

Board of Directors' Governance Report 2018



As on the 31st of December 2018

Final Version (31/1/2019)

Important Note: The original language of this report is the Arabic language. This is a translation of the Arabic report. Thus, any differences between the report and its translation will be weighed in favor of the Arabic version.

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Introduction

Masraf Al Rayan's approach with regards to the sound corporate governance and the social responsibility is the main factor for winning the confidence of the market, shareholders and investors; and it is also important for the corporate governance to include the sustainability factors; in order to enhance confidence in Masraf Al Rayan as a bank that intends to reasonably maintain its success, and remain a competitor capable of facing the current and potential future challenges. This high vision includes Masraf Al Rayan's role as a financial institution within the Qatari economy's system and its participation in making the Qatar National Vision 2030 successful; in addition to its role as a financial institution in delivering Islamic banking services for individuals, companies, institutions, government, and semi-government authorities; and its role in complying with the anti-money laundering and counter-terrorism financing within the local, regional and international system; in addition to its responsibility towards the society and the environment in which it operates.

Believing in its responsibilities, Masraf Al Rayan has been keen on following the best practices of the sound governance and applying the governance instructions issued by Qatar Central Bank (QCB) under the Circular No. (68/2015) on the 26th of July 2015, as well as "The Governance Code for Companies and Legal Entities listed on the Main Market" issued by the Qatar Financial Market Authority (QFMA), which was published in the Official Gazette on the 15th of May 2017; furthermore, Masraf Al Rayan relies on a number of policies adopted by the Board of Directors, which are responsible for monitoring the quality of the financial reports and how to deal with the various risks that may face the Bank. The Masraf Al Rayan Governance Policy is the basis for the Bank's sound governance approach and its updated version has been adopted by the Board of Directors on the 12th of December 2018.

Masraf Al Rayan was so keen on complying with these regulations throughout 2018, along with issuing all the necessary reports, and making transparent disclosures, according to the regulatory requirements to maintain the confidence of the market and its shareholders.

Masraf Al Rayan Ownership Structure

Statement of the Top 10 Shareholders of Masraf Al Rayan as on 31/12/ 2018

	Name	Type	Nationality	Number of Shares	Percentage
1	Qatar Holding Company	Government	Qatari	87,348,739	11.65%
2	Qatar Armed Forces Investment Portfolio	Government	Qatari	69,857,478	9.31%
3	Qatar Investment Authority	Government	Qatari	30,690,402	4.09%
4	General Retirement Authority's Pensions Fund	Government	Qatari	21,572,827	2.88%
5	Al Watani Fund 3	Commercial	Qatari	18,019,831	2.40%
6	Al Taybeen Commercial OPC	Commercial	Qatari	14,909,255	1.99%
7	Ithmar Construction and Commerce OPC	Commercial	Qatari	14,030,793	1.87%
8	Burooq Commercial Company	Commercial	Qatari	13,950,000	1.86%
9	Hamad bin Abdullah Al Thani	Individual	Qatari	13,596,065	1.81%
10	Al Watani Fund 4	Commercial	Qatari	11,776,108	1.57%

Board Members' Ownership of Masraf Al Rayan Shares (As on 31/12/2018)

	Name	Capacity	Nationality	Status*	Contribution Rate as on 31/12/2018
1	Dr. Hussain Ali Abdullah	Board Chairman and Managing Director	Qatari	Not Independent Non-Executive	0.11%
2	General Retirement and Social Insurance Authority represented by Mr. Turki Mohammed Al Khater	Vice Chairman of the Board of Directors	Qatari	Not Independent Non-Executive	2.88%
					0.01%
3	Qatar Holding Company Represented by H.E. Sheikh Faisal bin Saud Al-Thani	Board Member	Qatari	Not Independent Non-Executive	11.65%
					0.02%
4	Ministry of Defense - Qatar Armed Forces Represented by Mr. Nasser Jarallah Saeed Jarallah Al Marri	Board Member	Qatari	Not Independent Non-Executive	9.31%
					0.00%
5	Employee Loans Fund - Ministry of the Interior Represented by Dr. Menahi Khalid Mohammed Al-Mezafari Al Hajri	Board Member	Qatari	Not Independent Non-Executive	0.00%
					0.01%
6	H.E. Sheikh Ali bin Jassim Al Thani	Board Member	Qatari	Independent * Non-Executive	0.22%
7	H.E. Sheikh Nasser bin Hamad bin Nasser Al Thani	Board Member	Qatari	Independent * Non-Executive	0.01%
8	Mr. Abdullah Ahmed Al Malki Al Juhani	Board Member	Qatari	Independent * Non-Executive	0.04%
9	Taskeen Business and Investment Company	Board Member	Qatari	Independent Non-Executive	0.01%

* Independence is defined in the relevant section (Page 9): **Board Members Independence**

Board Governance Charter

The Board Governance Charter aims to provide a framework of responsibility and control at Masraf Al Rayan, along with setting up a management, whose methodology is based on respect for values, in accordance to what has been stated in the relevant laws and regulations.

Masraf Al Rayan has a firm belief that following the Charter will enhance the trust with the shareholders, clients, employees, and all stakeholders on the long run, along with establishing and supporting the Masraf Al Rayan's position as a leader within capital markets.

The Board Charter is binding on the Masraf Al Rayan Board Members; and the Board of Directors is responsible for ensuring the implementation of this Charter and its applications by all the Masraf Al Rayan employees.

As in previous years, Masraf Al Rayan's Board of Directors remained committed in 2018 to work according to its charter adopted by the Board of Directors; which is periodically reviewed or updated whenever necessary, in compliance with the regulations and systems issued by the regulatory bodies that are subject thereto.

The Charter contained in detail the Board's tasks and responsibilities and the Board Member's duties based on the governance instructions issued by each of the Qatar Central Bank and the Qatar Financial Market Authority in this regard. The Charter was published on the Masraf Al Rayan website to be available for the shareholders and the public.

Masraf Al Rayan Board of Directors

Board Tasks and Responsibilities

Masraf Al Rayan is managed by an effective board that is collectively responsible for supervising the Bank's Management in an appropriate manner.

In addition to the responsibilities stipulated in the Board Charter, the Board responsibilities include the following as well:

- Approve the Bank's strategic plan and main objectives and supervise their implementation:
 - o Approve the Bank's strategic objectives, appoint the managers, replace them and specify their remuneration, along with reviewing the Management's performance, the main work plans and the risk management policy and directing them; in addition to the periodic review and the monitoring of the implementation and the Bank's overall performance.
 - o Determine the Bank's optimal capital structure, its strategy and financial objectives, and approve the annual budgets.
 - o Conduct a periodic review for the Bank's organizational structures of the Bank and approve them in a manner that ensures strict distribution of the functions, tasks, responsibilities, and the succession to the Bank's management, especially the internal control units.
- Ensure Masraf Al Rayan's compliance with relevant rules and regulations, the Articles of Association of Masraf Al Rayan and its Statute. The Board will be responsible for protecting Masraf Al Rayan from illegal, arbitrary or inappropriate operations and practices.
- The Board is entitled to authorize some of its powers and form specialized committees to perform specific operations. In such case, the Board provides clear written instructions regarding the task or authorization, on the condition of obtaining the Board's prior approval in specific matters. Nevertheless, even if the Board has authorized one or more of its tasks or powers, the Board remains responsible for all the powers and authorities that it authorized.

Board Members' Entrusted Duties

Each Masraf Al Rayan Board Member is entitled to perform their care and devotion duties, and comply with the institutional authority as stipulated in the relevant rules and regulations, including the Governance Code for Companies listed in Markets regulated by the Qatar Financial Markets Authority, and the Board Charter.

Board Members are required to always operate based on clear information, in good faith, with the due diligence and care required, while assuring the best interests of the Company and all the shareholders.

The Board Members are also required to work effectively towards complying with their commitments to Masraf Al Rayan.

Board Members Independence

The definition of the independent member differs between the definition of the Banks' Governance Principles issued by Qatar Central Bank in late July 2015, and what was mentioned in the "Governance Code for Companies listed in Markets" issued by QFMA and was published in the Official Gazette on 15th of May 2017 in regards to the number of owned shares; and according to this definition, the Board contains 4 independent members.

As for the Executive Members, there are none in the Masraf Al Rayan Board, bearing in mind that Dr. Hussain Abdullah, who also holds the position of Managing Director, does not carry out any day-to-day executive responsibilities. The Group CEO carries out his tasks at the head of the Executive Management, while the Managing Director only acts as a link between the Board and the Executive Management. The positions of Board Chairman (Managing Director) and Chief Executive Officer (General Manager) have been distinctly separated, and the Chairman must not be a member in any of the Board Committees. The Board Charter separates the duties of the Board Chairman to be in line with the requirements of the Corporate Governance Code issued by QFMA.

Non-Executive Board Members' Duties

The Non-Executive Board Members' duties include, for example but not limited to, the following:

- Participate in the Board of Directors meetings, and give an independent opinion on the strategic issues, performance, accountability, resources, key appointments and work standards.
- Ensure that priority is given to the interests of Masraf Al Rayan and the shareholders in the event of any conflict of interests.
- Participate in the Audit and Compliance Committee of Masraf Al Rayan.
- Monitor the Company's performance in achieving its purposes and objectives that has been agreed upon, along with reviewing the performance reports, including the annual, semi-annual and quarterly reports.
- Supervise the development of penal rules related to Masraf Al Rayan's governance; in order to oversee its application in a manner compatible with these rules.
- Provide their skills, experience, and diverse specializations and qualifications to the Board of Directors or its various committees through their regular attendance to the Board meetings, their effective participation in the General Assembly meetings, and their understanding of the views of the shareholders in a balanced and fair manner.
- It is permissible for the majority of Non-Executive Board Members to request an independent consultant at the expense of Masraf Al Rayan; for any issue related to the Bank.

Board Chairman's Duties

The Chairman of the Board of Directors is considered the President of the Bank and its representative; as he is primarily responsible for the Bank's proper management in an effective and productive manner, and works on achieving the interests of the Bank, shareholders and other stakeholders. In addition, he is responsible for the proper functioning of the Board of Directors, in an appropriate and effective manner; along with having the Board Members obtain complete and correct information in a timely manner. It is not permissible for the Chairman to be a member in any of the Board's Committees stipulated in Board Charter.

The Board Chairman's duties and responsibilities include, for example but not limited to, the following:

- Ensure that the Board discusses all the core issues in an efficient and timely manner.
- Approve the agenda for each of the Board of Directors meeting; taking into account any issue raised by any Board Member, and the Chairman may authorize this task to a member in the Board; however, the Chairman remains responsible for having the said member execute the task in an appropriate manner.
- Encourage all the Board Members to fully and effectively participate in conducting the Board's affairs; in order to assure that the Board works for the benefit of Masraf Al Rayan and the shareholders.
- Provide all the data, information, documents and records related to the Company, the Board, and its committees to the Board Members.
- Ensure effective communication with the shareholders, and deliver their opinions to the Board of Directors.
- Allow the Non-Executive Board Members, in particular, to effectively participate in order to ensure that an annual assessment is conducted for the Board's performance.

In the absence of the Board Chairman, the Vice-Chairman will take his place, and the Chairman may authorize some of his powers to other Board members.

Board Formation

The latest elections for the Board of Directors were in 2017; as a board has been elected to manage Masraf Al Rayan for the fourth term from 2017 till 2019, and the Board's formation remained the same since then as follows:

Members of the Masraf Al Rayan Board
4th term (2017-2019)
Starting from the 5th of April 2017

	Name	Title	Nationality
1	Dr. Hussain Ali Abdullah	Board Chairman and Managing Director	Qatari
2	General Retirement and Social Insurance Authority Represented by Mr. Turki Mohammed Al Khater	Vice Chairman	Qatari
3	Qatar Holding Company Represented by H.E. Sheikh Faisal bin Saud Al-Thani	Board Member	Qatari
4	Ministry of Defense - Qatar Armed Forces Represented by Mr. Nasser Jarallah Saeed Jarallah Al Marri	Board Member	Qatari
5	Employee Loans Fund - Ministry of the Interior Represented by Dr. Menahi Khalid Mohammed Al-Mezafari Al Hajri	Board Member	Qatari
6	H.E. Sheikh Ali bin Jassim Al Thani	Board Member	Qatari
7	H.E. Sheikh Nasser bin Hamad bin Nasser Al Thani	Board Member	Qatari
8	Mr. Abdullah Ahmed Al Malki Al Juhani	Board Member	Qatari
9	Taskeen Business and Investment Company	Board Member	Qatari

About the Board Members

Dr. Hussain Ali Abdulrahman Abdullah

Holds a Ph.D. in Economics

Holds a Master's degree in Special Law

Holds the following positions:

- Minister of State
- Board Member of the Qatar Investment Authority
- Board Member of the Supreme Council for Economic Affairs
- Board Chairman and Managing Director of Masraf Al Rayan
- Board Chairman of the Kirnaf Investment and Installment Company (Kingdom of Saudi Arabia)
- Board Member of the Gulf Investment Corporation (Kuwait)
- Board Member of the Volkswagen Company (Germany)

Mr. Turki Mohammed Khalid Al Khater

He represents the General Retirement and Social Insurance Authority

Holds a Bachelor's degree in Economics and Social Sciences

Holds the following positions:

- Board Vice Chairman - Masraf Al Rayan
- Chairman of the General Retirement and Social Insurance Authority
- Chairman of the United Development Company
- Board Member of the «Ooredoo» Company

H. E. Sheikh Faisal Bin Saud Al-Thani

He represents the Qatar Holding Company

Holds a Bachelor's degree in Finance

Holds the following positions:

- Board Member of Masraf Al Rayan
- Board Member of the Al Rayan Investment Company
- Director of the Industrial Investments Directorate - Qatar Investment Authority
- Board Member of the Qatar Electricity and Water Corporation
- Board Member of the Mwasalat Company

Mr. Nasser Jarallah Saeed Jarallah Al Marri

He represents the Ministry of Defense - Qatar Armed Forces

Holds a Master's degree in Accounting and Finance Sciences

Holds the following positions:

- Head of the Financial Affairs Authority at the Ministry of Defense
- Board Member of Masraf Al Rayan
- Board Member of the United Development Company
- Board Chairman of the Al Rayan Investment
- Board Member of Vodafone

- Board Member of the Barzan Holding Company / Investment Arm at the Ministry of Defense

Dr. Menahi Khalid Mohammed Al-Mezafari Al Hajri

He represents the Employees Loans Fund at the Ministry of the Interior

Holds a Ph.D. in Commercial Jurisprudence

Holds a Master's degree in Special Law

Holds the following positions:

- Board Member of Masraf Al Rayan

H.E. Sheikh Ali bin Jassim Al Thani

Holds a Master's degree in Economics and Political Science

Holds the following positions:

- Board Member of the Qatar General Insurance and Reinsurance Company
- Board Member of Masraf Al Rayan

Mr. Abdullah Ahmed Al Malki Al Juhani

Holds a Bachelor's degree in Management and Economics

Holds the following positions:

- Board Member of Masraf Al Rayan
- Vice Chairman of the Insurance Committee at Qatar Chamber
- Board Member of the Qatar Business Council

H.E. Sheikh Nasser bin Hamad bin Nasser Al Thani

Holds a Master of Business Administration (MBA)

Holds the following positions:

- Board Member of Masraf Al Rayan

Representative of the Taskeen Real Estate Investment Company

Holds the following Positions:

- Board Member of Masraf Al Rayan

Board Meetings

Masraf Al Rayan Board held 6 meetings throughout 2018 on the following dates:

- First Meeting: 16/1/2018
- Second Meeting: 16/4/2018
- Third Meeting: 11/6/2018
- Fourth Meeting: 16/9/2018
- Fifth Meeting: 15/10/2018
- Sixth Meeting: 12/12/2018

Masraf Al Rayan Board exercises its powers and responsibilities according to what has been stated in the Bank's Statute and Articles of Association, and in accordance with the Qatar Central Bank's instructions; while taking into account the Governance Code for Companies and Legal Entities listed on the Main Market issued by the Qatar Financial Markets Authority (QFMA) and the Banks' Governance Principles issued by Qatar Central Bank. The Board is considered collectively responsible for supervising the Masraf Al Rayan's management in an appropriate manner, in compliance with the Board Member's Charter. The Board also approves the strategic objectives and adopts the policies that control Masraf Al Rayan's business.

Board Secretary

Mr. Ghassan Al-Rihawi has held the (Board Secretary) position since the Bank's inception in 2006. Mr. Al-Rihawi has previously served as the Secretary of the Qatari Chamber of Commerce and Industry Board from 2002 -2006, and he has managerial experience of over 35 years in the State of Qatar.

The (Secretary's) work includes recording, preparing, and saving all the minutes of the Board meetings under the supervision of the Chairman; in addition to ensuring the proper delivery of the information and the coordination between the Board Members, and between the Board and other stakeholders at Masraf Al Rayan, including the shareholders and the Management.

Furthermore, the (Board Secretary) also ensures the Board members' ability to fully and rapidly access the minutes of the meetings, information, documents, and records related to Masraf Al Rayan. He is also responsible for enabling the shareholders to view the Board Members' records, the Article of Association, the Statute and any other documents resulting in any privileges or rights on the Masraf Al Rayan's assets and the relevant parties agreements, and according to the regulatory authorities' instructions.

Board's Tasks and its Other Duties

At Masraf Al Rayan, the Board Members are granted full and prompt access to information, documents, and records related to the Company; and the Executive Management of Masraf Al Rayan is committed to provide the Board and its Committees with all the required documents and information. The Board Members are keen on attending the General Assembly meetings.

Masraf Al Rayan Board has adopted an induction program, which has been developed and its data is updated periodically, to ensure that the Board Members, when elected, have a proper understanding of the Company's functioning and operations, and that they are fully aware of their responsibilities.

The Board Members are responsible for having a good understanding of their roles and duties, and they must educate themselves in the financial, commercial, and industrial matters, and in the Company's operations and its work. To this end, the Board must provide to its member, when needed, appropriate and official training courses that aim to enhance the Board Members' skills and knowledge.

The Board of Directors works to keep its members constantly informed on the latest developments in the governance field and the best practices in this regard, and the Board may delegate the responsibility to any of its specialized committees.

The Masraf Al Rayan's Statute in its Article (32) includes clear procedures for the dismissal of Board Members in the event of their absence from the Board meetings.

Board Committees

The Board Committees performed their duties throughout 2018 as specified in their approved frameworks, where some of them were updated in line with the changes introduced to the Board's formation in 2017 under the Board's Decision No. 3/4/2017 issued on the 24th of April 2017; as the committees' formation became as follows since 2017, and continued on in 2018:

Executive Committee

- | | |
|--|----------|
| • Mr. Turki Mohammed Al Khater- | Chairman |
| • Dr. Menahi Khalid Al Hajri- | Member |
| • H. E. Sheikh Nasser bin Hamad bin Nasser Al Thani- | Member |
| • H. E. Sheikh Ali bin Jassim Al-Thani- | Member |

Risks and Policies Committee

- | | |
|--|----------|
| • Mr. Ali Mohammed Al Obaidly- | Chairman |
| • Mr. Nasser Jarallah Al Marri - | Member |
| • Mr. Turki Mohammed Khalid Al Khater- | Member |

Remunerations and Compensations Committee

- | | |
|--------------------------------------|----------|
| • Mr. Nasser Jarallah Al Marri - | Chairman |
| • Sheikh Nasser bin Hamad Al Thani - | Member |
| • Mr. Abdullah Ahmed Al Malki- | Member |

Nominations and Governance Committee

- | | |
|-------------------------------------|----------|
| • Dr. Menahi Khalid Al Hajri- | Chairman |
| • Mr. Abdullah Ahmed Al Malki- | Member |
| • Sheikh Faisal bin Saud Al Thani - | Member |

Group's Investment Committee

- | | |
|-------------------------------------|----------|
| • Sheikh Faisal bin Saud Al Thani - | Chairman |
| • Sheikh Nasser bin Hamad Al Thani- | Member |
| • Mr. Nasser Jarallah Al Marri - | Member |
| • Mr. Ahmed Sheikh- | Member |
| • Mr. Haithem Katerji | Member |

Audit and Compliance Committee

- | | |
|----------------------------------|----------|
| • Mr. Abdullah Ahmed Al Malki - | Chairman |
| • Mr. Nasser Jarallah Al Marri - | Member |
| • Mr. Ali Mohamed Al Obeidli - | Member |

Executive Committee

The Executive Committee is considered one of the Board's most important Committees; as it helps the Board review Masraf Al Rayan's activities, and studies the various matters presented to the Board, such as credit transactions or the other activities of Masraf Al Rayan that require the Board's approval; along with submitting its recommendations to the Board in this regard.

The Executive Committee's main responsibilities are as follows:

- Review the Board's main tasks.
- Discuss and approve the matters that fall within the Board's authority or the matters that arise within the Board's meetings.
- Provide reports and recommendations to the Board when needed.
- Make recommendations and approve the financial matters according to the authority table.
- Recommend to approve the policies, regulations, and any amendments or additions.
- Approve or recommend the limits/ceilings for transactions with the new banks and countries that the Bank deals with, and make the necessary amendments.

The Committee has held the following meetings during the year 2018:

- First Meeting: 9/4/2018
- Second Meeting: 22/5/2018
- Third Meeting: 11/9/2018
- Fourth Meeting: 9/12/2018

Audit and Compliance Committee

The majority of the members of this Committee must be independent, with an Independent Member chairing the Committee. The Committee assumes the following responsibilities:

- Appoint External Auditors on an annual basis and approve their contracting policy.
- Supervise and follow up with the independence of the External Auditors and their objectivity, and discuss with them the nature of the audit and its effectiveness and scope, in accordance with the International Standards on Auditing (ISA) and the International Financial Reporting Standards (IFRS).
- Review the External Auditor's appointment letter, his work plan and any queries or important notes he requested from the Bank's Senior Management, along with the Executive Management's responses.
- Ensure coordination between the External and Internal Auditors.
- Meet with the Bank's Chief Financial Officer (CFO) or the person who carries out his tasks, the Internal and External Auditors at least once a year.
- Study any important and unusual issues included, or will be included, in the financial reports.
- Appoint or dismiss the Head of the Internal Audit Body and supervise his effectiveness.
- Supervise and monitoring the Internal Audit Management, ensure its independence, along with discussing and recommending the annual plan and appropriate its training.
- Review the internal controls systems, and approve the Bank's external and internal audit reports.
- Review and recommend the Internal Audit Charter annually.
- Supervise the Compliance Management's work, which determines, evaluates, and provides consultations, along with monitoring and submitting reports regarding the risks of non-compliance with the applicable laws, instructions, and standards. In addition, the Committee determines its position in the organizational structure in the manner that ensures its necessary independence and effectiveness. The Committee will ensure that the Compliance Management is provided with the adequate resources and the swift and clear channels; in order to submit the reports to the Committee and the Executive Management; and provide it with the sufficient powers to access the information in a clear and sufficient policy.
- Revise the quarterly reports prepared by the Compliance Management.
- Develop rules to be approved by the Board of Directors allowing the Bank's staff to secretly report their concerns regarding any issues that are likely to raise suspicion; and ensure the presence of appropriate arrangements to conduct an independent and fair investigation on these issues while maintaining the confidentiality of the reporting employee and protecting him from any harm or negative reaction (Whistleblower Protection Policy).
- Oversee the accuracy and validity of the financial statements and the annual, semi-annual and quarterly reports; review the data and reports related to compliance with the accounting, transparency, listing in the market and disclosure standards.
- Ensure that the Internal Audit's tasks include reviewing the activities of the Compliance Monitoring Officer.
- Review the impact of new organizational regulations on Masraf Al Rayan.
- Study any other matters determined by the Board of Directors.

The Audit Committee held the following meetings during the year 2018:

- 16th of January 2018.
- 16th of April 2018.
- 16th of September 2018.
- 15th of October 2018.
- 12th of December 2018.

Remunerations and Compensations Committee

The Committee assumes the following responsibilities:

- Determine the remuneration policy at the Bank, including the remunerations received by the Chairman and all the Board Members and the Senior Executive Management.
- Update the remunerations and compensations regulations on an annual basis, whenever the need arises.
- Propose the remunerations of the Board Members and Executive Management, taking into account the following:
 - The value of remunerations granted to the Board Members and the Executive Management in similar local and regional financial institutions.
 - The profits and achievements made by the Bank during the fiscal year and comparing them with the results of the previous years.
 - The economic and financial conditions during the fiscal year.
 - The responsibilities and scope of tasks of the Board members and the Senior Executive Management.
 - Taking into account the laws that determine the value of the remunerations of the Board Members and the relevant articles in the Masraf Al Rayan's Statute.
- Propose the bases that determine the annual remunerations for the staff.
- Present the remuneration policy and principles to the shareholders in a General Assembly meeting to be approved and announced to the public.

The Committee had a meeting on 9/1/2018.

Risks and Policies Committee

The Committee assumes the following responsibilities:

Risks Management

A. Operational Risks

Review the effectiveness of Risk Management at the Bank's level as a whole.

1. Assess the new significant risks that affect the Bank.
2. Identify the recent strategic risks, including the institutional matters such as regulatory frameworks, business development, and the like.
3. Review the key risk indicators and identify the matters that should draw the attention of the Board on a quarterly basis.
4. Review the influential operational losses
5. Review all the risk policies on an annual basis.

B. Credit Risks

1. Review the credit policies on an annual basis.
2. Establish and review the insurance powers as needed, at least once a year.
3. Adopt and review the maximum limits for dealing with other parties, and the maximum limits for dealing with other countries, when needed at least once a year.
4. Review the arrears and non-performing accounts, and recommend the suitable provisions for them.
5. Assess the write-off or return to profitability in comparison with the provisioning levels.
6. Review and monitor the filed cases and the collection processes.

C. Monitoring the reputation risks and other risks not mentioned above

D. Policies

1. Study, develop and update the policies that require the Board's approval.

The committee held the following meetings in 2018:

- First Meeting : 8/1/2018
- Second Meeting: 9/4/2018
- Third Meeting: 4/6/2018
- Fourth Meeting: 11/9/2018
- Fifth Meeting: 9/12/2018

Nominations and Governance Committee

The Committee assumes the following responsibilities:

- Adopt and publish the Committee's framework showing its authority and role.
- Supervise the implementation of the steps concerning the invitation for nominations to the Board's membership; and study the received applications to ensure that applicants meet the membership conditions.
- Determine the required qualifications for the Board's membership, including independence.
- Ensure that the candidates can give sufficient time to carry out their duties as Board members, in addition to their skills, knowledge, and experience, their professional, technical, academic qualifications, and their personality.
- Consider any conditions or requirements related to the nomination, election or appointment of the Board members, issued from Qatar Central Bank or any other authority.
- Assess the candidates' applications for Senior Executive Management positions, and submit recommendations to the Board of Directors.
- Perform an annual self-assessment for the Board's performance.
- Follow-up the Board Committees' self-assessments.
- Supervise the Board's structure and the formation of its committees.
- Review the annual corporate governance report of Masraf Al Rayan, and recommend its approval by the Board.
- Develop an induction program for new members and suggest training programs for them when required.

The Committee held a meeting on 9/1/2018.

Group's Investment Committee

The Committee assumes the following responsibilities:

- Develop and study the investment policies for the Group that includes the broad lines for investment and the identification of the assets and the prohibited investments.
- Review and approve the investment operations for the Group, and set the limits for the investments for the single transaction or the total transactions throughout the year according to what is mentioned in the Investment Policy.
- Monitor the Group's investment portfolio management to ensure the compliance with what has been stated in the Investment Policy.
- Assess the investment portfolio's performance by comparing the actual returns with the expected returns, as well as comparing it with the other indicators approved by the Board; taking into account the extent of the investment's compliance with the policies, directions, and risk level.
- Review the periodic analyses and the reports submitted by the Management.
- Approve the investment limits in all the sector.
- Approve the countries' investment limits.
- Review the investment strategies whenever the need arises.
- Conduct other duties, assume the responsibilities, and have the powers, according to the Board's authorization.
- Prepare reports and submit them to the Board to inform it about the investment decisions that have been made, the policies, and the investments' performance.
- Carry out any other duties whenever requested, according to the changes in the Board's policies or the instructions of the Qatar Central Bank or the Qatar Financial Markets Authority, or according to the market's developments.
- Approve the investment deals according to the limits specified for the Committee, and submit recommendations for deals with higher limits to be approved by the Board.
- Invite concerned individuals to the Committee's meetings to give their opinions in the specialized fields.

The Committee held the following meetings during the year 2018:

- First Meeting: 10/4/2018
- Second Meeting: 5/6/2018
- Third Meeting: 11/9/2018
- Fourth Meeting: 2/12/2018

Board's Remunerations

Every year, the Remunerations and Compensations Committee discusses the remunerations of the Board Members, and the Senior Management; and the Committee views what is applicable in the similar banks and institutions. In addition, the Committee connects the remunerations to the profits and achievements that the Bank had realized during the fiscal year and compares them with the results of previous years.

The Committee also takes into consideration the economic and financial conditions during the fiscal year, the responsibilities and the scope of duties of the Board Members and the Senior Executive Management; provided that the remunerations are within the permitted limit in the Statute, the relevant laws, and the instructions issued by the Qatar Central Bank.

List of Remunerations, Fees and Allowances of the Masraf Al Rayan Board Members

The list of remunerations, fees, and allowances of the Board Members is updated on an annual basis by the Nominations and Governance Committee; as some instructions related to these issued by the supervisory authorities have been entered.

As for the list of remunerations, fees, and allowances of the Masraf Al Rayan Board Members, it will be submitted to the Committee in its planned meeting on 15/1/2019, to recommend its approval in case there are no obstacles or objections. They will later be referred to the Board to approve them before being submitted to Masraf Al Rayan's Ordinary General Assembly to be endorsed.

The list includes a presentation for the instructions on which the list was based; the Board's decisions in this regard; and the bases on which the remunerations of the Masraf Al Rayan Board Members and Senior Management are defined. It also includes the previous instructions of the Qatar Central Bank in this regard.

Shariah Supervisory Board

Masraf Al Rayan's General Assembly approved in its meeting held on 2/4/2017 to reappoint its Shariah Supervisory Board for the three years from 2017 to 2019. The formation of the Shariah Supervisory Board is as follows:

Honorable Sheikh Dr. Waleed Bin Hadi – Chairman of the Shariah Supervisory Board

Honorable Sheikh Dr. Abdullah Sattar Abu Ghuddah – Member of the Shariah Supervisory Board

Honorable Sheikh Dr. Mohamed Ahmeen – Member of the Shariah Supervisory Board

The Shariah Supervisory Board's work includes reviewing contracts, answering the Shariah-related questions, and developing solutions for the difficulties that arise during the application. The Supervisory Board directly oversees the Bank's operations and ensures the proper application of what has been decided by the Supervisory Board, along with ensuring that the banking operations may be conducted in accordance with the legitimate provisions.

The Supervisory Board also submits its report annually for each fiscal year to the Ordinary General Assembly in its periodic meeting.

Regulatory Policies in Masraf Al Rayan

Masraf Al Rayan is committed in its work to follow an adopted set of policies that constitute the regulatory framework for the Bank's approach and its management method, and these policies also determine its frameworks and controls in all the activities. Masraf Al Rayan constantly updates these policies through the Risks and Policies Committee when needed, and then submit it to the Board for approval.

Masraf Al Rayan currently follows the updated versions of a wide set of policies, which include without limitation the following:

- ❖ Shariah Policy
- ❖ Governance Policy
- ❖ Internal Audit Policy
- ❖ Risk Monitoring Policy
- ❖ Compliance Policy
- ❖ Financial Policy
- ❖ Liquidity Risk Management Policy
- ❖ Liquidity Contingency Funding Plan
- ❖ Internal Capital Adequacy Assessment Process (ICAAP)
- ❖ Credit Policy
- ❖ Investment Policy
- ❖ Stress Testing Policy
- ❖ Customer Acceptance Policy
- ❖ Anti-Money Laundering and Combating of Terrorism Financing Policy
- ❖ Whistleblower Protection Policy
- ❖ Code of Conduct
- ❖ Personnel Affairs Regulation at Masraf Al Rayan
- ❖ Replacement Policy
- ❖ Outsourcing Policy
- ❖ IT Management

Masraf Al Rayan's Compliance with the Rules and Conditions governing the Disclosure and Listing on the Market

Masraf Al Rayan Board is committed to the principle of transparency in performing its business and duties towards the shareholders and in all that is related to the requirements of public disclosure for all that may affect the Bank's financial performance or the movement of its share price. The Board Members' information can be provided to Qatar Financial Markets Authority (QFMA), in addition to the Qatar Stock Exchange, while stating the contributor number for each of them, through which they can view their ownership of the shares. The Board Charter has detailed the responsibilities of the Board and its committees.

On the other hand, the Board is also keen on providing the Qatar Stock Exchange with financial statements and clarifications, as set by the Qatar Stock Exchange; furthermore, it publishes its financial statements upon being approved by the Board of Directors according to the Commercial Companies Law, the Qatar Central Bank's instructions, the Qatar Stock Exchange's regulation, and the Qatar Financial Markets Authority's instructions.

Financial statements are published together with the report of the External Auditor, who confirms in his reports that the financial reports and statements of Masraf Al Rayan are issued in conformity with the International Accounting and Auditing Standards, and that he has obtained all the data and information that are necessary for performing the audit.

The financial statements and the External Auditor's report are published on the Qatar Stock Exchange website and in the local newspapers and some GCC newspapers, according to what is stated in the Masraf Al Rayan's Statute and the Commercial Companies Law No. (11) of 2015.

Masraf Al Rayan's Compliance with Internal Control Systems for Risk Identification and Management

The Board of Directors gives special attention to developing internal control systems through a clear identification for its responsibilities, including its position in the organizational structure and its relationship with other departments and functions in a manner that would ensure its necessary independence and effectiveness; along with providing adequate resources and fast and clear channels for submitting reports to the Board of Directors or the Senior Management and providing it with the necessary authority to access information within a clear and adequate policy framework and a procedures manual; in addition to conducting annual revisions to these policies and ensuring that the Internal Audit's tasks include the revision of the Compliance Monitoring Officer's activities. Furthermore, the Executive Management, in collaboration and coordination with the Compliance Monitoring Officer, take the necessary corrective and disciplinary actions if any violations are discovered, and submit periodical reports to the Board on matters related to the compliance policies and procedures in order to help improving them.

Risk Management and Internal Control Procedures, including the Supervision of the Financial Affairs and the Investments

The Risk Management, Internal Controls, and Compliance Officers form the first level of the tools used to follow up with the compliance with the directions from the regulatory authorities; as each of these officers submit reports, when needed, directly to the Executive Management or the Board through its committees; and so the Board will be fully informed about of the internal control results, which include the following:

- Granting and Assessing credit
- Investment
- Liquidity
- Market Risks
- Capital Adequacy Risks
- Concentrations Risks
- Foreign Exchange Risks
- Interest Rate Risks
- Pricing
- Profitability and Balances
- Anti-Money Laundering and Counter Terrorism Financing
- Assets Insurance
- Relevant Parties and Conflict of Interests
- Compliance with laws, rules, regulations, and supervisory instructions.
- Internal and External Audit
- Performance Assessment
- Disclosures to all relevant parties
- Operational and Accounting Risks
- Legal Risks

This is in addition to the policies related to the personal's affairs, conduct, and work ethics, and the other policies that are reviewed to ensure the implementation of the best standards and the compliance with the regulatory requirements in this regard. Afterwards, the Internal Audit Management reviews the performance of the Risk and Compliance Officers to provide an assurance to the Board's Audit and Compliance Committee that these tasks are being carried out at a reasonable level of competency, along with highlighting the matters of concern in this regard. All the Masraf Al Rayan activities are subject to the controls specified by the policies adopted by the Board, which are mentioned above in the (Policies Clause). An assessment is made for the performance of the Board and Senior Management in applying the internal control system; which includes the number of times the Board has been notified about the control matters (including the risk management) and the method through which the Board has addressed these matters.

The internal controls work has only revealed the ordinary control matters, which have been addressed routinely by the Risk Officer and the Compliance Officer within the applicable policies, which did not require Board's intervention.

The Control Management constantly attempts to discover any potential failure in applying the internal controls, or even weaknesses in the implementation, or emergencies that may affect the financial performance of the Masraf Al Rayan; and it is responsible for following-up with the procedures taken by the Company to address the failure.

The internal control activities are distributed between the control managements; as they continually carry out constant and comprehensive inspections, and continuously submit reports to the Executive Management on the observations and violations; in order to take the necessary corrective actions. There has been no emergency that influences or may influence the Bank's financial performance.

Risk Management Operations and Internal Control Procedures in the Company

Masraf Al Rayan Board is responsible for managing risks, and the Board has assigned the Executive Management with the authority to take the decisions necessary to monitor the risks on a daily basis and to manage them via specified controls that ensure proper risk management at the Bank.

The wise supervision over the risk management stems from the Board and is managed at the departments' level, and this is performed through many methods, including weekly and monthly administrative reports, the key risk indicators, and the Bank's risk records. The managements develop their own standards to keep the risks at the acceptable limits within the maximum adopted limits. The maximum limits are set to be suitable with the risk acceptance level and its significance, either by the competent committee belonging to the Board of Directors or the competent administrative committee (according to the powers granted thereto) or by the concerned departments (within the main maximum limits specified for them); in order to provide services with risks that have been mitigated in an acceptable manner. The Bank has established an appropriate structure from the committees with various appropriate levels from the Board level all the way up to the Managements' level.

Masraf Al Rayan follows a risk management model at the enterprise level, which contains (three defensive lines); as the appropriate responsibilities and authorities lie in each of these defensive lines, and the Bank's committees perform its responsibilities as per their delegated authority at the various levels from the highest level at the Board itself, and passing by the Board Committees directly until the Executive Management Committees and the staff.

Risk Management is carried out through independent managements headed by experts such as the Chief Executive Officer of the Risk Management, the Compliance Manager, and the Head of the Internal Audit; as these managements identify, assess, provide consultation, monitor and submit reports on the various risks of non-compliance with applicable laws, instructions, and standards.

Internal control objectives are represented in protecting the Bank's assets, monitoring the use of the available resources, along with ensuring the accuracy of the accounting data, identifying authorities and responsibilities and complying with them, and following a clear policy in selecting the employees at the various management levels.

The Procedures Followed by the Bank to determine, assess, and manage the Risks

Stress Testing

The measurement, observation and monitoring of the various risks is a vital matter in assuring the validity of the financial institutions and the financial system as a whole. In this context, stress testing has been widely used by the international financial institutions, along with the regulatory authorities recently, to ensure the ability of the banks and other financial institutions to withstand the different risk factors. The idea behind stress testing is to assess the effects of the exceptional but reasonable events on the Bank's financial position and other financial entities; as several quantitative technical methods have been developed, which can be divided into two main categories: sensitivity testing and scenario testing.

In compliance with the Qatar Central Bank's regulatory instructions related to Basel Committee's subject; the Bank conducts stress testing to cover all the risks that affect the Bank individually (Firm Specific Scenarios), which include credit risks, liquidity risks, market risks, and operational risks; furthermore, the Bank conducts stress testing to cover risks that could affect the economy in general and the whole financial system (Macroeconomic Scenarios)

These tests, which are performed by the Risk Management in order to measure the Bank's ability to bear future losses that it might be exposed thereto in light of specific scenarios regarding the future economic factors, start with what is known as the base scenario, or the scenario of the continuation of the current conditions as they are, and several other alternative scenarios that vary in the degree of severity of the assumptions made thereon. Specifically, these tests aim to ensure that the Bank will continue to have sufficient capital resources to face the potential losses, in case the worst scenario occurs from among these scenarios. Accordingly, the Bank can present a realistic view of its sensitivity and ability to withstand potential shocks to the economy, if the economic conditions continue to worsen; along with assessing the Bank's ability to sustain various shocks resulting from the credit and market risks. These tests are conducted based on the Bank's current financial data and the financial data expected for the next five years, and the information collected by the Monitoring Management on the risks surrounding the Bank.

The banking stress testing helps in taking the appropriate procedures and determining whether or not the Bank's position is solid, and that is through ensuring that the Bank's financial assets are sufficient to finance its obligations and cover its potential future losses in the worse possible assumptions, and then it enables the Bank to continue acting as a financial mediator, without government support, or the extent of its need for government assistance to continue its work, i.e. its need for government assistance through providing funds to assist it, or seeking to find other finance sources in the private finance market, including the possibility of making it go through merger. These are all assumptions that enhance the Bank to take care and provide studied options in case of any negative developments.

The Bank has complied with all Qatar Central Bank instructions concerning stress testing and has complied with providing the required reports.

Credit Risks

Risk is considered an integral part of the banking business, especially within the increased intensity in the competition and the size of the banking transactions, along with the technological developments and the need for larger banks. Today, banks are facing various banking risks that vary in their severity from one bank to the other. Therefore, the management of the total possible risks is considered from the factors that assist in the Bank's success and ensures its continuity in the banking market, which results in acceptable returns and reduced risks.

The credit policies developed by the Bank are considered the axis of the Credit Risk Management's operation. Therefore, the Bank is keen on developing a comprehensive mechanism to assess the credit, by developing a comprehensive credit policy representing the framework, which contains a group of indicative standards and conditions, provided to the competent Credit Granting Management to ensure a standardized processing and the provision of sufficient flexibility.

Credit facilities are granted based on a standard internal assessment system that relies on a set of terms and controls, including the customer's experience, its financial efficiency, the presence of sufficient and reliable sources of payment, the proportionality of the finance conditions with the finance purpose, the identification and assessment of the finance risks, the presence of adequate guarantees that enables the Bank to recover its rights, in case of default or if the customer stops paying, without any losses.

Banking credit is granted through the approval of the Credit Committees in the Bank, which consist of four committees, depending on the size of the required facilities as follows:

- Retail Credit Committee (maximum approval limit: QR 15 Million)
- Group's Credit Committee (maximum approval limit: QR 150 Million)
- Executive Committee (maximum approval limit: QR 300 Million)
- Board of Directors (maximum approval limit: QR 300 Million)

Accordingly, there are no individual powers for non-personal finance.

As for personal finance, it is the finance granted to individuals up to a maximum of 2 million Qatari Riyals (according to Qatar Central Bank's instructions). The personal finance operations are monitored through an automated centralized system at the Bank used for monitoring the loans granted to the individuals; as the employee enters the finance request, then the branch managers or their deputies, according to their powers, will review the request; and if it is approved, it will be passed to the Operations Management to grant the finance. If there are any exceptions, the request will be submitted to the Retail Credit Committee.

Credit Risk Management

The Credit Risk Management at Masraf Al Rayan conducts a number of procedures to identify, measure, follow-up, and monitor the credit risks, and that is through the following:

Credit Risk Management Standards

Credit standards were developed containing the following:

1. Determination of the credit types that can be granted to the customers according to the (Economic) sectors.
2. Development of a maximum limit for granting credit to a single credit group, in addition to the credit pricing principles.
3. Determination of the guarantees' types, their assessment method, the relationship between the credit size and the guarantees' value, along with taking precautionary steps to maintain them, such as insurance, and periodical assessment of these guarantees.
4. Development of the credit granting approval rules, the rules for obtaining information and documents that must be available to grant the credit, and the powers for granting the credit; along with establishing independent credit review and its rating conditions, and forming the provisions.
5. Determination of the risk level that the Board / Bank agrees to enter into during the finance operation.
6. Preparation of independent credit recommendations for the Business Units.
7. Disclosure of all the information related to the customer to the Credit Committee with absolute transparency; in order to have the chance to make a correct credit decision.
8. Development of the Credit Management and Monitoring's role; in order to follow-up the completeness of all the required documents and guarantees, according to the Credit Committee's recommendation to activate the limits in the Bank's system.
9. Masraf Al Rayan has recently applied an internal system from (Moody's Company) to assess the risks of the Bank's customers in all the sectors (Corporate, SME, Private Banking & HNW Individuals); in order to establish a comprehensive mechanism for the credit risk assessment system, which includes a set of indicative standards and conditions that need to be performed when assessing the customers. This policy is considered the axis for the credit risk management and measurement; as the clients' assessment is based on a standard system that relies on a set of controls, and that is to maintain risks at the acceptable limits.
10. Implementation of the stress testing on the credit facilities to enhance the process of identifying and controlling the risks, along with providing complementary tools for the other credit management tools, in order to achieve an overall assessment for the credit risks.

Application of Proper Procedures to determine the Credit Risks

Proper procedures are applied to grant credit, which include the following:

1. The presence of a finance request signed by the customer or the authorized signatory.
2. Obtainment of the full information and documents in order to conduct a comprehensive assessment and review for the customer and the types of risks associated with the credit request, along with providing a credit rating for the customer, according to the Bank's internal credit rating system.
3. Understanding the purpose of the credit, the customer's reputation, experience, market position (within the economic sector).
4. Studying the nature of the current and future risks for the customer and sector, and the extent of sensitivity towards the economic developments, and the relation between the risks and profit.
5. Assessment of the payment sources and the customer's commitment to pay his previous obligations.
6. Obtainment and assessment of all the required guarantees.
7. Analysis of the customer's financial position using the updated audited budgets.
8. Resorting to the Qatar Credit Bureau's reports to assess the customer's efficiency and
9. Creditworthiness and his fulfillment of his obligations, and to the Qatar Central Bank's report to know the amount of the customer's indebtedness with other banks.
10. Determination of the credit ceilings according to the economic sectors and the regions / countries based on the country's credit risk rating degree.
11. Taking into consideration the maximum credit ceiling rate that can be granted for the equity rate at the level of a single customer or the group, or the total relevant customers, and those who have overlapping interests with the Bank.
12. Taking into account the Qatar Central Bank's instructions for granting finance.
13. Approval of the stress tests framework, which includes the policy, the structure, the methodology, to ensure the definition and identification of the suitable factors related to the credit risk, along with determining its associated responsibilities and their consequences, as well as presenting them to the specialized committees to support in taking the decisions.

Availability of Procedures to Handle and Follow-up with the Credit

The procedures for handling and following up with the credit include the following:

1. The presence of files to maintain the credit approvals and the enclosed documents, and update their data on a periodic basis.
2. Follow-up with the execution of the credit according to competent credit committee's approval and recommendations, along with ensuring their compliance with the policies, procedures, laws and regulatory instructions, and the availability /adequacy of the required guarantees.
3. Follow-up on the customers' utilization of the granted credit limits, and that is by submitting periodic reports on the entire credit portfolio.
4. Conducting an internal credit rating that helps in granting and pricing the credit and following up with its quality; along with determining the credit portfolio characteristics and the credit concentrations, and determining the non-performing loans and the sufficiency of its provisions.
5. Issuance of reports on the non-performing sectors of the business unit to take the necessary action.
6. Issuance of periodic reports and informing the Business Units and the Management with all that is needed.
7. The Credit Risk Management Unit is a unit independent from the Credit Audit Unit, and its tasks consist of reviewing the guarantees, conditions, and contracts, and completing them before granting the facilities, including follow-up with all the limits granted on the system and their update, along with using them and issuing the required reports.

Availability of Sufficient Procedures to Monitor the Credit Risks

These procedures include the following:

1. The presence of internal controls to ensure the reporting of any exceptions in the credit policies / credit procedures, the credit limits and / or the regulatory instructions.
2. The presence of a Collection Unit to detect the non-performing credit facilities and take the necessary procedures to solve it at an early stage, as periodic reports are prepared for the status of the non-performing accounts, along with notifying the responsible authority to take the necessary actions.
3. Periodic review of the powers of the signatories' authorized to sign the credit and its documents.
4. Development of the Bank's Credit Policy on a periodic basis to be in line with the latest developments and changes; in order to improve the risk management.
5. The Bank reviews all the granted credit facilities on a regular basis, and monitors the sectors' performance and the limits of the financial concentrations for each sector. The Bank also follows up with all the facilities and increases, and follows up with the guarantees and their completion, along with taking the necessary actions at the appropriate times. On the other hand, the Bank reviews the unused facilities, and submits recommendations, if any, to the concerned authorities.
6. Establishment of a common ground between the Risk Management and the relevant business units; in order to exchange information and disseminate the credit culture derived from the Bank's Risk Management Strategy.
7. The Risk Management's activities are ongoing and constantly evolving, and associated with the Bank's strategy.
8. Adoption and usage of systems to assess the customer's risks in accordance with the Basel requirements and the Qatar Central Bank's instructions.

Market Risks

The Bank's method for handling the market risk did not essentially change; because it relies on monitoring the market risks using the latest banking standards, depending on the Qatar Central Bank's directions and the Basel Principles, while using the expertise of experienced staff and those possess high and international competencies.

In order to solve and mitigate these risks in general, the Bank diversifies its activities in various countries, sectors, products and customer segments, and takes proactive steps to manage these risks.

The relevant employees monitors a set of market-related risks, such as foreign exchange risks, profit rates risks, pricing risks, liquidity risks, and general investments risks; and they monitor the banking rates specified by the Qatar Central Bank from liquidity rates, capital adequacy rates; in addition to monitoring the stability rates and the concentrations in the customers' deposits. Masraf Al Rayan issues internal reports on daily, weekly and monthly basis to the Management; in order to assist in taking proper decisions and monitoring the market risks as required.

These reports include daily reports such as the early-warning indicators reports on the market and liquidity risks and a daily report on the treasury; in addition to a monthly report to the Assets and Liabilities Committee (ALCO), which indicates the budget position, the banking ratios, the stress tests on budget, and the gap analysis in the assets and liabilities. The Assets and Liabilities Committee consisting of the Senior Management discuss this report in its monthly meeting, where it takes its decisions and follows up with them.

Credit Limits granted for the Banks and Countries

In compliance with Qatar Central Bank's instructions and within the Bank's credit policy, the credit limits for the banks that are being dealt with will be updated; along with the credit limits for the countries in which these banks are located according to their rating. The Board approves these limits after studying them according to the requirements imposed by the prevailing economic conditions, and then they are submitted to the Qatar Central Bank after their approval.

Operational Risks

In its effort to mitigate the possibilities of losses from the operational risks, the Masraf Al Rayan approved and applied policies and methodological procedures to determine, assess, monitor and manage systems and report any weakness therein. The controls of these policies and procedures include effective segregation of duties, along with restricting system access, and adopting effective procedures to delegate authority and make settlements; in addition to the continuous learning for the employees, and the ongoing performance assessment. Masraf Al Rayan uses a specialized system to manage all the operational risk indicators, including the database and losses risks.

Operational Risk Mitigation

Masraf Al Rayan is very keen on the efforts made to mitigate and manage the operational risks and encourages following the best practices in the risk management field. At Masraf Al Rayan, controls and programs are applied, which are capable of mitigating the exposure, frequency, or severity of a certain event; such controls are tested to know whether they actually mitigate the risk, or merely transfer the exposure to certain aspect of the operational risk to another business sector.

Best Applicable Practices to mitigate the Operational and Systems Risks

- Maintain the global ISO23301 certification for business continuity by complying with best international practices.
- Maintain the Information security management system (ISMS) by renewing the ISO27001 certification for information security.
- Use a specialized e-system for managing operational risks (SAS): in order to manage all the operational risks, which include following up and analyzing the incidents and the operational losses.
- Use the bank transfers monitoring system to ensure that there are no names that appear in the banned lists or those related to anti-money laundering and counter terrorism financing; and integrate this system with the SWIFT system to intercept any suspicious names at the same time when the transactions are taking place.
- Monitor the fraud cases preemptively to prevent any suspicious transactions: as a specialized unit works on monitoring the fraud cases 24 hours a day, 7 days a week to detect and prevent fraud on the Credit Cards and ATM Cards.
- Protect the Bank's valuable data in a preemptive manner as a precaution against any emergencies; and that is by providing a disaster recovery center through the (Meza) Company at the Qatar Science & Technology Park (QSTP), and by keeping a backup copy of the important data at the Qatar Data Center, and in the city of Nice, France.
- Use an advanced system (Malware Prevention System) to prevent the phishing attempts.
- Conduct the security breaches tests (Vulnerability Tests) on the IT systems.
- Successfully participate in a Cyber Security Drill organized by the Ministry of Transport and Communications.
- Continue to increase the number of the operational risk system user base.
- Use the Information Security and Event Management System (SEIM) 24 hours a day, 7 days a week.

Some risks that cannot be avoided, mitigated or accepted will be covered through various insurance operations.

Masraf Al Rayan Credit Rating

Masraf Rayan has maintained its rating at the Moody's Investors Services ("Moody's) since the 25th of August 2016; as the Masraf Al Rayan's long-term issuer ratings were rated as (A1/ Prime-1) compared to the short-term issuer ratings. In addition, Moody's reaffirmed the rating on the 18th of July 2018, and assessed the Counterparty Risk (CR) as stable (Aa3 Stable); and so this assessment raises the quality of the long-term issuer ratings for the Bank by four degrees from the Baseline Credit Assessment of Masraf Al Rayan, which was at (baa2).

Despite the challenges, this rating emphasizes the success of the conservative and wise strategy followed by Masraf Al Rayan, the strong financial solvency and the quality of its assets, and the success of the expansion of the income sources by contributing to the growth and profitability of its subsidiary company in the United Kingdom (Masraf Al Rayan, UK); in addition to its continued strong financial performance that supports the high capital level, which has been achieved with the support of the strong economy of the State of Qatar and the availability of good supervision over the financial sector therein.

Auditor “External Auditor”

The Ordinary General Assembly of Masraf Al Rayan, in its meeting held on 27/2/2018, approved the appointment of the Deloitte Auditor to carry out the audit works in Masraf Al Rayan for the fiscal ended on the 31st of December 2018; and that is with recommendation from the Board after their proposal was chosen by the Audit and Compliance Committee, and obtaining the Qatar Central Bank's approval in this regard.

Deloitte was chosen due to its application of best professional practices and its maintenance of its independence, along with refraining from entering into any relationships containing conflicts of interest. The External Auditor attends the General Assembly; as he submits his annual report and responds to inquiries.

External Auditor's Tasks

The Auditor—an independent and qualified External Auditor appointed based on the recommendation made by the Audit Committee to the Board of Directors, and the decision of the Company's General Assembly – conducts an annual independent audit and quarterly reviews. The mentioned audit aims to provide objective assurance to the Board of Directors and the shareholders that the financial statements have been prepared in accordance with the Governance System, the relevant laws and regulations, and the international standards that govern the preparation of financial information. The financial statements fairly present, in all essential respects, the Group's consolidated financial position, the consolidated financial performance and the consolidated cash flows for the ended year, according to the International Auditing Standards for Islamic Financial Institutions issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) and the Qatar Central Bank's instructions.

The External Auditors must adhere to the best professional standards, and Masraf Al Rayan is committed not to contract with them to provide any consultations or services that may result in a conflict of interest; therefore, the External Auditors are considered to be completely independent from Masraf Al Rayan and its Board, and they absolutely have no conflicts of interest in their relations with Masraf Al Rayan.

The External Auditors are accountable to the shareholders and owe Masraf Al Rayan the duty of exerting the due professional care when conducting the audit. The External Auditor must also inform the Authority and any regulatory authorities if the Board does not take the appropriate action in regards to any suspicious matters raised or identified by the Auditors.

Shareholders' Equity

Masraf Al Rayan Board is keen on protecting its shareholders' equity, as specified in the relevant rules and regulations and the Masraf Al Rayan's Statute; which stated that each stock entitles its owner to a share equal to the share of other stocks without distinction in the ownership of the Bank's assets and in the profits divided as described in the System. It also allows shareholders to use their voting rights by proxy.

Shareholders' Register

Qatar Central Securities Depository Company (QCSD) maintains the shareholders' registers in the listed companies, and since the shareholders' information changes in real-time with the market's trading; the QCSD provides this information freely to the Bank once a month in the following cases:

- 1- When holding the Ordinary or Extraordinary General Assembly Meeting.
- 2- When distributing the profits.
- 3- When conducting an acquisition or merger.
- 4- When increasing the capital through subscription.
- 5- When the company changes its legal status.
- 6- Any other cases as determined by the Qatar Financial Markets Authority.

Masraf Al Rayan requests the shareholders' information from the mentioned company as needed and in such cases; for example, the data is requested on the convening day of the Ordinary or Extraordinary General Assembly; as it adopts this data to record the attendance and distribute the profits to the shareholders.

Information Access

Masraf Al Rayan's website www.alrayan.com provides all the important information and the information related to Masraf Al Rayan, which facilitate access to a wide range of information that concern the shareholders, investors, and other stakeholders.

Conflicts of Interest and Dealings with Insiders

Masraf Al Rayan is committed to adopt and announce the general rules and procedures governing its entry in any business transaction with a relevant party, and this is mentioned in the Governance Policy and the Board Charter. In any case, Masraf Al Rayan refrains from entering into any business transaction with a relevant party or contracting with him, except if it fully complies with the Bank's policy for the relevant parties. Such policy must ensure that the principles of transparency, fairness and disclosure are applied, and that any transaction with a relevant party must require its approval by the majority of shareholders' votes; provided that the relevant party does not vote.

In case of raising any matter regarding a conflict of interest or a business transaction between Masraf Al Rayan and one of the Board Members or any relevant party, i.e. related to this Board Member, during the Board's meeting, the subject will be discussed in the absence of the concerned member, who has absolutely no right to participate in the vote on the transaction. In any case, such transaction must be done according to the market prices and on a purely commercial basis, and it must not include conditions contrary to the Company's interest.

Fair Treatment of Shareholders and Voting Rights

Masraf Al Rayan's Statute states that each shareholder has the right to attend the General Assembly, and the shareholders, who are minors or interdicted, may be represented by their legal representatives, while the legal persons are represented by the persons authorized by them via a written organized authorization according to the legal principles.

The Statute has also stated that the shareholder, who attends the General Assembly, has the right to discuss the subjects listed on the Agenda, direct questions to the External Auditors; and the Board must respond to the shareholders' questions and inquiries in a manner that would not expose the Bank to any harm; and if the Shareholder finds that the answer is insufficient, he may invoke the General Assembly, and its decision will be enforceable.

Masraf Al Rayan's Statute has also stipulated that each shareholder has a number of votes that is equivalent to the number of his shares.

Shareholders' Rights in the Election of Board Members

Masraf Al Rayan is keen on applying the principle of providing shareholders with information about the candidates to the Board's membership before the elections, including a description of the candidates' professional and technical skills, their experience, and other qualifications.

According to the instructions of the Ministry of Commerce and Economy stated in their Circular published on 23/2/2016, and based on the Qatar Financial Markets Authority's decision, voting in the elections of the boards of the joint-stock companies listed in the market shall be as stipulated in Article (96) of the Commercial Companies Law issued by the Law No. (11) of 2015, which states:

“Each share shall have a single vote granted by the shareholder to whomever he selects from amongst the candidates for the Board's membership, and the shareholder may distribute the votes for his shares amongst several candidates; however, a single share may not be used for voting for more than one candidate.”

Shareholders' Rights regarding Profits Distribution

The distribution of profits is completely linked to the financial results achieved by Masraf Al Rayan at the end of each year, in addition to the compliance with the relevant rules and instructions, especially the Qatar Central Bank's instructions with respect to all forms of reserves (legal reserve, risk reserve, fair value reserve). The Board annually studies the several scenarios and chooses the best of them; and then presents it to the Ordinary General Assembly in detail, showing the achieved profits and their distribution. The General Assembly has the full right to accept the Board's proposal or amend it.

Capital Structure, Shareholders' Rights, and Major Transactions

Banks' work is mainly based on the financing operations for the individuals, companies, governmental and semi-governmental agencies; and Qatar Central Bank issues its instructions regarding the maximum limits for credit concentrations for the single transaction or the total transactions of a single customer, or his group, or a single sector.

Other Stakeholders' Rights

The Governance Policy adopted by Masraf Al Rayan ensures the need to provide full respect to all the parties that are being dealt with, including the other stakeholders. The Personnel Affairs Regulation establishes the principles of fairness and justice between employees without prejudice to race, gender, or religion. The Management annually allocates remunerations to the employees proportionate to the achieved profits and the efforts and performance of each employee, according to a studied systematic approach.

At the same time, the Whistleblower Protection Policy adopted by the Board gives each employee the opportunity to deliver his complaints to the Management without fear of reprisal or being influenced; while the Masraf Al Rayan employees comply with the Code of Conduct (signed by each employee) which includes the basic principles for work ethics.

Masraf Al Rayan's Responsibility towards the Society and Environment

The principles of Corporate Social Responsibility towards the society and the environment, and the extent of their ability to maintain the business's continuity, are associated with their sound governance. Masraf Al Rayan is keen on contributing to the development of his surrounding community by supporting the individuals (especially the Qatari cadres) and the national authorities, in order to exercise their role in building a better society. This is reflected in Masraf Al Rayan's faith in the importance of its social responsibility and its keenness on its contributions to building a better society, and its encouragement on protecting the natural resources and avoiding any harm to the environment. The Bank also promotes health practices and supports sports activities and various charitable works; all of which falls in the best interest of the society and the environment, in which the Bank operates, along with achieving the national objectives within good governance.

Dr. Hussain Al-Abdullah
Chairman and Managing Director

31/1/2019