



Qatar

FINANCIAL CENTRE

AUTHORITY

Annual Review 2007

# At the Heart of Business...



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# Mission

The Qatar Financial Centre (QFC) lies at the heart of Qatar's dynamic economic growth and investment strategy. We aim to help QFC licensed firms generate new, and sustained, revenue streams. Together we will create real business based on real opportunities for the benefit of Qatar.

Qatar's vision is for the QFC to develop a progressive and broad-based financial sector that is integrated with financial markets globally. Our ambition is to be the financial centre of choice in the Middle East.

# Chairman's Statement



On 27 May 2007 the Prime Minister and Minister of Foreign Affairs of the State of Qatar, H.E. Sheikh Hamad bin Jassim Al Thani, officially opened the new QFC Tower in Doha.

His patronage of this event underlined both the undiminished support of the government of the State of Qatar for the establishment of the QFC in 2005, and its rapid development subsequently. The Tower had been fully committed to licensed firms many months beforehand, and an additional 19 QFC locations in Doha have since been approved for QFC licensed firms by the Council of Ministers.

In only its second full year of operations, the QFC licensed an additional 36 institutions, making a total of 69 in all as at 31 December 2007. Many of the world's top rated banks, asset managers, insurance companies, accountancy and legal firms were among them.

These firms have chosen to come to Qatar because of the opportunity to participate in our rapidly increasing market for financial services, and because of the quality of the legal and business infrastructure that the QFC has created. Moreover, an increasing number of firms now see Qatar as their regional centre of choice.

Qatar's per capita income is the highest in the Middle East and among the highest in the world.

It is not difficult to see why. In 2007 the growth of Qatar's economy rose to 25%, and the size of the economy reached \$66bn. Some \$70bn in projects was already being financed, with about the same figure again being planned. While the Middle East was not immune from the economic downturn being experienced in other global markets in the second half of the year, Qatar's economy continued to display compelling evidence of its emerging maturity, development and sustainability.

Acknowledging the progress being made, in July 2007 the government announced its intention to create an integrated financial regulatory body that will oversee all banking, insurance, securities, asset management and other financial services in Qatar. This new body will bring together the Qatar Central Bank's department of banking supervision, and its banking consumer protection unit; the Qatar Financial Markets Authority (established in 2006 to regulate the securities market); and the QFC Regulatory Authority – thus creating a single organisation and, in due course, one set of rules applicable to all institutions. This puts Qatar very much in the lead in regulatory terms in the Gulf and Middle East region.

The ramifications of this decision on the QFC Authority are still being finalised, but overall this will allow it to adopt a broader remit in supporting the financial sector in Qatar, encompassing training

and development, promotional activities and other actions that will enable the sector to grow in line with global best practice. It will also demonstrate the commitment of the QFC to adopt the underlying principles of a knowledge based economy, which Qatar seeks to develop.

I congratulate the members of the Board in their achievements, and thank them for their valuable support and advice.

**HE Yousef Hussein Kamal**  
Minister of Finance and  
Acting Minister of Economy and Commerce,  
Chairman, Qatar Financial Centre Authority

# Chief Executive Officer's Statement

During 2007 the total number of firms licensed by the Qatar Financial Centre (QFC) increased by more than half.

The quickening in the pace of firms establishing operations in Qatar reflects the growing understanding in the international finance community of the unique opportunity the QFC offers for firms to operate in Qatar, and to use it as a regional platform.

The firms being licensed represented some of the finest organisations operating in the global finance industry today. Some 74% of our licensed firms are rated at A or higher by S&P, Moody's or Fitch. The emphasis of the QFC on developing the financial sector of Qatar is also demonstrated by the fact that 59% of the firms licensed are regulated, ie providing financial services. Both measurements are higher than in any of the region's other financial centres. Ten of our licensed firms are in the world's top 25 banks by assets, and seven are among the world's 25 largest investment banks.

Among the firms licensed in 2007 were AIG and Alico, Citigroup and Royal Bank of Scotland, Goldman Sachs and ABN Amro, and Accenture and KPMG. But regional firms such as Taib Bank and Corecap also saw Qatar as the best local platform from which to grow their businesses. In addition, an increasing number of international law firms, such as Denton Wilde Sapte and Salans, approached the QFC to apply for licences. During August and September we conducted independent research with firms licenced by the QFC to ascertain satisfaction with the business they were subsequently generating. 97% said that obtaining a licence had been worthwhile, and 90% of those having established offices in Qatar said they were meeting or exceeding their business expectations.

In February 2007 the QFC participated in the visit of a high level delegation representing government and commerce from Qatar to the Republic of Korea. The focal point of this visit was the Qatar Economic Forum in Korea. With combined trade with Korea running in excess of \$20bn, this was an important occasion to consolidate and build upon the two countries' mutual links. We met a number of banks in Korea which are now pursuing an interest to licence in Qatar. During the same period we also visited the People's Republic of China, and resulting from that we were delighted to announce early in 2008 that the Industrial and Commercial Bank of China Limited had been granted a full branch licence by the QFC – the first Chinese bank to obtain a full branch licence anywhere in the Middle East.

At the end of 2007, of the 69 firms licensed, 33 were operating from the QFC Tower, with a further six preparing to move into their premises. In addition to the 20 sites already approved for QFC licensed firms in Doha, plans to lease further space in Doha also moved forward. The QFC Authority also opened a business centre to accommodate additional firms. The development of our operational structure accelerated through the year. New security and quality departments were established and the Operations team began working on a number of major projects to enhance service delivery, including an ERP system to streamline and automate processes and ISO certification for core processes and security.

The first conference hosted by the QFC was held in March, aimed at the global insurance and re-insurance industry. MultaQa Qatar (meaning Qatar rendezvous), organised with Global Reinsurance magazine of the UK, brought together many of the leading names in the international insurance industry to see for themselves and hear from some of the key

The firms being licensed represent some of the finest organizations operating in the global finance industry today.



institutions in Qatar what opportunities this dynamic country has to offer. A sequel to this conference is to be held in Doha on 15-17 March this year.

In addition, we aim to attract established international finance industry events to Qatar. Among others during the year were the Economist conference in November and the Euromoney Middle East Debt conference in December. The QFC also lead sponsored a meeting by Chatham House (the Royal Institute for International Affairs) in Doha which discussed the growing role of Middle East finance in the global economy, as well as a World Economic Forum (WEF) Arab Competitiveness meeting in Doha. WEF released the results of its regional report on competitiveness at the event in April, which showed that Qatar had moved up two places reflecting the commitment of the government to increase the country's attractiveness to investors.

Among the initiatives launched by the QFC Authority in 2007 were a major partnership with Bloomsbury Publishing to create an online and printed financial reference platform, Qatar Finance – The Ultimate Resource. Scheduled to launch in the autumn of 2009, this authoritative and wide-ranging 1.5 million word database created by 300 expert contributors will give both online and in print access to the latest information on current topics and best practice across all key areas in finance and financial services. Also the QFC Authority commissioned a new financial journal entitled Quantum – Finance in Perspective. Rather than offering features on the QFC, this publication raises issues and trends which are of interest to the region and firms in the wider world with an interest in doing business in the Middle East. Quantum will be distributed with The Banker magazine in Europe and the US in 2008.

A key stage in the QFC's development was reached in September when its draft tax regime was issued

for public consultation. This produced some useful comments and generated strong approval. It is due to be introduced from 1 May 2008, as provided for in Qatar Law No 7 of 2005.

We invested significantly in our staff in 2007, and recruited more than 40 additional employees across all departments bringing our total by year end to 99. A new performance management system and bonus programme were also developed and adopted.

Promoting the QFC's proposition and branding to the international finance industry, we launched our second integrated TV, print and online media advertising campaign in September. With a theme of "at the heart of business", the new campaign emphasises the pace of development throughout the whole economy in Qatar and the business being done by firms licensed by the QFC.

To underline our wish to engage with and support an interest in business enterprise among Qatari students we were a founder partner with Injaz Al Arab, of which we provide more details on pages 24 and 25.

Looking to the year ahead, we have a very healthy pipeline of new firms applying for licenses, and a busy schedule of events in a number of financial centres around the world. Our function in supporting the development of financial services in Qatar will be broadened and new key roles will be identified and incorporated into our organisational structure. Important initiatives to help us attract and interact with the global financial community, and to support the employment and education of Qatari staff will also be finalised.

**Stuart Pearce**  
Chief Executive Officer and Director General

# Board of Directors and Executive Committee



**HE Yousef Hussein Kamal** Chairman

HE Yousef Hussein Kamal is the Minister of Finance and Acting Minister of Economy and Commerce, and Chairman of the Qatar Financial Centre Authority. He is Chairman of Qatar Financial Market Authority, Chairman of Qatar Steel Company, Chairman of Qatar National Bank, Managing Director, Government of Qatar Supreme Council for Economic Affairs and Investment, and Chairman of Ras Laffan Liquefied Natural Gas Company.

**Stuart Pearce** Chief Executive Officer and Director General

Stuart Pearce has been Chief Executive Officer and Director General of the Qatar Financial Centre Authority since August 2005. Previously he had a long and successful career in international banking and financial services with HSBC in the Middle East, North America, Asia and Europe.

*Reading from left to right and down*

**Dr. Hussein Ali Al-Abdullah** Deputy Chairman (Non-Executive)

Dr. Al-Abdullah is an Executive Board Member of the Qatar Investment Authority, where he oversees the management and evaluation of the Government of Qatar's Investment Fund in the international and local markets. He is also a Director of the Board of Qatar Airways and of Gulf Investment Corporation of Kuwait.

**Abdulrahman Ahmad Al-Shaibi** Director (Non-Executive), Chairman, Audit and Risk Committee

Mr. Al-Shaibi is Head of Qatar Petroleum's Project Finance Group. He is a member of various Executive Committees, and responsible for the ambitious expansion plans of Qatar Petroleum in the LNG sector, petrochemical and non energy sector projects such as aluminium and steel. Mr Al-Shaibi is also a Board member of various other companies including Qatargas, its sister companies and QASCO.



**Ian Cormack** Director (Non-Executive)

Ian Cormack is a Non-Executive Director of Pearl Assurance Group. He was previously European Chief Executive of AIG Inc, and a founding partner of Cormack Tansy Partners, which provides strategic consulting advice to Boards of financial institutions. Prior to those roles he had a 30 year career at Citigroup/Citibank, leading to Global Industry Head for the Investment Industry.

**Dr. Chris Gibson-Smith** Director (Non-Executive), Chairman, Remuneration Committee

Dr. Chris Gibson-Smith is Chairman of the London Stock Exchange and Chairman of the British Land Company. He spent 31 years (including ten in the US) with British Petroleum in a variety of different roles culminating in Group Managing Director for four years.

**Dr. Guocang Huan** Director (Non-Executive)

Dr. Guocang Huan is Chief Executive Officer of Primus Pacific Partners, a private equity firm founded with two other partners. He has held senior investment banking positions at JP Morgan & Co., BZW Asia, Citigroup and HSBC. His last position at HSBC was Head of Investment Banking, Asia-Pacific.

**Nemir Kirdar** Director (Non-Executive)

Nemir Kirdar is President and Chief Executive Officer of Investcorp, the global investment group he founded in 1982 and which operates out of New York, London and Bahrain. He serves on boards and advisory bodies at Georgetown, Harvard, Columbia and Cambridge Universities as well as the Brookings Institution, the Eisenhower Fellowship, the Centre for Strategic and International Studies and the UN Pension Fund Investments Committee.

**Rajat Gupta** Director (Non-Executive)

Mr. Gupta is Senior Partner of McKinsey & Company, the global management consulting firm. From 1994 to 2003, he was Worldwide Managing Director of McKinsey. Mr. Gupta serves as the United Nations Secretary-General's Special Advisor on UN management reform. He is an independent Director on the Board of the Goldman Sachs Group, and is the Chairman of the Board of the Indian School of Business and of the Associates of the Harvard Business School.

## Executive Committee



**Jane Kang Thorpe**  
Chief Legal Officer  
and Board Secretary

**Desmond Holmes**  
Managing Director  
Business  
Development –  
Banking

**Fetooh Al Zayani**  
Managing Director  
Business  
Development –  
Insurance and  
Re-insurance

**Jeff Eggleton**  
Director, Operations

**Steve Martin**  
Director of Marketing  
and Corporate  
Communications



**Ian Anderson**  
Director of Finance  
and Tax

**David Bode**  
Director of Audit  
and Risk

**Abdulrahman  
Al Mannai**  
Director of Human  
Resources

**Shashank  
Srivastava**  
Director of Strategy  
and Planning

## At the Heart of Qatar...

We believe that we have helped raise the standards of regulation and market development in the region, established a place for Qatar among the elite of the global financial services industry and improved the quantity and quality of financial services provided to our citizens.

*HE Yousef Hussein Kamal*



# Economic Overview

All of the firms licenced by the QFC are seeking to benefit from the massive investment in the region's infrastructure and business.

**As an investor, a supplier of energy and a destination for capital and investment, Qatar continued to raise its international profile significantly in 2007.**

This small nation, with an indigenous population of some 250,000, is transforming itself into one of the fastest growing economies in the world. The International Monetary Fund (IMF) has projected Qatar's real GDP will grow at an average 12 per cent over the next five years. It also estimates that the country's per capita GDP will have reached \$71,000 by the end of 2007.

Over the course of the year, the six member states of the GCC saw GDP growth of around 10%, increasing the total regional economy to \$750bn. This is fuelling spending on infrastructure worth \$1.8trn of projects either announced or underway as of January 2008. In the same period, the IMF calculates that Qatar's GDP leaped 25% (in nominal terms) to almost \$66bn, while government projections estimate that by the year 2013, Qatar's GDP will have touched \$100bn.

Qatar's future strategic importance to the global economy was only hinted at a decade ago. Both its current wealth and its international reputation have been founded on its position as the world's largest exporter of liquefied natural gas (LNG). Qatar possesses the world's third largest proven reserves of LNG, and has invested heavily to ensure that it becomes one of the world's most trusted and secure sources of energy.

By 2010 it will be producing 77 million tons of LNG, providing 30% of the world's LNG exports, and up to 25% of the UK's needs and some 30% of those

of the US. Combined with its oil and other hydrocarbons derivatives production, its output will be the equivalent of 6 million barrels of oil per day.

But for all of its energy wealth, Qatar's economic strategy has been focused on a clear and ambitious policy of diversification.

Qatar's growing presence in international markets is supported not only by its energy companies such as Qatar Petroleum, Qatar Gas and RasGas, but also Qatar Airways, Qatari Diar and the Qatar Investment Authority.

Qatar has launched an impressive domestic investment programme aimed at developing its non-hydrocarbon sectors, such as manufacturing, transport, trade, financial services and tourism. An estimated \$142bn worth of projects are planned over the next six years to continue this diversification strategy. In particular, the new Doha International Airport will be one of the largest in the world with an annual capacity of 50 million passengers. Qatar has also announced plans to establish three economic zones. One will provisionally house light industries and legal, trade and engineering consultancies. The second will cater to manufacturing and transport companies, with importance given to hi-tech industries. The third is to accommodate petrochemical and other key downstream industries.

As a key part of the Qatar's diversification policy, the development of the financial sector remains a high priority. The contribution to the economy of financial services has almost tripled in size since 2003, mainly due to rapid growth in both 2004 and 2005, and it is currently the second largest of Qatar's non-oil sectors. Despite the market correction of 2006, 2007 was another strong year for the industry.

This small nation, with an indigenous population of some 250,000, is transforming itself into one of the fastest growing economies in the world.

Qatar currently has an estimated hotel capacity of 3,000 rooms, and about 8,000 additional rooms are planned over the next five years with several five-star hotels scheduled to open in the coming 12 months. The increasing transportation links and easing of visa entry rules are some of the steps Qatar is taking towards welcoming increasing numbers of business and tourist visitors.

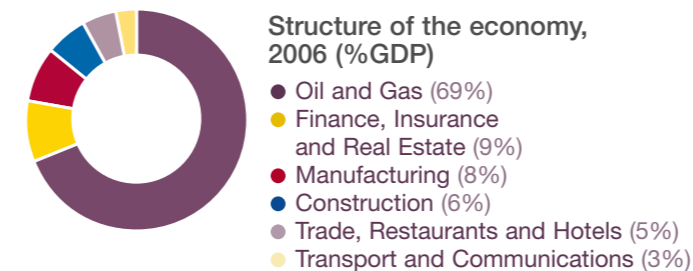
The Qatar government places education reform high on their list of priorities, which has resulted in remarkable achievements in just a few years. Established under the Qatar Foundation, Education City is a base in Qatar for some of the top American universities including Georgetown, Carnegie Mellon, Texas A&M, Virginia Commonwealth University, and Weill Cornell Medical College. In addition, the Qatar Science & Technology Park (QSTP), due to open officially in 2008, is intended to become a premier location in the region for research and development and commercialisation of technology.

The Qatar Financial Centre has continued to develop its international reputation and profile to support the economic and financial growth of the country, and to attract both the investment and the essential expertise needed in Qatar to develop its financial sector.

By the end of 2007, 69 firms from 22 countries and five continents had been licensed by the QFC, representing the world's leading banks, insurers, investment houses, asset managers, legal firms, accountants, auditors and consultancies.

All of the firms licensed by the QFC are seeking to benefit from the massive investment in the region in both infrastructure and business. Similarly, the mega-projects that are changing the physical and industrial landscape of Qatar, from the renewal of Doha's infrastructure and transport network to the expansion of national institutions such as RasGas or Qatar Airways and key projects such as the Pearl, Lusail and the new airport, all serve to create new opportunities for the financial services industry.

All of this provides a vivid backdrop to the rationale of the QFC Authority, which is to attract and support the operations and success of regional and international financial institutions in Qatar and to raise standards in the State's financial sector. The creation of a world class business environment allowing 100% ownership, access to local business opportunities, repatriation of all profits and the opportunity to use the QFC and Qatar as a regional platform are all essential features of this strategy.



## At the Heart of Banking and Investment...

RBS is delighted with the business opportunities that have arisen in Qatar in 2007. Qatar has a vibrant business community and we look forward to participating in that now and in the future. We have participated in a number of high profile transactions across a number of sectors in Qatar and we are sure that the deal pipeline will continue as a result of moving wholesale bankers to our new office in the QFC.

*Robert Garden, Managing Director – Middle East, Royal Bank of Scotland*



# At the Heart of Banking and Investment

By attracting new financial institutions to Qatar from around the world, the QFC is helping to enhance the prospects for all participants in Qatar's rapidly growing financial market.

Since the issue of its first licence in the autumn of 2005 to Ansbacher, the UK based private bank owned by Qatar National Bank, the QFC has attracted many of the world's leading financial institutions to establish operations in Qatar.

In 2007 alone, ABN Amro, Citibank, Credit Agricole, Goldman Sachs, ICICI, Lehman Brothers and Royal Bank of Scotland have joined earlier entrants including Barclays, Deutsche Bank, Morgan Stanley, and Credit Suisse.

Indeed, the QFC now boasts the largest proportion of licensed firms rated 'A' and above of any of the region's financial centres. Why have they come? Because of the business they can do in Qatar, and from Qatar into the region.

As of the fourth quarter of 2007, the Middle East Economic Digest put the value of projects planned or underway in Qatar at over \$142bn – more than 20 per cent up on the same period in 2006. Around 50% of these ventures are being project financed (with a further \$55bn coming through syndications and \$15bn in bonds) which has involved QFC-licensed banks. Many of the major banking deals involving QFC licensees are to be found in the oil and gas sector and its related industries. These account for about half of the major projects identified in Qatar. In facilitating the financing of gas trains, shipping, aluminium plants and power generation, QFC licensees are underwriting the development of Ras Laffan – literally Qatar's economic generator.

But the economic diversification that these banks are supporting for Qatar has also seen major deals in the emerging service sector – not least in telecommunications – and is increasingly being characterised by the innovative use of Islamic Finance and the wider growth of the alternative investment market. This in turn is generating exciting new work for the many law firms and consultancies that comprise the non-regulated portion of the QFC's licensee base.

The growth in global Islamic finance and Islamic banking over the past few years has been replicated in Qatar. This is reflected in the licensing of such banks as Al Rayan Investment LLC and QInvest. When the QFC opened for business in 2005, growth in demand for Islamic financial services was put at 15% to 20% per annum. This has undoubtedly gathered momentum in the intervening years. With ever more Islamic banking and financial institutions has come a far wider and complex variety of Islamic financial services products and instruments ranging from basic deposit products, investment accounts, equity funds, capital-protected funds, Islamic bonds, Islamic hedge funds and Islamic swap equivalents.

Underpinning much of this international growth has been the marked trend for the vast oil and gas receipts generated by the recent high energy prices to be reinvested back in the region.

The QFC now boasts the largest proportion of licensed firms rated 'A' and above of any of the region's financial centres.

Taking advantage of this liquidity, the Qatar Real Estate Company (QREC) issued a \$300m sukuk in July through HSBC. This was the first ever rated Sukuk for a Qatari corporate and only the second corporate Sukuk ever to come from Qatar. In another real estate related issue the following month, Barwa raised a \$600m, one-year murabaha sukuk. Barwa followed this up at the end of the year by raising \$700m in December. Also active has been the Qatar Islamic Bank (QIB), which signed \$300 m, 12-month Islamic finance deal with ABN Amro and Standard Chartered Bank.

The commitment being shown by the banking and business community to Islamic finance, when coupled with the legal and business infrastructure provided by the QFC, indicates that Qatar will be a significant player in the future development of Shariah compliant financial instruments.

Meanwhile, Qatari Diar's \$5bn Energy City project in Lusail will be home to the new International Mercantile Exchange (IMEX). The exchange, whose holding company was licensed and regulated by the QFC in 2007, will act as a platform platform for trading energy contracts including those for spot sales of liquefied natural gas and other commodities.

It is through the development of Doha as a centre for the alternative investment industry that the QFC will be able to build on such successes and develop an environment where institutions such as the QIA can partner with others in private equity transactions both at home and abroad.



HE Yousef Hussein Kamal

To achieve this, the QFC is attracting investment entities to help build strong benchmarks for Qatar's institutional investors. The publication of the QFC Regulatory Authority's Collective Investment Funds Rulebook in 2007 is a significant step in the development of the asset management industry in Qatar.

This broad range of activity demonstrates that 2007 was the year in which the QFC moved from being "ready for business" to being "at the heart of business" in Qatar.

## At the Heart of Insurance...

For those insurers already operating from the QFC in 2007, business was very upbeat in 2007 – as demonstrated by the major contract won from Qatar Petroleum by AXA Insurance to manage the healthcare cover for its 12,000 employees and their 23,000 dependants.

*Stephen Wagstaff, General Manager – Qatar, AXA Insurance*



# At the Heart of Insurance

Qatar's infrastructure and the investment in mega-projects are changing the country's landscape.

**The insurance industry in the Middle East – and the Gulf states in particular – is entering an important new era. Business opportunities driven primarily by major projects in the Gulf are booming and are attracting the attention of the insurance and re-insurance industry as a whole.**

Last year was a milestone in establishing Qatar as a hub for the insurance industry in the region. The number of international insurance and re-insurance companies seeking a license in the QFC represented a core business sector.

This fact was acknowledged by QFC's hosting of MultaQa Qatar, a major industry conference held by Doha in March 2007 in partnership with Global Reinsurance magazine. Following the success of the inaugural conference, MultaQa Qatar has become a significant fixture in the insurance and re-insurance industry calendar.

The QFC has also endeavoured to make its tax regime, being introduced on 1 May 2008 (see pages 22 and 23), as attractive to the industry as possible. With no corporation tax liable for locally owned companies in Qatar, taxation for captives would be an obvious disincentive. Therefore the QFC tax regulations provide an exemption for captive insurers to encourage the development of the captive insurance market in Qatar and the region by attracting local, regional and international firms to establish operations here.

This will also provide an opportunity for international firms, particularly those with risks based in the Gulf. Similarly, the QFC will be offering a tax exemption to all re-insurance companies both on investment income and underwriting profit, as an incentive to set up and grow a regional re-insurance industry. Likewise with a tax rate of 10% it is impossible to compete with zero tax locations such as Bermuda for reinsurance capital, so the QFC will be offering a tax exemption to all reinsurance companies both on investment income and underwriting profit.

For those insurers already operating from the QFC in 2007, business was very upbeat – as demonstrated by the major contract won from Qatar Petroleum by AXA Insurance to manage the healthcare cover for its 12,000 employees and their 23,000 dependants.

The development of Qatar's infrastructure and the investment in mega-projects are changing the country's landscape, from Shell's Pearl GTL project to the expansion of Qatar Petroleum and RasGas or the investment in Qatar Airways and the new airport, all serve to create new opportunities for the industry.

Two distinct trends have brought Qatar and the insurance industry together.

Firstly, there has been a dramatic shift in the region's appetite for insurance partly because of the sheer scale of investment eg in LNG carriers and aircraft, and partly because of the increasingly sophisticated projects being brought on stream. This has been coupled with the increasing maturity of the GCC's economies and the improved business and legal environment.

Increasing attention being shown in the Middle East markets by such global firms as AXA, AIG and Alico point to a very strong potential in the Gulf.

Secondly, the international insurance industry has witnessed a number of hugely significant developments, such as the rapid growth of takaful insurance.

The emergence of Shariah compliant products in the banking sector has also been a driver of investment in the region and served to create more prospects for foreign entrants. Together, these factors have led to a massive increase in demand for insurance products.

Though coming off a very low base (figures from 2005 show that the insurance industry in the GCC accounted for only 0.14% of the world total, then worth some \$3.4trillion) it has been enjoying strong double-digit growth since the beginning of the millennium.

Research on the GCC insurance market conducted by Swiss Re shows growth of 17.5% between 2001 and 2005 is higher than the growth of established markets.

Non-life products led the sector's growth in 2007, though life-products also contributed double-digit increases. In the Gulf, the market share between non-life products (which account for 88% of the market) and life (just 12%) represents an inverse of the situation globally.

Overall, the combination of Shariah products, set against a backdrop of low industry penetration, low density, low product diversity and high re-insurance levels all point to a very strong potential for insurance in the Gulf. The increasing attention being shown in

the Middle East markets by such global firms as AXA, AIG and Zurich underline this trend.

Similarly, the re-insurance industry has long been central to the Gulf market, given the historically low levels of capitalisation among domestic insurance businesses. The estimated retention rate of insurance risks is put at just 50% for the wider Arab world – and drops dramatically below this for the oil producing states – where the large risks associated with the oil and gas mega projects are reinsured internationally.

The importance of the re-insurance sector is set to grow – driven by a combination of inter-related factors ranging from sluggish markets in Europe and the US; the size of the industrial projects requiring insurance, and the need for stronger local coverage and market understanding. Moreover, the development of the industry locally increases the opportunities for employment in the insurance and reinsurance sectors. The QFC Authority has thus committed itself to supporting the professional development of Qataris through a range of initiatives with educational institutions, which we believe is a positive contribution towards Qatar's intention to become a knowledge-based economy.

Central to this is the QFC Authority's proposal to create a Training and Development Institute which will gather momentum in 2008. The Institute will foster links with international insurance institutes and will facilitate the provision of certification and accreditation of professionals in Qatar.

## At the Heart of Business...

It is particularly exciting to be at the forefront of policy development in the world's fastest growing developed economy. Qatar has become a serious attraction for many international companies. Clyde & Co is perfectly placed to provide a premium commercial service to clients in Qatar and across the region.

*David Salt, Partner – Clyde & Co*



# At the Heart of Business

The development of an internationally recognised tax regime is central to the QFC's mission as an on-shore financial centre, and is a key differentiator for the international business environment being developed in Qatar.

On 1st May 2008, the QFC Authority is due to introduce a tax regime for QFC licensed businesses. This is part of a planned and transparent policy by the QFC that will give investing firms a high degree of certainty about their future tax liabilities.

This brings to an end the tax holiday that ran for the first three years of the QFC's operations, from 1st May 2005. The regime will provide an internationally competitive fiscal environment for the conduct of business activities that will further promote the international reputation of the QFC.

The development of a tax regime is central to the QFC's mission as an on-shore financial centre, and is a key differentiator between the international business environment being developed in Qatar and those elsewhere in the region.

From the outset, and enshrined in the QFC Law No 7 of 2005, the QFC has made it clear that it will not provide a permanent tax holiday for licensed firms. A zero tax environment constitutes an outdated approach to taxation that is no longer appropriate for developing tax regimes. As a location from which to operate financial services businesses onshore in Qatar and regionally, the implementation of a low, transparent and world standard tax regime reflects the overall approach of the QFC to attracting business to Qatar and the region as a whole.

The new regime avoids hidden fees and levies but will instead apply a flat corporation tax of 10% on accounting profits, prepared under international financial reporting standards. With over half of the firms registered to date expected to be able to claim tax credit relief in their home jurisdictions, this is an approach that has found favour with all firms.

The opportunity to create an entirely new tax regime is rare. Moreover, there are very few models, free of an existing patchwork of regulations and provisions, on which to base such a system.

At the start the QFC based its approach on an extensive consultative exercise that sought the input of financial services firms operating their businesses in the international arena in order to understand what would really attract them to Qatar. This has demonstrated that firms require certainty above all else, as well as transparency and simplicity of regulatory and administrative provisions.

A second, public consultation process on the draft tax regulations ran for 30 days from 24th October 2007, and generated overwhelmingly positive feedback, with respondents stressing their support for the simple 'look and feel' of the new system. Moreover, they expressed a belief that a low tax rate based on international best practice principles is preferable to a tax haven as it is both predictable and, in the long term, commercially efficient.

A 'principles-based' tax regime has been adopted as it delivers the requisite flexibility of approach to keep pace with changes in international markets without the need for regular legislative updates. To provide licensees with certainty and clarity, the QFC tax department will provide companies with

the opportunity to request rulings on either a specific proposed transaction or on the interpretation of a particular part of the tax legislation. The advance rulings procedure is planned to operate with a 30 day response time – though this will not constitute a free tax planning service.

Tax returns will be made on a self-assessment basis with a single date for payment of tax. Enquiries will be conducted under a regime that is transparent, fair and based on internationally accepted principles, although it is hoped that the rulings service will resolve many potential disputes in advance. Where points of contention remain, taxpayers will have access to an independent appeals body.

Formal appeals will be supplemented by a robust complaints procedure backed up by the publication of a taxpayers' charter. A technical and administrative guidance manual will also be published, the first of its kind in the region.

Like the regulatory regime which allows companies to carry on business onshore in Qatar, the tax regulations are principally to support the QFC's primary objective of encouraging the development of the financial services industry in Qatar. There are comprehensive transfer pricing rules based around the arm's length principle and OECD guidelines and restrictions on reliefs where transactions are carried out with obvious tax avoidance motives.

The long-term success of the QFC is likely to be rooted in a competitive, customer friendly but robust business tax system rather than wide-ranging exemptions and tax holidays. With 69 world-class firms licensed by the QFC at the end of 2007, tax is clearly not a disincentive.

## Tax assessment

based on locally sourced profits

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## Flexibility

in the use of tax losses

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## No withholding

taxes in the QFC

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## Tax ruling

facility will be available

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## Support

for insurance businesses

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## Collective Investment

Schemes and other investment funds established within the QFC will be exempt from tax

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# Corporate Social Responsibility

QFC Authority recognises its responsibility to its staff, the environment and the community it serves in Qatar.

Living in one of the fastest economies of the world, Qatar's citizens enjoy one of the world's highest standards of living measured by GDP per capita. But with this success comes both challenges and opportunities.

The proportion of Qatari nationals working in the private sector has diminished over the past 20 years. The World Bank estimates that in 1986 Qataris made up some 10% of the private sector workforce, whereas in 2004 it was nearer 4%. While this is a reflection of the growth of the private sector itself, the vast majority of the national population have continued to take up jobs within the government sector. As Qatar diversifies its economy and new service sectors emerge – not least in financial services – the opportunities for Qataris will increase. The government is keen to address these shortcomings in its labour market and to encourage its citizens to participate in business.

It is against this backdrop that Injaz Al Arab has begun operations in Qatar, in partnership as founding sponsor with the Qatar Financial Centre Authority, in an effort to bolster the work readiness skills of the local youth.

Injaz Al Arab constitutes the MENA regional operation of Junior Achievement Worldwide – the world's largest non-profit economic education organisation, founded in the United States in 1919 and now operating across six continents. Its purpose is to create an

empowered generation of young entrepreneurs who will become the social and economic leaders in the Arab world. It does this through the use of corporate volunteers who lead, challenge and motivate students bringing their skills, experience and enthusiasm to the classroom. In turn, this experience brings the volunteers into close touch with the youth of their community.

Injaz Al Arab launched its operations in Qatar in September for the 2007/2008 academic year with financial support from the QFC Authority as well as in kind contributions from the HSBC and Carnegie Mellon University.

Operating in selected independent schools, it aims to support Qatar's education reform initiative "Education for a New Era" and seeks to equip Qatari youth with the work-related knowledge and skills necessary to compete for jobs in the burgeoning economy through hands-on, practical learning in financial literacy, entrepreneurship, leadership and work readiness. A pilot phase was conducted at the Al Bayan Secondary School for Girls, the Rukaia Preparatory School for Girls and the Omar Bin Al Khattab Scientific Secondary School for Boys. During the early part of 2008, the scheme will be extended to benefit around 500 students.

As well as financial support, the QFC Authority also provided staff who volunteered their time and experience as mentors in the scheme. They join 300,000 volunteers worldwide who, by giving as little as one hour a week, are able to reach 8.5m students and help them realise their ambitions.

Injaz Al Arab has begun operations in Qatar, with the QFC Authority as founding sponsor, to bolster the work readiness skills and business awareness of local youth.

Four staff from the QFC Authority are currently involved in supporting three schemes being run by Injaz Al Arab in Qatar. The first of these, Personal Economics, provides basic financial skills in budgeting and analysing data. The Company Programme teaches students how to run a company and emphasises all the skills required in creating an organisation including public speaking and writing business plans. Meanwhile the Entrepreneur Master Class challenges students to think about starting their own business and identifying the key skills and attitude necessary to such an ambition through talking with established entrepreneurs.

Expectations for the growth of the initiative in Qatar are high, and Injaz Al Arab's in-country and regional leaders anticipate programmes to be running in every Qatari school within five years for the 13 to 16-year-old age group.

Already, the initiative has been received with great enthusiasm by students in Qatar, who are swelling the ranks of the 120,000 children from across the region participating in programmes.

With Qatar's rapidly expanding economy, it is crucial that Qatari children are equipped with the skills necessary to compete in the workplace and the QFC gives its enthusiastic and unqualified support to Injaz Al Arab's efforts. Its investment in the Injaz Al Arab programmes form part of the QFC Authority's broader commitment to the government's stated intention to create a knowledge-based economy in Qatar. This broader ambition is central to the continued success of Qatar – and its people – as a modern, diversified economy.



Top: QFC Authority volunteers participating in the programme for Qatari schools. Above: Injaz students during a session.

Through its support of the Injaz Al Arab initiative in Qatar, the QFC Authority will also encourage companies it is licensing to also play a part as they will provide in the longer term many of the future employment opportunities for the students benefiting from these courses.

# Corporate Social Responsibility

The QFC Authority has set down guidelines for its employees and licensed firms to develop awareness and provide resources to demonstrate best practice in environmental behaviour.

## In the course of 2007, the QFC Authority implemented a project to develop an environmental policy for the QFC Authority and QFC licensed firms.

Historically, the Gulf has not enjoyed a strong reputation for environmental awareness and conservation. The region's energy and petro-chemical industries have only in recent years begun to turn their attention to how to manage and reduce their 'carbon footprint' in terms of emissions as well as disposal of waste.

The QFC Authority Board endorsed a proposal in 2007 for the organisation to adopt a best practice approach in its usage of power and water, and the recycling of paper and plastic.

The QFC Authority's Environmental Policy sets guidelines for employees within the QFC; develops awareness and resources for companies; and demonstrates wider leadership and best practice on the issue of environmental behaviour.

To this end, while the policy is mandatory to the QFC Authority, it serves only as a benchmark and resource for the QFC Regulatory Authority and QFC licensed firms. The policy was developed in three phases: Research and Development; Agreements and Procurement and finally Training and Implementation.

The research phase involved canvassing both QFC staff and licensed firms to gauge awareness, and outline changes that would be implemented. This process was warmly received and the QFC Authority Executive Committee subsequently approved the proposed series of changes aimed at reducing energy and resource consumption, initially in the QFC Tower but to be rolled out to all QFC approved sites in due course.

The policy is practical and achievable – both raising awareness and changing behaviours among staff working in the Tower. It is hoped that the cumulative effect of the step-by-step measures introduced will identify the QFC as a leader in environmental practice and awareness in Qatar. The policy incorporates a wide range of practical tools and procedures. Firstly, the QFC Authority will distribute 112 recycle bins specifically designed for the collection of paper and plastic waste. These have been supplied to all licensed firms (and the QFC Regulatory Authority itself) free of charge, in an effort to encourage recycling in the QFC Tower.

Further, the programme includes the collection of ink jet cartridges to be refilled and re-used. All furniture and electrical equipment – including computers – will be recycled or sent to be used again once no longer required by the QFC Authority. Refuse bags at the QFC are made from degradable plastic and colour coded to assist in the recycling efforts – yellow for plastic and



blue for paper to match the recycling bins. All black bin liners and desk bin liners are also made from degradable plastic to help reduce damage to the environment.

In tandem with these practical measures, all staff at the QFC Authority have undergone environment policy training and the QFC Authority's Human Resources department has included environmental policy information in its orientation sessions for new staff to ensure everyone employed by the QFC Authority is aware of the policy and how to recycle correctly. Staff have also been made aware of basic energy saving behaviour from switching off computer monitors, lights and other appliances, to reducing water consumption.

Two local recycling firms will be collecting the paper, plastic and aluminium waste from the QFC Tower. The recyclable waste will be kept for collection by the recycling companies in a specifically designed storage unit – which will be branded with the QFC Authority environment logo to encourage others to recycle.

To encourage wider environmentally friendly behaviour – in the workplace and beyond – posters are being positioned in washrooms throughout the building giving information on energy saving, recycling and are regularly updated.

By mid 2008, significant savings in power, water and paper usage will have been achieved.

The initiative has also been promoted in the QFC Authority's online intranets. The 'green pages' on QFCOnline for licensed firms and QFCnet for employees of the QFC Authority are designed to keep staff, tenants and visitors up to date and aware of environmental issues. Currently, the green pages cover local and global environmental news, activities and the environment policy and training presentation.

Both the policy and training presentation are available to all licensed firms. This initiative is called "Growing Good Practice". By mid 2008, significant savings in power, water and paper usage will have been achieved and how we have performed in respect to our internal targets over the course of the first full year of the policy will be set out in the annual review for 2008.

We are confident that from these modest beginnings, we can help extend this culture still further to our partners and to Qatar as a whole.



The QFC Authority makes available to the public details of all firms licensed by the QFC Authority including information relating to their permitted activities.

**The QFC Authority is a statutory body established under the Qatar Financial Centre Law, Law No. 7 of 2005, and charged with developing the Qatar Financial Centre and exercising certain governmental functions.**

The QFC Authority is governed by a Board appointed by the Council of Ministers and comprises the Chairman, who by law is the Minister of Economy and Commerce, a CEO/Director General and seven other non-executive members. One of these non-executive members is the Deputy Chairman.

We are funded by the government but the laws of the State regarding the general budget of the government and its ministries are not applicable and our budget is determined by the Board and approved by the Minister of Economy and Commerce. At the end of each fiscal year QFC Authority is required to prepare accounts in accordance with internationally accepted accounting principles and have them audited by an independent auditor. An annual report of our activities and the audited financials are sent to the Council of Ministers in respect of each fiscal year.

The governance of the QFC Authority Board is detailed in the Board Governance Resolution dated 2nd May, 2007 which also establishes three Board Committees. These Committees are the Audit and Risk Committee, the Remuneration Committee and the Licensing Committee each of which must comprise at least two non-executive members appointed by the Board.

The Board sets overall policy and strategy, approves all legislation and rulemakings, approves the budget, approves all QFC Authority senior appointments, oversees the discharge by the QFC Authority executive management of the day to day business of the QFC Authority and ensures the implementation of proper internal controls and sound financial controls.

The day to day operations of QFC Authority are carried out by its executive management committee, or EXCO which is headed by the CEO/Director General and comprises the heads of each of the Departments.

In addition to the Governance Resolution the exercise by the QFC Authority of its licensing and governmental powers is subject to the QFC Authority Regulations which ensures that the QFC Authority exercises its powers, duties and functions in a fair, objective and transparent manner and otherwise complies with principles of "good government".

## Developing a World Class Legal Infrastructure

A primary objective of the QFC Authority is to establish a world class legal infrastructure for financial services institutions that complements the QFC Regulatory Authority's regulatory structure. In 2007 the QFC Authority Legal Department continued the QFC Authority's efforts to build and enhance the QFC's legal infrastructure, including, ensuring the enactment of the QFC Immigration Regulations, Trust Regulations, General and Limited Partnership Regulations and QFC Authority Rules which codify the processes applied by the Authority in licensing firms that conduct non-regulated activities in or from the QFC.

Last year it worked to reduced burdens on QFC firms by securing amendments to the QFC Employment Regulations. These amendments reduce the quarterly reporting requirements of QFC firms on data related to their employees to a bi-annual filing. This aggregate data is required to be provided to the State Ministry of Labor for statistical reporting purposes. The Legal Department also worked to ensure the flexible application of QFC Authority administered legal requirements by recommending that the QFC Authority Board issue waivers and modifications from the application of various regulations and rules, either based on a cost benefit analysis or because requiring compliance with the requirements on the facts presented would not achieve or further the purposes of particular requirements.

In 2007 the Legal Department devoted considerable efforts to developing and implementing a QFC Authority compliance oversight program designed to ensure that QFC Authority licensed firms act within the scope of their license and are aware of their continuing obligations.

The Legal Department published seven QFC Authority Compliance Notices and two Legal Notices of general application, all of which are published on the QFC Legislation webpage. The Department provided ongoing guidance to firms on their general and specific obligations as QFC Authority licensed firms and conducted numerous firm specific compliance inquiries based on information provided to QFC Authority or based on review of internal records. Acting on behalf of the QFC Employment Standards Office, the Legal Department fielded numerous enquiries from employees of QFC firms seeking clarification of their rights as employees and from employers regarding their rights and obligations as employers under the QFC Employment Regulations.

Throughout the year the Legal Department acted to ensure that the QFC Authority and firms that it licences operated in compliance with the requirements of the QFC Law and regulations and rules issued thereunder, that the QFC Authority was not exposed to legal risk as a result of its business and commercial undertakings and that QFC Authority responded effectively and efficiently to the needs of its various stakeholders, whether the QFCA Board, QFC Regulatory Authority, QFC firms or other Ministries of the State.

# Audit and Risk

The role of Audit and Risk Management in the QFC Authority is to ensure that all significant risks of the QFC Authority are identified, evaluated, managed and reported in a timely manner to the Board through its Audit and Risk Committee.

## QFC Authority Audit and Risk Committee

The Audit and Risk Committee of QFC Authority meet quarterly to oversee financial reporting, systems of internal control, risk management, compliance systems, various regulatory requirements, and the internal and external audit functions.

Members of the Risk and Audit Committee at 31 December 2007 were:

**Mr. Abdulrahman Al Shaibi**  
Committee Chairman and Director

**Mr. Ian Cormack**  
Director

**Dr. Guocang Huan**  
Director

The CEO, Director of Audit and Risk, Director of Finance and Tax, Director of Human Resources, Chief Legal Officer and the Director of Operations also attend meetings of the Committee.

## Internal Audit

QFC Authority combines the roles of Internal Audit and Risk Management. The internal audit function aims to provide the Board and Senior Management with independent assurance that departmental outputs and activities are operating within approved policies, efficiently and lawfully. The Internal Audit function, operating under the authority of the Internal Audit Charter, is directly accountable to the Chairman of the Audit and Risk Committee. The internal Audit Charter guarantees the independence of the internal audit function.

An annual audit plan is drafted by the Director of Audit and Risk and endorsed by the Audit and Risk Committee. During 2007, the Internal Audit function included coverage of all financial and procurement cycles along with reviews of general controls in the IT function, with no serious breaches being identified.

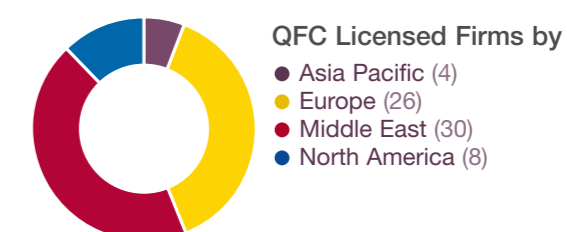
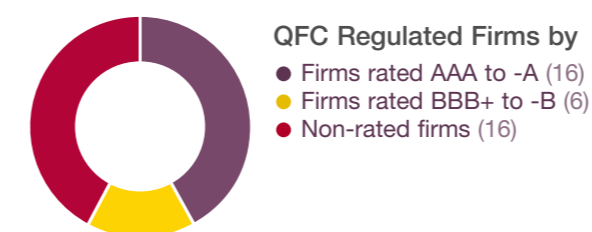
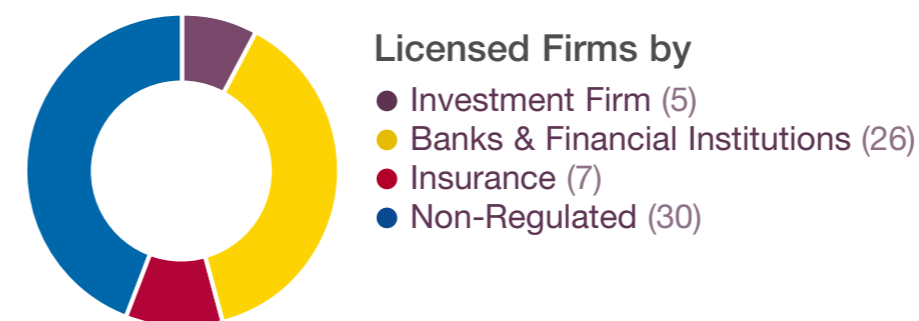
## Risk Management

During 2007, new frameworks addressing Risk and Project Management were endorsed by the Audit and Risk Committee. These frameworks integrate formal risk management practices into a range of governance activities, including project planning, business planning, project management and Audit activities. During 2007, risk assessments were conducted throughout the various business activities of the QFC Authority. All significant risks, along with controls and mitigation plans are maintained in the Authority's risk register. All major projects conducted within the QFC Authority are also subject to ongoing risk evaluations.

In 2008 this function will implement best practice audit and risk management features of the Oracle ERP system which is currently in the implementation phase.

# QFC Licensed Firms Analysis

Beyond the world class levels of regulation and supervision ensured by the QFC Regulatory Authority, licensed firms enjoy a full range of professional and support services that form the backbone of the QFC Authority's proposition.



\* Non-regulated companies are the companies which do not conduct financial services supervised by the Regulatory Authority.

Source: QFC Authority Analysis based on Public Register as of 31st December, 2007

# Data Source

## Source Notes

### Qatar Overview:

- p10 Population figs from Qatar Government estimates
- p10 Regional GDP projections, IMF
- p10 GCC historic growth from MEED
- p10 LNG production, Qatar Government estimates

### Banking and Investment:

- p14 MEED project finance figs, 9 Dec 2007
- p15 QREC/QIB deals, QFC media monitoring

### Insurance:

- p19 GCC industry analysis, Swiss Re Economic Research & Consulting, Central Bank of Bahrain

### CSR / Injaz Al Arab:

- p24 Qatari employment figs: Injaz Al Arab / World Bank



qatar

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