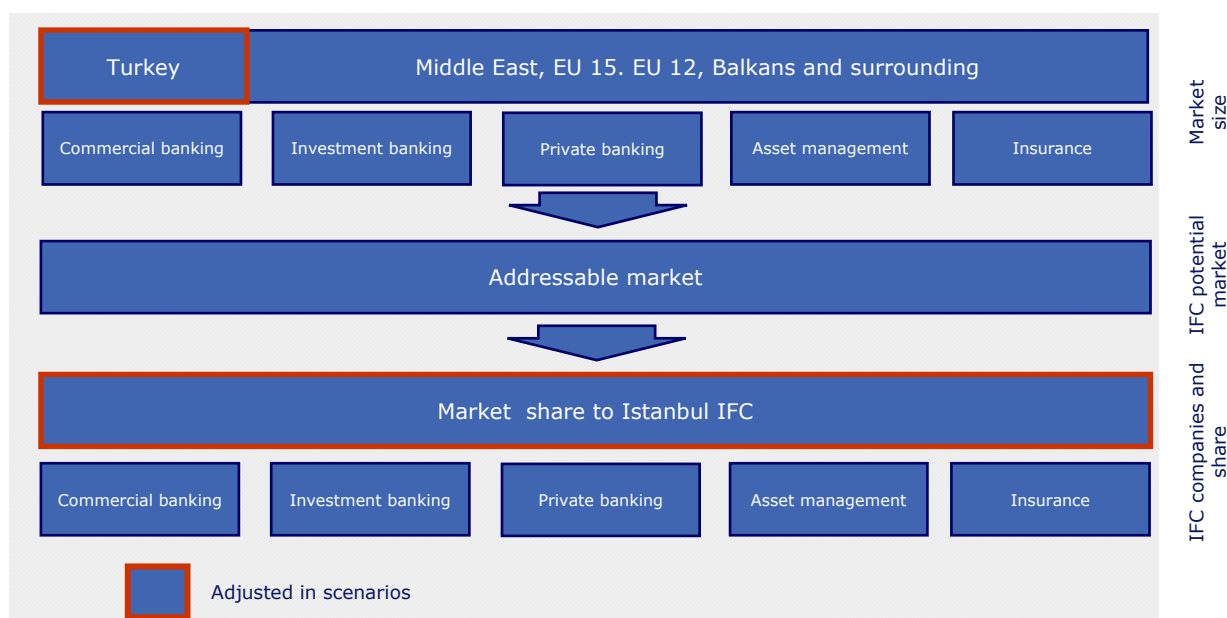
2) Detailed comparative study profiles

3) Overview and update of the financial model

Overview of Market Sizing Approach

Key Facts

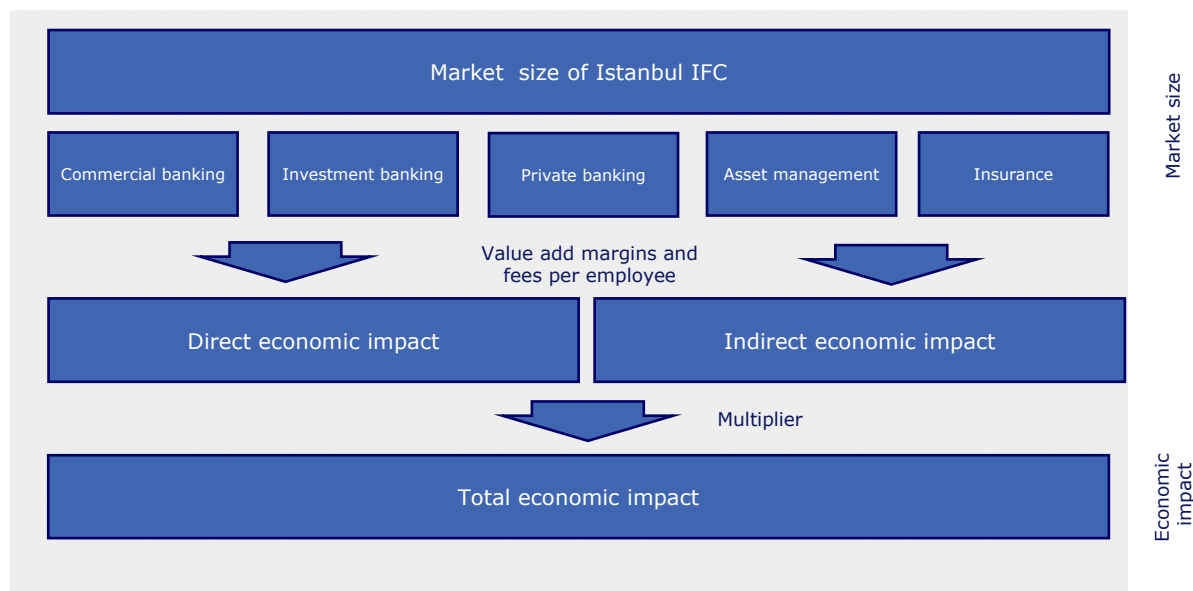
- Of the total market size it is assumed that a certain % may be served by international markets. Of this, a certain % can be assumed to be served by Istanbul companies as the IFC becomes more established. This is defined as a share of the markets identified above (and varies with each scenario). This represents the potential value to the Istanbul IFC of each market
- Market size (in terms of revenues) has been calculated via a “top down” approach. Five markets have been defined and the market size estimations for Turkey and the surrounding regions are done by using publicly available market information and data
- Market revenues have been forecasted to grow in each region so that penetration and mix of products reach current EU 15 levels by 2025. An S-curve effect is assumed from current levels so that growth rates slow over time. The EU 15 financial markets have been forecasted to grow based on publicly available forecasts.
- The IFC is estimated to drive incremental growth in Turkey’s domestic financial services (this varies with each scenario)



Overview of Economic Impact Approach

Key Facts

- Direct economic impact is the impact on GDP and employment of the financial institutions themselves. Impact on GDP is calculated as the “value add” of these firms (equal to the sum of profits and wages).
- Indirect value is generated from industries serving financial services, e.g. professional services, suppliers of capital items, IT, marketing, etc.
- Key ratios required to calculate value add and employment impacts (for example, profit margins, staff costs as a % of revenues, or fees per employee) are consistent with international financial institutions. This is based
- Upon the assumption that Turkish financial institutions or international institutions locating there will be structured as other global institutions. We have adjusted for Turkey specific factors where necessary (for example for local wage rates and tax rates)
- Total value add includes an uplift to reflect the multiplier effect on income and employment



Overview of Target Markets

- For modelling purposes we assume that the relevant financial services landscape can be split into five overall product areas:
- **Commercial banking** – corporate and retail banking. Corporate banking includes trade finance, cash management, lending, payment processing, treasury services (forex/dealing) and project finance, and retail banking includes retail deposits, credit cards, mortgages and other consumer lending
- **Investment banking** – brokerage (trading of securities and derivatives) and M&A, issuance and advisory
- **Private banking** - wealth management, financial advice, investment management, wealth protection advice
- **Asset management** - the actual management of funds and related activities (research, risk management etc), assumed to relate to conventional asset management activities. It is not assumed that Istanbul will establish a significant hedge fund industry in the short to medium term
- **Insurance** – Life and non-life insurance
- The following slides detail the market estimation methodology for each of the markets in turn. We have been able to derive market size estimates based upon external data. The market share estimates are input as scenario assumptions

Market Assumptions: Commercial Banking

- The relevant market size for Istanbul IFC is defined as its own domestic commercial banking market, plus the share of other regional activities that can be captured by banks in Istanbul.
- The market is sized using deposit money bank assets (which can be taken as reasonable proxy for commercial bank assets as defined by the World Bank). Assets are converted to revenue based on margin witnessed in sample of international commercial banks financial statements.
- It is assumed that only wholesale activities could be internationally addressable as retail activities tend to be domestic and proximity to the customer is key. Mercer global proportions are used to estimate that of total commercial banking, 80% relates to retail and 20% to wholesale, though we note that this will vary between countries. We assume that half of wholesale business is likely to relate to businesses that are too small to take business abroad, therefore 10% of total commercial banking markets are assumed to be internationally addressable.
- It is assumed that regions will grow to meet mature market penetration (taken as current EU15 assets as proportion of GDP). EU15 growth in commercial banking is assumed to be in line with GDP growth.
- In terms of market share, it is assumed that Turkey retains 100% of its commercial banking activity. For other regions, the domestic market is split between Istanbul IFC, the country's own domestic banking sector, other regional centres, and other global centres (e.g. London), treated as one. It is assumed that no EU15 business can be captured.
- Market share increases at a constant rate from IFC launch to reach the 2025 assumption.

Market Assumptions: Investment Banking

- The relevant market size for the Istanbul IFC is identified as potential investment banking revenues and fee income from brokerage (trading of securities and derivatives) and M&A, issuance and advisory.
- We have estimated investment banking brokerage revenues using a measure of the size of financial stock in each country (stock market capitalisation + value of bonds issued). This was then used to scale brokerage revenues where available. Data on global and European investment banking fees were found and it was assumed that any material European fee revenue is earned in the EU15.
- Market size has estimated from the supply side, based on where the fee earning activity takes place rather than to which region it relates. This is due to difficulties obtaining data on the latter. In reality, much of the activity in the UK and other EU15 centres relates to international companies and deals.
- The growth of investment banking in Turkey, Middle East, EU12 and the Middle East has been assumed to be at a rate to bring revenues as a proportion of GDP to the current EU15 level. EU15 growth has been assumed to continue as per the 10 year global historic average of 10% (IFSL report).
- We assume that 50% of investment banking revenues could be potentially addressable (taken as an estimate of the proportion of businesses large enough to take their business abroad).
- In terms of market share, we assume that the IFC will retain 100% of domestic Turkish investment banking activity.
- For the other regions, we assume that some market share can be captured by other financial centres, so that 50% Investment banking activity will remain in the domestic economy by 2025 and the remainder will be split between global centres, Turkey and other regional centres.
- As Istanbul IFC establishes itself, it is likely to be able to repatriate activity relating to Turkey and gain share in that relating to surrounding regions which is currently being carried out in global centres.
- London is the key investment banking centre in the EU15, with a high proportion of its activity relating to international markets. We have assumed that 50% of UK investment banking revenues relate to international activity, and that by 2025, 1% of this could relate to Turkey and surrounding countries, and could be potentially repatriated by 2025.

Market Assumptions: Private Banking

- The relevant market size for the IFC is identified as the potential fee income from managing the assets of HNWI individuals in Turkey and the surrounding regions
- The market is sized in terms of the potential pool of assets to be managed
- Data is sourced from the 2008 Cap Gemini and Merrill Lynch, World Wealth Report which quotes European and Middle Eastern HNWI wealth. The European total is spread across Europe by GDP. Fee of 1% applied to this to calculate private banking revenues.
- We have assumed that HNWI wealth is internationally mobile, and therefore 100% is internationally addressable.
- Asset growth pa is estimated 5.3% in Europe and 17.5% in ME, based on Cap Gemini and Merrill Lynch annual growth rates for 2006-2007.
- Based on the scenario, assumptions are made on the potential share of assets that can be advised on by private banks in Istanbul in any year. We assume that currently only 10% Turkish wealth is managed in Turkey (due to low levels of confidence in the currency), with the rest going to global private banking centres such as London, Switzerland, Cayman or Jersey.
- As the IFC becomes more established and confidence increases, we assume that Istanbul can capture the private banking activities for 50% of total Turkish HNWI wealth by 2025.
- For other regions, it is assumed that 75% of wealth in 2025 will be managed in global centres, with the Istanbul IFC competing for the remainder against domestic private banks and other regional centres. We assume that no EU15 business can be captured.
- Market share increases at a constant rate from IFC launch to reach the 2025 assumption.

Market Assumptions: Asset Management

- The relevant market size for the Istanbul IFC is identified as the potential revenue for asset management companies in Istanbul from management of Turkish assets and those of the surrounding regions
- It is assumed that asset management relates to conventional asset management activities rather than hedge funds which we do not expect to become a large market in Turkey in the short to medium term
- We have calculated the financial stock for all countries as a measure of the investable assets (equities and bonds) in each country. Our data was sourced from the World Bank and BIS. Based on global ratio of Assets under management to financial stock we calculate the amount of investable assets that can be assumed to be managed by asset managers in each country.
- These are converted to revenues using average fees of 0.6%, a conservative average rate based on the Mercer's Asset Management Fees 2008 Survey results.
- Assets under management come from 3 high level sources: pension funds, insurance funds and mutual funds. It is assumed that pension fund assets cannot be internationally managed due to regulatory restrictions (though this is likely to vary by country).
- Therefore the proportion of pension funds to total AUM is applied to each country's investable asset pool to determine the internationally addressable market.
- It is assumed that the regions grow to meet EU15 average financial stock as proportion of GDP by 2025, with EU15 growth continuing in line with the historical CAGR of 8.9% between 1996-2006 (sourced from McKinsey, "taking stock of the world's capital markets").
- In terms of market share, we assume that 50% of Turkey's investable assets are currently domestically managed, with the rest being managed by international funds. By 2025, we assume that Turkey will gain market share by competing as an IFC with other regional centres and global centres. For the other regions, it is assumed that by 2025, Turkey will gain market share by competing with domestic funds, other regional centres and global centres. It is assumed that no EU15 business can be captured. Market share increases at a constant rate from IFC launch to reach the 2025 assumption.

Market Assumptions: Insurance

- The market is sized in terms of gross premium income. This 'includes direct and reinsurance inward premiums received in the year, net of cancellations but before deduction of commissions or reinsurance premiums ceded' (as defined by ARIG)
- We sourced gross premiums for each country from SwissRE World Insurance report.
- It is assumed that insurance is internationally addressable only to the extent that risk is transferred to the reinsurance industry (insurance companies must be licensed in a particular country to be able to serve that domestic market). Globally, the percentage of reinsurance premiums to gross insurance premiums is 5%. This global average will be dominated by larger markets. It has been increased to 7% for less developed insurance markets (which tend to buy more reinsurance as they transfer greater levels of risk), and revised .
- We have assumed that insurance penetration (premiums/GDP) will converge towards the current EU15 average. The EU15 markets are assumed to grow according to Deloitte Global outlook rates.
- Of the internationally addressable business, we assume that by 2025, 50% will go to global centres (such as London or Switzerland), with the remainder being split between domestic economy, Turkey and other regional centres. It is assumed that no EU15 business can be captured.

Economic Impact Assumptions

- Value add has been calculated as profit plus wages for the financial services industry (direct impact) and its key suppliers (indirect impact). A multiplier was then applied to this total.
- Employment impact was calculated by obtaining indicative data on revenues per employee and applying these to revenues of each type of product.
- Key ratios required to calculate value add include profit margins, and wages as proportion of revenue. These were estimated from collating data from global institutions financial statements, often segregated by activity.
- Though this may not entirely reflect the current situation in Turkey (though it seems broadly consistent based upon our comparisons with data provided by Deloitte Istanbul), we believe that as an IFC it will move towards these trends.
- Indirect value add was calculated from typical spend on related services of global banks, together with Turkey specific data on average wages.
- A conservative multiplier of 1.2 is applied to value add and employment based upon a review of the literature on financial service and other service industry multipliers.
- Tax revenues collected by the Government as a result of the IFC were also estimated, including corporation tax, social security and income taxes and BITT.

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