

Board of Directors' Report on Corporate Governance in Masraf Al Rayan 2010

There has been great interest in corporate governance in the last few years, for which international organizations have set new criteria considering it the ideal system which will allow for better governance and control of any corporation through the principles and terms implemented by the management and Board of Directors in any institution.

In that, Qatar Central Bank and Qatar Financial Markets Authority issued corporate governance guidelines to all banks, financial institutions and companies listed in the financial market.

The Board of Directors at Masraf Al Rayan is committed to follow these guidelines as part of its commitment towards its shareholders and customers, being responsible of assuring the bank's financial strength, protecting the rights of the investors and depositors, keeping the financial statements transparent, accurate and credible as well as its commitment to comply with all the rules and regulations issued by other authorities in Qatar.

Board of Directors:

After amendments made during 2009 on the formation of the Board of Directors as a result of the resignation of Dr. Issam Janahi, former vice Chairman of the Board and the selection of Sheikh Al Hussain Bin Ali Bin Ahmed Al Thani as Vice Chairman and the appointment of Sheikh Nasser Bin Hamad Bin Nasser Al Thani as a Member of the Board in addition to appointing Mr. Turki Mohammad Al Khater as a Member of the Board to succeed Mr. Hamad Bin Abdullah Al Attiya upon the request of the General Retirement and Social Insurance Authority. The formation of Masraf Al Rayan first Board is as follows:

Name	Designation	Nationality	Joining Date
Dr. Hussain Ali Al Abdullah	Chairman & Managing Director	Qatari	4/1/2006
Sheikh Al Hussain bin Ali bin Ahmed Al Thani	Vice Chairman	Qatari	4/1/2006
Sheikh Saleh Ali Abdul Rahman Al Rashed	Board Member	Saudi	4/1/2006
Sheikh Nasser bin Hamad bin Nasser Al Thani	Board Member	Qatari	5/4/2006
Mr. Naser Hasan Al Ansari	Board Member	Qatari	4/1/2006
Mr. Turki Mohammad Al Khater	Board Member	Qatari	2/6/2009
Mr. Abdullah Ahmad Al Maleki	Board Member	Qatari	4/1/2006
Mr. Khalaf Sultan Al Dhaheri	Board Member	UAE	4/1/2006
Mr. Abdul Rahman Ali Al Saeed	Board Member	Kuwaiti	4/1/2006

The Board of Directors held six meetings during 2010 on the following dates:

First meeting: 25/1/2010
Second meeting: 12/4/2010
Third meeting: 31/5/2010
Forth meeting: 16/8/2010
Fifth meeting: 18/10/2010
Sixth meeting: 20/12/2010

Shari'a Supervisory Board:

Masraf Al Rayan Shari'a Supervisory Board members are:

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| - Sheikh Dr. Waleed Bin Hadi | President |
| - Sheikh Dr. Nizam Yaqoubi | Member |
| - Sheikh Abdul Sattar Abu Ghuddah | 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 2010 to the General Assembly at its meeting due to be held in March 2011.

Board Committees:

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

Executive Committee:

According to the Board resolution no 12/T/2009 dated 24/6/2009 the Committee members are:

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| - Sheikh Al Hussain Bin Ali Bin Ahmed Al Thani | President |
| - Mr. Turki Mohammed Al Khater | Member |
| - Mr. Naser Hasan Al Ansari | Member |
| - Mr. Abdul Rahman Ali Al Saeed | 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 them to the Board, raise recommendations and acquire its approval.

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 2010:

- First meeting: 25/1/2010
- Second meeting: 28/2/2010
- Third meeting: 12/4/2010
- Forth meeting: 11/5/2010
- Fifth meeting: 12/10/2010

Internal Audit Committee:

The Committee name was changed according to Board decision number 9/2/2009 dated 19/4/2009 from the Internal Audit Committee to become Internal Audit and Risk Committee. The Committee members are as follow as approved by the Board:

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| - Mr. Khalaf Sultan Al Dhaheri | President |
| - Sheikh Saleh bin Ali Abdul Rahman Al Rashed | Member |
| - Mr. Abdullah Ahmed Abdullah Al Maleki | Member |
| - Sheikh Nasser bin Hamad bin Nasser Al Thani | Member |

On 16/8/2010 and upon recommendation by the Committee, the Board of Directors adopted decision number 12/4/2010 approving to reassign the "risks"

functions to become the responsibility of the Executive Committee and to amend the Terms of Reference of the Executive Committee and the Internal Audit Committee in conformity to their responsibilities and adopt the new name “Internal Audit Committee” wherever mentioned.

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.

In cooperation with the Internal Audit Department, the Committee reviewed many relevant issues and has submitted their reports to the Board of Directors.

The Committee held the following meetings in 2010:

First meeting: 24/1/2010
 Second meeting: 12/4/2010
 Third meeting: 28/6/2010
 Fourth meeting: 17/10/2010

Remuneration and Compensation Committee:

It was formed in compliance with the corporate governance guidelines under the Board resolution No. 8 – 4/5/2009 of 16/11/2009 as follows:

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| - Sheikh Al Hussain bin Ali Bin Ahmed Al Thani | President |
| - Mr. Khalaf Sultan Al Dhaheri | Member |
| - Mr. Abdullah Ahmed Abdullah Al Maleki | 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.

The Committee appointed a coordinator on 11/1/2010, and defined the Terms of Reference for the Committee in addition to proposing controls for awarding bonuses to Directors and executive management

Moreover, the committee prepared chart for rewards, compensation and allowances to Masraf Al Rayan Board Members and put forward its recommendations related to the annual rewards for the Chairman and members of the Board and the senior management and established basis that determine the annual bonus for employees.

Nomination and Governance Committee:

Objectives:

Evaluate the nominees for membership in the Board of Directors and the executive management and submit recommendations concerning the nominees as well as evaluating the extent of the efficiency and effectiveness of the Board

of Directors in addition to giving directives concerning renewal for Board membership and replacing members.

Committee Formation

This committee was formed in compliance with the corporate governance guidelines according to the Board resolution number 12/2/2010 dated 12/4/2010 and it consists of:

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| - Sheikh Al Hussain bin Ali Bin Ahmed Al Thani | President |
| - Mr. Turki Mohammed Al Khater | Member |
| - Mr. Abdullah Ahmad Abdullah 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.
- Establishing an orientation program for new members, propose training programs for them as needed.

The Committee held a meeting on 12/10/2010 in which the following subjects were discussed;

- Adopt the Terms of Reference of the Committee.
- Appointment of Board of Directors' secretary.
- Discuss the election method (cumulative voting – and the established voting).
- Timetable for calling the elections and the election activities.
- Board committees and self assessment for the Board performance.
- Adopt orientation program for new Board members.

Policies and Development Committee:

Formation was amended according to Board of Directors' resolution number 9/4/2010 dated 16/8/2010.

Committee comprises of:

Mr. Naser Hasan Al Ansari	President
Mr. Khalaf Sultan Al Dhaheri	Member
Mr. Abdullah Ahmad Abdullah Al Maleki	Member

The Committee has the following responsibilities:

- Study, prepare and develop strategies.
- Review and set objectives.
- Study, prepare and develop policies.
- Study prepare and develop systems.
- Study, prepare and develop plans.
- Review budget.

The Committee pursued its obligations starting from appointing Committee coordinator and adopting Committee Terms of Reference then reviewed the following policies which were referred to it:

- Internal Audit Policy
- Corporate Governance Policy
- Anti Money Laundering Policy
- Credit Policy
- Personnel Policy

Moreover, the Committee discussed Masraf Al Rayan strategies and work plan for the coming five years (2011 – 2015) and submitted its recommendations the Board.

Additionally, the committee reviewed the matters referred from the Board again:

- Results of the reviewing of the Internal Audit Policy.
- Results of reviewing the Corporate Governance policy at Masraf Al Rayan.
- Results of reviewing Anti Money Laundering Policy.
- Results of reviewing the Credit Policy.
- Results of reviewing Personnel Policy.
- Results of reviewing the Whistle Blowing Policy.

The Committee held two meetings on 5/3/2010 and 17/10/2010.

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 approved this charter by resolution number 14/2/2010 dated 12/4/2010.

The charter dealt with shareholders rights, gave a presentation on the duties and obligations of the Board of Directors, duties of the Chairman and executive and non executive Members. It also discusses the subject of conflict of interests and

disclosure and showed in details the responsibilities of the Board of Directors' committees and frame of work and governance reports in addition to including signed declarations and undertakings by members of the Board.

Masraf Al Rayan Governance Charter was published on the internal intranet as well as on Masraf Al Rayan website to make it available for all.

Remuneration of the Board of Directors:

The Remuneration and Compensation Committee discussed the Board of Directors' bonus and that of the senior management and found that setting such bonus must depend on what is applied in the similar banks and institutions at the first place. Also, it must be connected with profit and achievements that the bank had realized during the fiscal year and comparing it with the results of previous years. Moreover, 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.

The Board agreed to the recommendation of the Committee and submitted its recommendations before the General Assembly who adopted the Board of Directors bonus for the year 2009 which did not exceed 0.68% form net profit which Masraf Al Rayan had realized during 2009.

List of Bonus, Fees and Allowances of members of the Board of Masraf Al Rayan:

The Remuneration and Compensation Committee recommended that the List of Bonus, Fees and Allowances for Board Members be adopted. The Board had agreed to this List and it was endorsed by the Masraf Al Rayan General Assembly in its meeting held on 8/3/2010.

The List included a presentation to regulations on which the List was based and the Board of Directors resolutions in that regard and the basis on which bonus for the Board of Directors and senior management are based while this chart is being updated annually by the Remuneration and Compensation Committee and it will be presented before the Board for final approval prior to submitting before the Ordinary General Assembly meeting for adoption.

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.

On 12/10/2010 and according to the recommendation of the Policies and Development Committee the Board adopted the following updated policies:

- Internal Audit Policy
- Corporate Governance Policy
- Anti Money Laundering policy
- Credit policy
- Personnel Policy
- Whistle Blowing 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.

According to the Board of Directors resolution number 6/3/2010 dated 31/5/2010, the Board endorsed, after making the required amendments, the new limits for the banks and countries for Masraf Al Rayan for the period extending from 1/6/2010 to 31/5/2011 in compliance with the regulations of Qatar Central Bank.

Internal controls, including supervising financial matters, investments and risk control:

The staff of the internal audit, compliance and risk management form 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.

Moreover, the activities of Masraf Al Rayan are entirely subjected to controls set by policies which the Board of Director would adopt and these policies include the following:

- 1- ALM & Treasury Policy
- 2- Credit & Risks Policy

- 3- Internal Audit Policy
- 4- Financial Policy
- 5- Investment Policy
- 6- Personnel Policy
- 7- Corporate Governance Policy
- 8- Whistle Blowing Policy
- 9- Anti Money Laundering Policy

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 the 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.

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.

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.

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

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 par 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 followings:

- 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

A) 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.

B- 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 direction of percentage of financing to asset and percentage of each type of credit to financing portfolio or equity.
- 4- Determining types of collaterals, its mechanism of evaluation, the approved professional agents which conduct the evaluation, its financing to collateral value (FTV) and taking precautionary steps to protect the

bank against any risk such as obtaining property insurance and periodical evaluation of these collaterals.

- 5- Establishing rules for granting facilities to Bank's main shareholders, Board members, senior management members, Bank's staff, and their relatives. This is in addition to implementing rules for: approving granting credit facility; obtaining information and documents which are mandatory for finance granting and credit authorities, as well as establishing rules for independent credit review, and rules for credit rating and allocating provisions.
- 6- 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.
- 7- Specifying risk degrees agreed by the Bank's Board for financing deals in general.

C- Implementation of sound measures to determine credit risks:

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

- 1- 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 internal credit rating system.
- 2- The legal eligibility of the applicant to honor his/her commitment.
- 3- Knowledge of the customer's reputation, experience, market share (industry share) and purpose of the requested facility.
- 4- The nature of the current and future risks of the credit applicant, industry, and sensitivity to the economic developments and the relation between profit and risk.
- 5- Source of repayment and customer's commitment to settle previous debts and type of the acceptable collaterals.
- 6- Analysis of customer's financial position based on updated audited financials.
- 7- 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.

- 8- Establishing credit limit caps which can be extended for equity on one obligor level, group level and inter- related relations level as well as those with overlapping interests.
- 9- Conducting stress-testing on regular basis to review the applied regulations to face up the deep and unexpected changes in the market.
- 10- Currently, the Bank is in the process of establishing a corporate risk system and the Credit Bureau system. These systems will be applied in 2011 for corporate financing as well.

D- 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 a 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.

E- 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.

Each quarter, Credit Risk Division conducts an independent review and audit on all financing exposure/portfolio, its status, credit concentrations and industry performance, and escalates recommendations, in case of any, to Senior

Management to take the necessary steps. The Credit Risk Division, also follows up all credit facilities and increase in limits and audit the performance of the portfolio on regular basis in order to detect any cautious alerts or indications in order to take the necessary actions in the right time. Moreover, the Committee reviews non –active facilities, risk rating based exposures and makes recommendation, in case of any, to the Board.

Credit Administration is an independent unit whose task consists of reviewing credit approval conditions, collaterals, facilities agreements, and limit activation. The function of this unit is always constant and 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 monitor 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 clarifies 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 **OPEX** 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 is engaged the reported risk incident dealing with operational risk issues related to their department/s.
- The OP risk coordinators will lease with Ops 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, brain-storming 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. In MAR controls and programs are in place that has the potential 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 2010 in terms of Information Security:

- BS ISO/IEC 27001 certification successful completed
- Internet Banking Monitoring Project completed
- VISA Card Self-Assessment Questionnaire completed and submitted

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 Ops Department.
4. Head of Operational Risk shall review the incident and liaise with the Head of concerned Dept. 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 department, Operational risk departments submit quarterly reports such as Operational risk report, Loss data reports and risk register events to higher 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.

Dr. Hussain Ali Al Abdullah

Chairman and Managing Director