

Board of Directors' Report on Corporate Governance in Masraf Al Rayan 2011

2011 has been the second year for the implementation of the Corporate Governance guidelines for the listed companies in the Qatar Exchange. This has had a positive impact on the relationship between investors and companies, whereby all company information and data has been openly presented, and has been made available on the respective electronic websites of the companies.

Company practices have taken on an international dimension by following standards of corporate governance set by international bodies. Accordingly, company boards have become more compliant with the set standards and policies.

With respect to banks and financial institutions in Qatar, there have been two sets of corporate governance standards to be followed simultaneously; from Qatar Central Bank and from Qatar Financial Markets Authority.

Masraf Al Rayan is committed to follow these guidelines and has complied as per articles (2) and (3) of the Corporate Governance Guidelines of Companies listed in the Market that are subject to the rules of the Qatar Financial Markets Authority.

Charter of the Board of Directors

The Board of Directors of Masraf Al Rayan has adopted a charter for itself, in which the details of the responsibilities and duties of the Board Members have been set as per the standards set by the Qatar Financial Markets Authority Corporate Governance Guidance for markets subject to its supervision, the Charter has been published on the Bank's electronic website for ease of access by investors and the public.

The Board of Directors

Article 23 of the Articles of Association of Masraf Al Rayan has established that the Board shall be composed of 9 Members, 7 are elected by the General Assembly while the main founders, Qatari Diar Real Estate Investment Company and the General Retirement and Social Insurance Authority (Qatar), each appoints their own representative Member.

Invitations for Board Elections were sent out on January 2, 2011, before the end of the current Board's term. 11 nominees ran for the term 2011-2013; out of which 7 have been elected in the General Assembly Meeting held on March 28, 2011, while the remaining 2 have been appointed by the founders, Qatari Diar Real Estate Investment Company and the General Retirement and Social Insurance Authority (Qatar), as per the Articles of Association.

	Name	Title	Nationality	State	Ristricted Shares	Available Shares As on 31/12/2011
1	Dr. Hussain Ali Al Abdullah	Chairman & Managing Director	Qatari	Not Independent Non-Executive	100,000	1,900,000
2	Sheikh Al Hussein bin Ali bin Ahmed Al Thani	Vice Chairman	Qatari	Independent Non-Executive	100,000	200,000
3	Sheikh Saleh Ali Abdul Rahman Al Rashed	Board Member	Saudi	Independent Non-Executive	100,000	1,879,660
4	Mr. Jassim Saif Ahmed Al Sulaiti <i>Representing Qatar Armed Forces Fund</i>	Board Member	Qatari	Independent Non-Executive	-	60,500
5	Sheikh Nasser bin Hamad bin Nasser Al Thani	Board Member	Qatari	Independent Non-Executive	100,000	24,136
6	Mr. Faisal AbdulWahid AlHammedi <i>Representing Qatari Diar Real Estate Investment Company</i>	Board Member	Qatari	Independent Non-Executive	-	9,000
7	Mr. Turki Mohammad Al Khater <i>Representing the General Retirement and Social Insurance Authority (Qatar)</i>	Board Member	Qatari	Independent Non-Executive	-	38,676
8	Mr. Abdullah Ahmad Al Maleki	Board Member	Qatari	Independent Non-Executive	100,000	201,000
9	Mr. Khalaf Sultan Al Dhaheri	Board Member	UAE	Independent Non-Executive	100,000	-

About the Board Members

Dr Hussain Ali Al Abdulla

Chairman & Managing Director

PhD in Economics

- Executive Board Member - Qatar Investment Authority
- Vice Chairman - Qatar Holdings
- Acting Chairman – Board of Directors - Qatar Exchange
- Board Member - Qatar Airways
- Board Member - Gulf Investment Company (Kuwait)
- Chairman - Al Rayan Investment

Sheikh Al Hussein Bin Ali Bin Ahmed Al Thani

Deputy Chairman – Masraf Al Rayan

Bachelor of Laws

- Chief Executive Officer - Qatar Media
- Deputy Chairman - Daman Islamic Insurance Company (Beema)
- Chairman - Al Husonn Investment Company (Oman)
- Board Member - Al Rayan Investment

Sheikh Saleh Ali Abdulrahman Al Rished

Board Member – Masraf Al Rayan

Bachelor of Business Administration

Renowned businessman in Kingdom of Saudi Arabia

- Chairman - Amlak National Investment Company (KSA)
- Board Member - Ithmar Commercial Cooperative Insurance (KSA)
- Board Member - International Bank (Bahrain)

Mr. Jassem Saif Ahmed Al Sulaiti

Board Member – Masraf Al Rayan

Bachelor of Mechanical Engineering - Business Administration

Brigadier General - Commander of Maintenance Corps - Qatar Armed Forces

- Chairman - Mowasalat

Sheikh Nasser Bin Hamad Bin Nasser Al Thani

Board Member – Masraf Al Rayan

Masters in Business Administration

- Chairman - Al-Sailiya Sport Club
- Board Member - Al Rayan Investment

Mr. Faisal Abdulwahid Ali Al Hammadi

Board Member – Masraf Al Rayan

Masters of Finance and Certified Financial Analyst (CFA)

- Head of Assets Investments Management - Qatar Investment Authority
- Board Member - First Finance
- Board Member - Al Rayan Investment

Mr. Turki Mohammed Khalid Al Khater

Board Member – Masraf Al Rayan - representing the General Retirement and Social Insurance Authority (Qatar)

Bachelor of Economics and Social Sciences

- Head of General Retirement and Social Insurance Authority (Qatar)

Mr Abdulla Ahmed Al Maleki Al Jahni

Board Member – Masraf Al Rayan

Bachelor of Economics and Management

Mr Khalaf Sultan Al Dhaheri

Board Member – Masraf Al Rayan

Master of Business Administration and Certified Accountant

- Deputy Chief Risk Officer - Abu Dhabi National Bank (UAE)

Independence of Board Members

The Board of Directors is composed of 8 independent Members, while all 9 Board Members are non executive.

Dr. Hussain Ali Al Abdulla, the Chairman, had been appointed as the Managing Director, and it is to be mentioned that he does not practice any daily executive responsibilities since the Group Chief Executive Officer exercises these responsibilities as head of the Bank's Executive Management. The Managing Director is considered the liaison between the Board of Directors and the Executive Management; accordingly the two positions of Chairman of the Board (Managing Director) and the Chief Executive

(General Manager) have been effectively segregated. Moreover, the Chairman is not a Member of any of the Board Committees. The Board Charter segregates these responsibilities in accordance with article 8 of the Qatar Financial Markets Authority Corporate Governance Guidelines.

Board Meetings

The Board of Directors held six meetings during 2011 on the following dates:

First meeting:	25/1/2011
Second meeting:	28/3/2011
Third meeting:	23/5/2011
Fourth meeting:	8/8/2011
Fifth meeting:	17/10/2011
Sixth meeting:	19/12/2011

The Board of Directors carries out its authority and responsibilities in accordance with its Charter and Masraf Al Rayan Articles of Association and Memorandum of Association and in compliance with Qatar Central Bank regulations while observing the Qatar Financial Markets Authority Corporate Governance Guidelines for companies listed in markets under its jurisdiction. The Board is collectively responsible for the supervision of Masraf Al Rayan Management to ensure adherence to the Board Charter and for the approval of strategies and policies that direct the work of Masraf Al Rayan.

Secretary of the Board

Mr. Ghassan Al-Rihawi has been appointed as Secretary of the Board since its inception in 2006. Mr. Al-Rihawi previously held the position of Secretary of the Board of Qatar Chamber of Commerce and Industry (2002-2006) and has administration experience of 31 years in Qatar. The Secretary of the Board, under the supervision of the Chairman, records and coordinates all Board Meetings and their minutes. The Secretary is responsible for the sharing of information between the Board Members, the Board, and other Stakeholders inclusive of Shareholders and Employees.

The Secretary of the Board also ensures quick and efficient access for Board Members to all minutes of meetings, information, documents, and records of Masraf Al Rayan. The Secretary is also responsible for providing upon request the Ownership Records, Register of Shareholders, Register of Membership of the Board of Directors, Articles and Memorandum of Association, any other company assets documents , and related parties contracts.

Shari'a Supervisory Board

On August 8, 2011, as per the delegation of the General Assembly of 2011/3/28, and as per Board Resolution 2011/4/11, Masraf Al Rayan Board of Directors approved the new formation of the Shari'a

Supervisory Board for the term (2011-2013), accordingly the Shari'a Supervisory Board Members are now:

- Sheikh Dr. Waleed Bin Hadi President
- Sheikh Dr. Abdul Sattar Abu Ghuddah Member
- Sheikh Mohammed Othman Tahir Shubeir Member

The Shari'a Supervisory Board reviews the contracts and responds to the enquiries, additionally, it sets solutions for the challenges which would appear during the implementation. The Supervisory Board responsibilities also include supervising the bank's operations and assuring its compliance with the regulations and principles of Shari'a. The Shari'a Supervisory Board will submit its report for Masraf Al Rayan financial year 2011 to the General Assembly at its meeting due to be held on March 6, 2012.

Board Committees

The Board of Directors' Committees were formed pursuant to the corporate governance guidelines and had performed their functions as specified in their approved terms of reference until the end of 2011. The Board Committees are as follows:

Executive Committee

- Sheikh Al Hussain bin Ali bin Ahmed Al Thani President
- Sheikh Nasser bin Hamad bin Nasser Al Thani Member
- Mr. Jassim Saif Ahmed Al Sulaiti Member
- Mr. Faisal AbdulWahid AlHammadi Member

The Executive Committee is one of the most important Board Committees as it assists the Board in reviewing the activities of Masraf Al Rayan and it plays a major role in studying the issues related to the credit transactions and the bank's activities in order to present the issues that need approval to the Board. The Committee raises recommendations.

Executive Committee Main Responsibilities:

- Review the main duties of the Board
- Discuss matters which fall under the purview of the Board or those that may arise between Board meetings
- Provide reports and recommendations to the Board of Directors and upon request
- Present recommendations and approve financial matters, according to the delegated authorities
- Endorse risk policy
- Recommend approval of the policies and regulations or any amendments or additions
- Approve or recommend country or bank limits and incorporate necessary amendments, if needed

The Committee studied, reviewed and made appropriate decisions on several matters that were referred to it.

The Executive Committee held the following meetings during 2011:

First meeting:	2011/5/23
Second meeting:	2011/8/8
Third meeting:	2011/10/17
Fourth meeting:	2011/12/19

Internal Audit Committee

- Mr. Khalaf Sultan Al Dhaheri	President
- Sheikh Saleh bin Ali Abdul Rahman Al Rashed	Member
- Mr. Abdullah Ahmed Abdullah Al Maleki	Member
- Mr. Turki Mohammad Al Khater	Member

The majority of the members of this Committee should be independent with an independent member chairing the Committee.

Internal Audit Committee has the following responsibilities:

- Appoint the internal audit staff and adopt a policy for contracting the external auditors.
- Supervise and monitor the independence of the external auditors and their objectivity and discuss with them the nature and scope of the audit and effectiveness in accordance with international auditing standards and international financial reporting standards.
- Overseeing the accuracy and validity of the financial statements and the annual, semi-annual and quarterly reports, review the data and reports in particular with regards to their compliance with accounting, transparency, listing in the market and disclosure standards.
- Coordination with the Board and senior executive management and Chief Financial Officer of the Bank or designate and arrange meetings with the external auditors at least once a year.
- Study any important and unusual issues included or will be included in the financial statements.
- Revision of financial and internal control systems and risk management.
- Discuss the internal controls system with the management and ensure the performance of the management of its duties towards the development of an effective internal controls system.
- Considering the results of the investigations in the internal control issues entrusted to it by the Board of Directors.
- Ensure coordination between the external and internal auditors and verify and supervise the effectiveness of the internal audit.
- Review the accounting and financial policies and procedures of the Bank.
- Review letter of appointment of the external auditor, his work plan and any queries he requested from Senior Management of the bank as well as the responses of the management.
- Ensure prompt response to Board of Directors queries and matters raised by external auditors.
- Developing rules to be approved by the Board of Directors allowing the staff of the bank to report confidentially their concerns regarding any issues that are likely to raise suspicion, and to ensure appropriate arrangements for an independent and fair investigation about these issues while preserving confidentiality and protecting the staff from any retaliation.
- Oversee compliance with the rules of professional conduct.
- Reporting to the Board of Directors on matters provided for in this article.
- Consider any other matters determined by the Board of Directors.

The Audit Committee held the following meetings in 2011:

First meeting: 25/1/2011
Second meeting: 17/10/2011
Third meeting: 19/12/2011

Remuneration and Compensation Committee

- Mr. Turki Mohammad Al Khater President
- Mr. Abdullah Ahmad Al Maleki Member
- Mr. Khalaf Sultan Al Dhaheri Member

The committee has the following responsibilities:

- Determining the remuneration policy at the bank, including the emoluments of the Chairman and all members of the Board and the senior executive management.
- Updating regulations of the rewards and compensation whenever the need arises.
- Proposing remuneration of the members of the Board of Directors and executive management, taking into account the following:
 - The value of awards granted to members of the Board of Directors and executive management in similar financial institutions, local and regional.
 - Profits and achievements of the bank during the financial year and compare them with the results of previous years.
 - Economic and financial conditions during the fiscal year.
- Responsibilities and scope of tasks of the Board members and senior executive management.
- Observing the relevant articles in Masraf Al Rayan Articles of Association that determine the value of the bonuses for the members of the Board of Directors.
- Proposing the bases that determine the annual bonuses for staff.
- Presenting the remuneration policy and principles to shareholders in a general assembly for approval and public announcement.

Policies and Development Committee:

- Mr. Faisal AbdulWahid AlHammadi President
- Mr. Khalaf Sultan Al Dhaheri Member
- Mr. Jassim Saif Ahmed Al Sulaiti Member

Objectives:

- To prepare, study, and develop work strategies for Masraf Al Rayan
- To review and develop Masraf Al Rayan goals
- To study, review, and develop Policies for Masraf Al Rayan
- To study, review, and develop Masraf Al Rayan Work Plans and processes
- To review the Budget.

Nominations and Governance Committee:

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|------------------------------------|-----------|
| - Mr. Jassim Saif Ahmed Al Sulaiti | President |
| - Mr. Turki Mohammed Al Khater | Member |
| - Mr. Abdullah Ahmad Al Maleki | Member |

The committee has the following responsibilities:

- Adoption and publication of its terms of reference showing its authority and role.
- Proposing appointment of Board members and the re-nomination for election by the General Assembly.
- Supervise the implementation steps for the call for nominations to the Board, and consider applications received to ensure matching of applicants for membership conditions.
- Determining qualifications for Board membership, including independence.
- Make sure that candidates can give sufficient time to carry out their duties as members of the Board as well as their skills, knowledge and experience and professionalism, technical, academic and personality.
- Consider any conditions or requirements relating to the nomination or election or appointment of Board members from Qatar Central Bank or any other authority.
- Evaluate candidates for senior executive management positions, and submit recommendations to the Board of Directors.
- Perform an annual self-assessment of the Board's performance.
- Follow-up Board Committees' self-assessments.
- Supervise Board structure and composition of its committees.

Group Investment Committee

The Committee was established pursuant to Board of Directors resolution number 4/4/2011 dated August 8th 2011 as follows:

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|-----------------------------------|-----------|
| - Mr. Faisal AbdulWahid AlHammadi | President |
| - Mr. Adel Mustafawi | Member |
| - Mr. Feizal Ali | Member |
| - Mr. Nasser Al Abdulla | Member |

The Committee has the following responsibilities:

- To prepare, study, and develop investment policies for the Group that includes the broad lines for investment and identification of assets and prohibited investments.
- review and approve the investment activities of the Group, place limits on single transaction investments or for cumulative annual limit as per Investment Policy
- To supervise the management of the Group's investment portfolio to monitor compliance with Investment Policy
- Review investment portfolio performance by comparing actual vs. expected returns, as well as comparing it to market performance indices approved by the Board, taking into account compliance with policies and directions and risk level.
- Review of periodic analysis and Management Reporting

- To approve investment sector limits
- To approve investment country limits
- To review investment strategies whenever the need arises
- Other duties and responsibilities and having authority as per Board delegation
- Preparing reports and presenting them to the Board to disclose investment decisions which were made, policies, and investments performance
- to carry out any other assignments whenever requested, as per the changes in the policies of the Board or Qatar Central Bank regulations, or Qatar Financial Markets Authority regulations, or as needed as per market developments.
- to approve investment deals according to the set limits by the Committee and to raise recommendations for deals with higher limits to be approved by the Board.
- Invite experts to Committee meetings to provide opinions in the technical areas

Charter of the Board:

The Corporate Governance Charter aims at providing frame of responsibility and control over the Bank in addition to ensuring the existence of a supervision that is based on respect of values according to the laws and related regulations.

Masraf Al Rayan solemnly believes that following this Charter will enhance - in the long run - trust with shareholders, clients and employees and different stakeholders in addition to establishing and supporting Masraf Al Rayan reputation in the money market.

The Board Charter is binding not only on the Board members but on all staff and the Board of Directors is considered responsible for implementing this Charter and applying it by all staff at Masraf Al Rayan.

This Charter was prepared in compliance with the local laws and rules and international standards. The Charter will be revised from time to time considering the guidelines, the acquired experiences, work needs and according to the requirements of Qatari laws and related regulations.

Masraf Al Rayan Board of Directors reviewed an update to the Charter on their December 19, 2011 Meeting but the matter was postponed to be presented again on the January 29, 2012 Meeting. In addition, the Board had also signed a Confidentiality Charter.

Remuneration of the Board of Directors

The Remuneration and Compensation Committee discussed the Board of Directors' bonus and that of the Senior Management and connected it to profit and achievements that the bank had realized during the fiscal year and comparing it with the results of previous years.

The Committee also takes into consideration the economic and financial position during the fiscal year, the responsibilities and scope of duties of the Board Members and the Senior Executive Management

must be taken into consideration and that bonuses must be within the permitted level in the Articles of Association and related regulations.

List of Bonus, fees and allowances of Members of the Board of Masraf Al Rayan:

The list of bonuses and allowances and compensations of Board Members is reviewed and updated on an annual basis by the Nominations and Compensation Committee; where the regulatory guidance is included regarding these compensations. The list is then presented to the Board annually for approval. The list is adopted annually at the Annual General meeting.

The List includes a presentation on the regulations upon which the List was based, the Board of Directors Resolutions in that regard, and the basis on which the bonus for the Board of Directors and Senior Management is based.

Policies:

Masraf Al Rayan is committed in its work to follow an adopted group of policies that determine the framework and controls on all activities. These policies are updated and amended through the Policies and Development Committee before approval by the Board.

Masraf Al Rayan follows updated policies and reviewed policies which include:

- Internal Audit Policy
- Investment Policy
- Finance Policy
- Corporate Governance Policy
- Anti Money Laundering and Combating of Financing of Terrorism Policy
- Credit policy
- Personnel Policy
- Whistle Blowing Policy
- Succession Policy

Credit Limits for Banks and Countries

In compliance with Qatar Central Bank regulations, the Treasury Department recommends setting credit limits for banks that Masraf Al Rayan has business relationships with as well as credit limits for countries, the Board approves these limits in the mid of the year and submit the limits to Qatar Central Bank. Prompted by the prevalent economic conditions and revaluations, especially of Europe, the Board approved on December 19, 2011 emergency changes to the limits of countries and banks.

Internal Controls including Supervising of Financial Matters, Investments, and Risk Management:

The staff of the Internal Audit, Compliance, and Risk Management forms the first level of controls that the Management uses to ensure compliance with the regulations of regulatory bodies. These functions report directly whenever necessary to both the senior management and the Board of Directors, as such, the Board has full view on the outcomes of the internal controls. This means monitoring policies and procedures on granting and evaluating risks related to credit, investment, liquidity, market, capital adequacy, concentration, foreign exchange, profit rate, pricing, profitability, budgets, accounting operations, legal, money laundering, insurance on assets, related parties and interests, compliance with laws and regulations, internal and external auditing, evaluation of performance, disclosures to all competent parties.

In addition to monitoring these risks, personnel policies which organize staff appointment and cost and set regulations for incentives and development of their skills and advance their behavior and work ethics and other policies are revised to ensure compliance with the best practices and the requirements of the regulating bodies therein.

The Internal Audit Department reviews the performance of the Risk and Compliance to provide assurance to the Audit Committee of the Board of Directors that these duties are performed efficiently and to report on any matters that needs more attention.

Assessment of the Board and senior Management in the application of internal controls including the number of violation notifications made to the Board (including risk management) and how the Board dealt with these issues:

No reports of major violations that needed the intervention of the Board were made, routine matters were resolved by the Compliance and Risk Departments according to the applied policies, and no intervention from the Board was required.

Failure to apply internal controls or weakness in application or emergency cases which influenced or may influence the company's financial performance and the action that the company took to cure this failure:

Compliance is the responsibility of the Compliance Manager where he makes continuous and comprehensive reviews and submits reports to the management on compliance violations to take necessary corrective measures. No unusual cases occurred that will influence or may influence the financial performance of Masraf Al Rayan.

External Auditors

The General Assembly of Masraf Al Rayan approved the appointment of the External Auditors Ernst & Young for the financial year ended 2011. This has been presented to the General Assembly after Qatar Central Bank approval in this regard, the year 2011 is the last year for Ernst & Young as external auditors since they would have completed their maximum allowed term of five consecutive years as per Qatar Central Bank regulations. Ernst & Young were contracted due to their application of best practices and their maintaining independence and refraining from entering into conflicts of interest. The External Auditors also attend the General Assembly to present their annual report and respond to inquiries.

Company compliance with rules and conditions governing disclosure and listing on the market:

Masraf Al Rayan Board of Directors is committed to the principles of transparency in performing its business with regards to the requirements of disclosure on all that may affect the financial performance of the bank or the movement of its shares' prices. Information of the Board members was provided to Qatar Financial Markets Authority as well as to Qatar Exchange to make known their ownership of shares. The Board Charter identifies the responsibilities of the Board and its committees. The Board is also keen to provide Qatar Exchange with financial statements and clarifications as set by the Qatar Exchange regulations, in addition, the Board publishes the financial statements once approved by the Board of Directors according to the Commercial Companies Law, Qatar Central Bank regulations, Qatar Exchange rules, and the regulations of Qatar Financial Markets Authority.

Financial statements are published supported with external auditors' report who confirms in his reports that the reports and financial statements of Masraf Al Rayan are issued in conformity to the international accounting and auditing standards and that the external auditor has obtained all the data and information that are necessary to perform the audit.

The financial statements and the External Auditors' reports are published on the Qatar Exchange website and on the local media and some GCC newspapers according to what is stated in the Articles of Association of Masraf Al Rayan and the Commercial Companies Law.

Company Compliance with Internal Control Systems for Risk Identification and Management:

The Board of Directors gives special attention to setting internal control systems by clearly determining its responsibilities including its position in the organization chart and its relationship with other departments in a way that would ensure its independence and effectiveness. The Board provides adequate resources and fast and clear reporting lines to the Board of Directors and senior management and provide it with necessary authority to have access to information within the frame of clear and adequate policy and procedures and making annual revisions to these policies. The Board ensures that the duties of the Internal Audit include the audit of activities of the Compliance Manager. In addition to the above, the Executive Management in collaboration and coordination with the Compliance Manager takes the necessary corrective and disciplinary action if any violations are

discovered and submit periodical reports to the Board on matters related to the policies and procedures of the compliance to help in improving them.

Processes applied by the Bank to determine, evaluate and manage risks:

1. Credit Risks:

The Bank's Credit Policy Manual is considered the pillar of the Credit Risk Management's function. It includes all procedures and rules that govern and regulate the process of granting financing to customers. This is basically to follow a standardized approach in the process of credit evaluation & management.

The Bank extends credit facilities only after the applicants meet a set of requirements namely, a clearly identified purpose of the requested facility, adequacy of sources of repayment, customer creditworthiness and experience, acceptable risk level as per MAR approved risk level as per MAR approved risk appetite, and sufficient collaterals to protect the Bank's rights.

There is no individual credit delegated authority and the approval of non-salary related credit application has to go through a credit committee in the Bank which consists of the following:

- 1- Retail Credit Committee for credit facility limits up to QR 15 Million
 - 2- Group Credit Committee for credit facility limits up to QR 150 Million
 - 3- Executive Committee for credit facility limits up to QR 300 Million
 - 4- Board Committee for credit facility limits above QR 300 Million
- Accordingly no one has single lending authority for non-personal lending.

2) Credit Risk Division

The Credit Risk Division in Masraf Al Rayan follows a number of procedures to identify, assess, measure and monitor risks associated with any financing by the adopting the following processes:

2.1) Measuring of Credit Risk is made as detailed below:

- 1- Determining credit types and economic sectors for which the bank extends financing.
- 2- Establishing a limit cap for group exposure as well as pricing modules.
- 3- Determining types of collaterals, their mechanism of evaluation, the approved professional agents which conduct the evaluation, its financing to collateral value, and taking precautionary steps to protect the bank against any such risk such by obtaining property insurance and periodical evaluation of these collaterals.

- 4- Placing conditions for approval of credit inclusive of information that must be obtained prior to granting of credit facilities, and granting the delegation to grant credit facilities, and establishing independent review of credit and conditions for rating of credit and provisioning.
- 5- Activating the roles of Credit Administration to follow up the completion of all documents and securities as required by the credit committee in order to activate the limits in the system.
- 6- Specifying the amount of risk which the Bank's Board approves to finance in general.
- 7- Disclosure of all the information related to the client to the Credit Committee with all transparency so that a well advised credit decision is made.
- 8- Preparing independent credit recommendations for business units.

2.2) Implementation of sound Measures to determine credit risks:

Granting credit facilities is based on sound measures as detailed below:

- 1- Assuring that the client request or credit application is signed by a sufficiently authorized delegate.
- 2- Obtaining complete company records including the authorization for finance.
- 3- Obtaining sufficient information in order to make a comprehensive evaluation of the client and types of risk underlying the requested facility, as well as to be able to rate the client as per the Bank's internal credit rating system.
- 4- Knowledge of the customer's reputation, experience, market share (industry share), and purpose of the requested facility.
- 5- The nature of the current and future risks of the credit applicant, their industry, and sensitivity to the economic developments, and assess the relation between associated risks and profit.
- 6- Source of repayment and customer's commitment to settle previous debts and type of the acceptable collaterals.
- 7- Analysis of customer's financial position based on updated audited financials.
- 8- Establishing credit limit caps for all on & off-balance sheet items, credit limit caps for industry, countries, and establishing credit limit caps based on the customer risk rating.
- 9- Establishing credit limit caps which can be extended for equity at one obligor level, group level, and inter-related relations level, as well as those with overlapping interests.
- 10- Utilization of the Qatar Credit Bureau credit information system reports.

2.3) Existence of procedures to handle and follow up credit:

This includes:

1. Existence of a filing system to handle customers' files and update its information and documents.
2. Follow-up the execution of the credit facilities to make sure that everything is complying with the procedures, policies, laws and compliance regulations namely, the client's current financial position, existence of sufficient securities with coverage suitable to the current status of the customer, and the client's utilization of the facilities. This task is made through a portfolio updated report submitted on periodical basis.
3. Internal credit rating of the client which helps in: granting financing and follow up its quality, facility pricing, determining credit portfolio characteristics and credit concentration, determining defaulting accounts and sufficiency of its provisions.
4. Periodic monitoring of any credit development such as early settlement, extension, rescheduling, collateral amendments, or any other changes to conditions.

5. Issuing of periodic reports and advising Business Units and Management as needed.
6. To prepare a Risk Strategy / Credit Risk Administration plan to mitigate unexpected risks.

2.4) Existence of sufficient control on Credit Risks:

Risk monitoring is exercised via the existence of the following:

1. Internal controls to make sure that any exception or deviation in the credit policy or credit procedures and credit limits is reported.
2. A Collection Unit to detect defaulted credit at an early stage through generating a daily past dues report and advise the concerned business unit in order to avoid it in future.
3. Periodic review of the delegation authority of those authorized to sign and the associated documentation.
4. To connect Risk Management with the related Business Units to exchange information on and to establish risk culture based on the Bank's risk strategy.

The Bank conducts a regular periodic review of all the approved credit facilities granted as per its delegation to monitor its portfolio status, exposures, credit concentrations, and sector performance. The Bank also follows up on all credit facilities, increases in limits, and follows up and monitors completion of collateralization, and takes the necessary actions at the appropriate times. Moreover, non-active facilities are reviewed, as well as risk rating based exposures inclusive of all limits granted, and recommendations are made, if any, to the Board.

Credit Risk Administration is an independent unit whose task consists of reviewing credit approval conditions, collaterals, facilities agreements, and all operational matters prior to releasing credit, inclusive of activating the approved limits and issuing periodic reports.

Risk Management activities are ongoing and continually enhanced in line with the Bank's strategy.

Market Risks

The Bank monitors market risks by using the latest banking standards depending on Qatar Central Bank regulations and the principles of Basel II and using the expertise of internationally experienced staff. The relevant staff monitors several risks linked to the market such as foreign exchange risks, profit rates, pricing, liquidity, general investments, clients' deposits investments, commodities prices, capital adequacy and liquidity

To mitigate these risks, the bank diversifies its activities in different countries, sectors, products and client segments and takes proactive steps to manage these risks.

Masraf Al Rayan issues internal reports on daily, weekly and monthly basis to the management to assist in taking proper decisions and monitor the market risks.

These reports include daily reports such as reports on the market reaction and daily reports on the performance of the Qatar Exchange, a weekly report on the treasury in addition to the monthly report to the Assets and Liabilities Committee (ALCO) which shows the budget position, banking ratios and pressure tests on budget, analyzing gaps in assets and liabilities.

ALCO members are from the senior management and this report is discussed in its monthly meeting where decisions are made and followed up.

To facilitate the work of the Treasury, the Bank implemented the OPICS system in 2010 which is a special treasury automated system, and is one of the most efficient systems used for the purposes of the treasury; it facilitates developing the financial products and solutions in general. On the other side, it assists to a great extent in giving information related to monitoring and mitigating risks.

Masraf Al Rayan Operational Risk:

Masraf Al Rayan Operational Risk Methodology and Mitigation framework provides an integrated platform and disciplined approach to identify, assess and evaluate, manage and mitigate, control and communicate, as well report the various risks associated with Bank's activities in the business segments of investments like corporate finance, capital markets and treasury, as well as internal operations (internal controls and systems) and external operations (legal and compliance) and supporting services for bank operations such as information technology (IT) and human resources.

Summary of Operational Risk Methodology

The ORM strategy will focus on Risk team being structured by business group to ensure specialization and efficient coordination between business groups and Risk. The framework starts with MAR strategic goals; this includes Business functions and process, followed by determining the likelihood, consequences and control of the risk. Finally, the risk treatment is applied which is risk mitigation strategies which are in place. This followed by constant monitoring the risk and treatment and communication with MAR departments.

In addition, the following steps will also be taken;

- All staff is reminded of their responsibility towards risk management.
- All staff report operational risk events as and when they occur.
- Operational risk coordinators in each department work on the reported risk incident dealing with operational risk issues related to their department/s.
- The OP risk coordinators will coordinate with operational risk to ensure efficient and effective implementation.
- Operational risk Framework will be developed for each major process in liaison with the OP risk coordinators through risk assessment, review of internal and external auditors report, brainstorming sessions with Risk, review of reported operational risk events and losses etc.

Risk Mitigation

In an effort to encourage better risk management practices, MAR is keenly interested in efforts to better mitigate and manage operational risk. MAR has controls and programs in place to reduce the exposure, frequency, or severity of an event and hence, manage risk exposures. MAR controls are examined to know whether the control is truly reducing risk, or merely transferring exposure from the operational risk area to another business sector.

Operational Risk Department's Achievements 2011 in terms of Information Security:

- Internet banking supervision software
- Completion of assessment of critical information technology infrastructure
- Scanning and inspection of approved points of sales to test penetration as per Visa guidelines
- Periodic training of Bank employees on information security, operational risks, and the business continuity plan.
- Implementation of card fraud monitoring software

Business continuity

- Masraf Al Rayan Business Continuity Documentation completed.
- BCM Training and Awareness completed.
- BCM Testing for all critical departments completed.
- Security committee formed and training completed.
- Al Rayan Investment Business Continuity Plan and testing completed.

Operational risk report

Operational risk event is an event resulting from inadequate or failed internal processes, people or system or from external events. For an event to be regarded as a risk it does not have to result in a financial loss. An event would still be categorized as a risk event if it results in a financial gain.

Escalation Procedure

1. On the discovery of an operational risk event the concerned staff is required to report the occurrence of the risk event to their manager.
2. The Manager is required to initiate a review of the event and complete the operational Risk Event Incident Form.
3. The operational Risk Incident Form and the supporting documents should be submitted to Operations Department.
4. Head of Operational Risk shall review the incident and liaise with the Head of concerned Department to ensure that appropriate action plan is put in place to mitigate recurrence of similar events in the future.

Apart from risk reporting escalation from departments, the Operational risk department submits quarterly reports such as Operational risk report, loss data reports and risk register events to Senior Management.

Currently overall strategy of Operational Risk is based on risk avoidance and mitigation and good structure and controls is in place that absorbs and reduces operational risk events.

Amendments to Articles of Association

Qatar Financial Markets Authority guidelines on Corporate Governance for markets under its jurisdiction require some modifications or additions to the Articles of Association of companies in order to be in compliance.

Masraf Al Rayan has undertaken a review of its Articles of Association and they will be presented to the next Extraordinary General Assembly Meeting.

Shareholder Rights

The Board of Directors of Masraf Al Rayan is keen to protect its Shareholders as per what is specified in related rules, regulations, and the Articles of Association; whereas each shareholder's share entitles them to the same rights as another Shareholder with the same amount without bias in the claim to the Bank's assets and in the divided profits as described in the Articles. It also allows shareholders the right to use their voting rights via proxy.

Shareholder Register

The Information Technology Department of the Qatar Exchange maintains records of the shareholders of its listed companies because shareholder information changes instantly with each transaction. Masraf Al Rayan requests the information when needed and on specific dates, especially on the days of the Ordinary and Extraordinary General Assembly Meetings where this information is used to confirm attendance, voting, and distribution of profits.

Accessing Information

Masraf Al Rayan provides its Shareholder information which has been obtained from Qatar Exchange upon request as per the rules, regulations, and related Articles and Corporate Governance guidelines. Similarly, other information is available on the internet on Masraf Al Rayan's electronic website www.alrayan.com for ease of access to the most important information for investors and clients.

Fair Treatment of Shareholders and Voting Rights

The Articles of Association of Masraf Al Rayan state that each Shareholder has the right to attend General Assembly meetings, Shareholders who are minors or interdicted may be represented by proxy via their legal representative or guardian, while entities that are Shareholders may delegate a person as an official legal representative via written delegation in compliance with legal precedents.

Shareholders who attend the General Assembly have the right to discuss the items on the Agenda, direct questions to the External Auditors, and the Board has to respond to the questions of the Shareholders in as much detail as possible that would not expose the Bank to any risks, and if the Investor deems the answer insufficient then they may revert to the General Assembly whose decision is mandatorily executable.

Furthermore, the Articles of Association of Masraf Al Rayan stipulate that each Shareholder has a number of votes that is equivalent to the number of Shares that they have.

Shareholders' Profit Distribution Rights

The distribution of profits is completely based on the financial results achieved by Masraf Al Rayan at the end of each year, in addition to compliance with the rules, regulations, and related guidance especially from Qatar Central Bank with respect to all forms of reserves (legal reserve, risk reserve, fair value reserve) the Board annually assesses different scenarios of which the best chosen and presented to the Ordinary General Assembly Meeting in detail showing the profits earned and their distribution. The General Assembly has the right to accept the recommendation or amend it.

Capital Structure, Shareholder Rights, and Significant Deals

Banks rely mainly in their income on lending to individuals and corporations, and Qatar Central Bank issues regulations on maximum credit limits whether for one deal or for cumulative volume of deals for each one client or one sector.

Other Stakeholders' Rights

The Corporate Governance Policy adopted by Masraf Al Rayan ensures fully respecting all parties to the transactions inclusive of stakeholders. The human resources policy ensures fairness and justice between employees without prejudice to race, gender, or religion. Management annually allocates bonuses to employees reciprocating the profits and their individual efforts using a methodical studied approach. At the same time, the Whistleblower Protection Policy approved by the Board gives each employee the opportunity to deliver their complaints to Management without fear of reprisal or consequences and fully maintaining their rights. Masraf Al Rayan employees comply with a Code of Conduct that includes the business ethics.

Masraf Al Rayan's Corporate Social Responsibility

Masraf Al Rayan is keen on participation in community development through supporting individuals and groups to carry out their role in building a better society. The Bank is also keen on taking part in public causes that concern the society, protect the environment, and encourage protection of natural resources, healthy practices, supports sports, and charitable endeavors.

Dr. Hussain Ali Al Abdullah
Chairman and Managing Director