



Corporate Governance Report 2012



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Chairman's Foreword

Dear QNB Group Shareholders,

Greetings,

According to the requirements of the Corporate Governance Code issued by Qatar Financial Markets Authority on 27 January 2009, we issued the Annual Report of Corporate Governance 2012 of QNB Group to be viewed as the basis of a new phase of comprehensive governance. At the same time, it will boost the movement of QNB Group towards new horizons of commitment to the highest Corporate Governance requirements in line with the aspirations of the Group to achieve a remarkable position regionally and globally.

Believing that the objectives of sound Corporate Governance improve the Bank's performance, develop customer relationships and upgrade the existing and potential investors' confidence are an integral part of our vision. Therefore, we have carefully integrated them in our work strategy as a major factor to enhance confidence in QNB Group and ensure its success and sustainability. This also reflects the Board's continuous efforts to adopt international best practices to promote transparency, disclosure and a governance culture within QNB Group, in addition to strengthen the level of compliance with local and international regulations and laws.

During the year 2012, a pragmatic business plan was adopted to promote the implementation of Corporate Governance principles by setting up clear objectives at departmental level to reflect the adoption of the best international standards and the willingness to integrate a Corporate Governance culture in the day-to-day work of individuals, departments and, comprehensively, on the work of the whole group.

Since sound Corporate Governance is the basis of the success and continuity of the Group, through mutual efforts of the Board of Directors, Executive Management and employees, we have focused during the year 2012 on the most effective techniques used by international financial institutions to reduce their vulnerability and exposure to financial crisis through the adoption of the best practices in various fields. Fostering Corporate Governance and a compliance culture was on the top of these practices, since it contributes to the financial stability in the banking sector. This was reflected by allocating the appropriate resources to guide, train and monitor staff while implementing these practices across administrative levels and in line with the international laws and regulations applicable in this field.

By issuing the present report, we would like to emphasise our commitment to endorse all international best practices related to the principles of Corporate Governance as framed out by Basel Committee, the International Network for Corporate Governance, the Organisation for Economic Cooperation and Development, the International Chamber of Commerce and other relevant international institutions. We also appreciate the initiatives of Qatar Financial Markets Authority in this area, which became an active partner in achieving financial stability and excellence of financial institutions in the State of Qatar, which relies mainly on the ability to keep up with sound international practices in the areas of Corporate Governance.

Sincerely,

Yousef Hussain Kamal
Chairman

1. Introduction

QNB Group considers sound Corporate Governance as a key factor to enhance the image of the Group, both locally and internationally, through a commitment to Corporate Culture that motivates directors, managers and employees to maximise operational efficiency and comply with sound principles of conduct, by ensuring high returns on investment and long term productivity growth.

1.1 Objective

The Board of Directors (BOD) and Executive Management believe that Corporate Governance is an essential element to enhance shareholders' trust, specifically minority shareholders and stakeholders, by increasing the level of transparency of the ownership and control, and the implementation of effective monitoring systems for strategic business management. Hence, all necessary efforts were combined to create awareness of the importance of Corporate Governance within QNB Group.

1.2 Commitment to Comply with Corporate Governance

The BOD, Executive Management and Officers commit themselves to the governance principles and best practices as detailed in the Group Corporate Governance Manual, in order to achieve the Group's objectives. Periodically, the Board ensures that QNB Group complies with the principles of Corporate Governance, reviews and updates the professional codes of conduct for the purpose of updating its governance practices. The Board also promotes the institutional values, policies and other internal procedures that apply to all members of the BOD, Executive Management and staff of the Group.

1.3 Application of Corporate Governance Principles

To ensure the proper application of the principles of sound Corporate Governance, as stipulated in the guidelines issued by Qatar Central Bank (QCB) and the Corporate Governance Code issued by Qatar Financial Markets Authority (QFMA), QNB Group's BOD has approved the application of a comprehensive set of Corporate Governance policies and procedures within QNB Group. This assures that obvious vigilance is exerted by the BOD and Executive Management, as this is compatible with the legal and regulatory requirements and reflects the real orientation to comply with the international standards developed by the Organisation for Economic Cooperation and Development,

recommendations of the Basel Commission, the International Network for Corporate Governance, International Chamber of Commerce and other international institutions.

The roles and responsibilities of the BOD are segregated from the functions of Executive Management, whereby the Board assumes the overall supervision of the Group and provides strategic direction through the approval of the strategic initiatives, policies and objectives, while the daily affairs of the Group are carried out by the Group Chief Executive Officer.

2. The Scope

Based on the Corporate Governance project that has been applied in QNB Group since 2007, which included nine integrated and interrelated phases to achieve the proper application of such a project, taking into consideration the laws and regulations issued in the State of Qatar, specially the instructions of QCB and the Law Number (33) for the Year 2006, the project included at that time the application of comprehensive measures of governance and contained the preparation of overall policies, procedures, manuals, organisational structure and accurate job descriptions, the determination of the powers and responsibilities, the internal and external reporting requirements and the roles, responsibilities and charters of the BOD and its committees as well as the roles and responsibilities of the management committees of the Executive Management.

In this context, the annual Corporate Governance report submitted to QFMA aims to ensure a transparent disclosure of the governance practices applied by QNB Group, which embodies the values of the Group and the policies that all parties must abide by. The report includes the capital structure, control, shareholders' rights, equality, development of the Charters of the BOD and its committees systems, related parties' transactions policy, rotation, and the periodic review of the principles of professional conduct, in order to ensure the application of best professional practices that meet the needs and objectives of QNB Group.

3. QNB Group Achievements during 2012 to Strengthen Corporate Governance Approach

The focus of the Board of Directors of QNB Group to raise and improve the performance of the Bank generally is reflected in applying sound Corporate Governance as a critical and integral part of the culture of the Bank together with the daily and strategic practices. This was reflected through the continuous focus of the Board, to promote transparency and disclosure in addition to enhance the Corporate Governance culture and institutional compliance within QNB Group.

The results of continuous efforts made during 2012 to integrate concepts of Corporate Governance were, among others, the adoption of international best practices and disclosure of appropriate information. Consequently, the Bank's organisational structure was updated to enhance the level of effectiveness of internal controls. Focus was also exerted on training and updating of the succession plan as well as introducing a number of new automated systems.

The level of compliance with domestic and international laws and regulations was also enhanced in addition to many other elements that, all together, contribute to raising the performance of the Bank and the enhancement of good Corporate Governance in the Group.

Below, we highlight the most important achievements related to Corporate Governance framework during 2012:

3.1 Board Level Achievements

In order to consolidate the adoption of the Corporate Governance concepts at the Board level, all Board Members have filled out the individual and collective self assessment form which reflects the effective involvement of the Board Members in their Fiduciary Duties and commitment to comply with Corporate Governance rules. The code of conduct was also reviewed including the Charter of the Board of Directors and the related committees.

3.2 Disclosure and Transparency

In compliance with the requirements of the QFMA, capital structure and control are disclosed in this report. Moreover, in order to enhance transparency, the Board Charter, Financial Reports, Corporate Governance Report and the Corporate Governance Manual are published on the Bank's website.

3.3 Updates to Organisational Structure and Succession Plan

In line with the Bank's expansion strategy, a comprehensive project of organisational restructuring was successfully implemented during 2012 to accommodate the Bank's domestic and international framework. Modern models of organisational structures were applied across all business and support functions, which will enable the Bank to implement the strategic five-year plan (2012-2017) and contribute to the realisation of the Bank's vision to become one of the major banks in the world.

The organisational structure amendments were implemented particularly in mid and low management levels and approved by the Board of Directors based on the proposal of the Executive Management in order to enhance the performance, internal control and quality assurance.

The Executive Management has also developed a group wide shared services centre for translation within the Group Strategy division to meet the needs of the Bank's sensitive business and to develop effective communication within and outside the Group. This will impact positively on the performance of the Group in its internal and external environment.

A booklet was also issued to provide important and financial information about the Bank. This booklet presents QNB in a standardised and professional way towards its external stakeholders and interested parties. Also, a semi-annual conference is now planned to review the achievements and update on QNB's progress to become an Icon and develop a global banking structure.

In addition, the strategic succession plan and leadership development program were consolidated by implementing several tools to enhance the skills and abilities of talented employees in order to prepare them for leadership positions in the Group. During 2012, (94) Managers and Supervisors have been enrolled in Management Development Programs (MDPs) in association with international training institutions. Some leadership appointments were made during the year 2012 to coincide with the Group's strategic vision.

3.4 Training and Development by 2012

QNB Group has created a new “purpose-built” internal training centre fully equipped to support the bank’s people vision and staff development strategy. The centre offers over (1,000) skills development training programs in a variety of disciplines with the association of (23) international institutions specialised in training and development. The programs focus on compliance and risk management, auditing, financial control, credit policies and business continuity.

Through 2012, over (3200) staff, almost 75% of the workforce of the group, were trained in various fields, (1270) out of them were trained in the compliance and anti-money laundering /combating the financing of terrorism fields, and (192) staff were trained on a number of internal procedures and policies manuals.

According to best practices in strengthening relations between the institutions and their staff, the Human Capital Department developed a questionnaire in association with one of the international companies specialised in this area for measuring “engagement and employee satisfaction” to benchmark with similar companies in the GCC States and other international companies. The results show that the engagement and employee satisfaction index of QNB Group staff has reached a higher level than peer banks operating in the State of Qatar and the other GCC countries, and compared favorably with international banks.

3.5 Risk Governance

In order to enhance “Risk Governance” while strategic growth initiatives are materialised, the organisational structure of Group Risk Management has been modified significantly. The new risk organisation plan was introduced during 2012, by including more specialised risk management roles having a clear tactical and strategic mandate. This has resulted in providing a comprehensive strengthened base, improving risk identification, measurement and management processes across the Group.

Group Risk has also introduced an extensive plan for reorganisation “Risk Culture” through identifying (8) major programs for “change management”. Some of these are still under implementation, while other programs are expected to be completed during the next few years. The Board of Directors and Executive Management expect risk culture to improve progressively over the planned time periods,

to include all levels of management. These programs focus on providing a sound basis and further strengthen overall risk measurement, and control capacity at domestic and international branches as QNB Group achieve its strategic targets.

Some initiatives have been achieved in the area of risk governance during 2012, specifically completion of an upgraded portfolio management framework and risk dashboard reporting to the BOD & Group Risk Committee. Several new systems have been implemented, such as risk & capital sensitive metrics, especially the new RAROC methodology (based on Basel F-IRB approach) and the new Corporate Rating and Portfolio Management and Moody’s Risk rating system . These concepts are expected to evolve into a sophisticated risk budgeting processes providing the Risk Committee and the Board of Directors with greater ability to control risk appetite, capital allocations and active monitoring of strategic targets.

In addition, delegation authorities and other parts of credit and risk policies were upgraded to align with new business challenges. The regulatory risk management approach was reviewed, particularly in the context of Basel III “Liquidity Risk Ratios,” and relevant computation and reporting processes introduced. The Group Risk Committee and the Risk Management Team successfully liaised with regulators in the host countries, as well as some international entities, to develop relevant and locally applicable rules for these liquidity ratios. Efforts on other components of Basel III are ensuing. These efforts are supported by the QNB Risk Governance mandate and backed by a complete management (Group Risk Department).

The Operational Risk Control and Management Department has taken a few leaps forward with implementing data security systems, improved BCP infrastructure and disaster recovery sites. The same risk governance impetus is scheduled to continue in line with the continued implementation of the plan of QNB group business strategy until 2017.

3.6 Internal Control:

A. Internal Audit

In order to strengthen the independence principle and in order to be in line with international standards, Group Internal Audit has undertaken a (Quality Assessment) project for Internal Audit Activities, which is performed once every five years by the Institute of Internal Auditors Inc, USA, (IIA) as an

independent party to implement this vital project provide advice and guidance for the development of audit tools and techniques, in line with the needs of QNB Group.

The report of the External Quality Assessment of the Institute has confirmed QNB’s continued adherence to standards and practices on the internal audits issued by the Institute. The Institute specifically lauded our robust audit follow-up system, reporting methodology and registration of “residual risks” with the Risk Committee. QNB is classified as “conforms” [to standards] category, which is the highest rating of the Institute.

B. Compliance

The year 2012 was marked by many initiatives and pragmatic steps initiated by the Group Compliance Department to enhance the application of the principles of Corporate Governance and Institutional Compliance. The purpose was to support Executive Management and the Board of Directors in the consolidation of Corporate Governance concepts and meet the Group legal and regulatory requirements as well as identify and assess the compliance risks of related business activities of the QNB Group.

Below is a brief of these initiatives:

- Fostering Institutional Compliance Culture

As part of the efforts of fostering the Institutional Compliance culture, the Corporate Governance Manual was published to be the basis of governance practices applied in the Bank at different management levels and emphasise the importance of adhering to them. The benefits and importance of Corporate Governance were defined in the manual in addition to the roles, responsibilities and composition of the Board of Directors and its committees as well as the management committees of the Executive Management.

The Group Compliance Department has also issued guidance booklets to promote the culture of Corporate Governance, Compliance Principles, whistle-blowing, disclosure of conflict of interest and the concept of “Chinese walls”.

- Contributions to Bank’s Expansion Strategy

In line with the Bank’s expansion strategy, Group Compliance performed a series of studies and

effectively participated in several evaluation processes of the potential acquisition of financial institutions. The evaluation was focused on the compatibility of Corporate Governance, Compliance and Internal Control practices, the comparison of practices with QNB Group standards, and the assessment of their policies and procedures.

- Enhance Compliance with International AML/CFT Requirements

In order to strengthen compliance with international requirements related to Anti - Money Laundering and Combat of Terrorism Financing issued by the Financial Action Task Force (FATF) as well as domestic regulations issued by the Central Bank of Qatar and Qatar Financial Markets Authority, QNB Group has implemented one of the best global systems in this field. This system helps, with high efficiency, in detecting suspicious transactions as well as profiling the business relationships with customers.

In addition, Group Compliance prepared a special study on the new FATF recommendations issued during 2012, where the new recommendations have been clarified and the necessary action plans were performed to implement them across the Group. The significant new recommendations issued by the FATF require the identification of the actual beneficiaries and owners of remittances in addition to the implementation of appropriate measures to control the risks of Politically Exposed Persons (PEPs) and high risk customers; noting that QNB Management has already implemented a clear policy to deal with PEPs.

- International Sanctions

Guidelines for Trade Finance Operations were also issued and a clear policy was established for dealing with the International Sanctions imposed by many important international Organisations and Governments. The policy helps to identify and control risks in order to avoid the risk of damaging the Bank’s reputation and financial penalties resulting from failure to comply with these programs. An advanced training was also provided to Trade Finance Operations and Central Operations Department staff members on how to deal with international sanctions.

- International Regulations

Group Compliance developed a detailed action plan based on the USA Foreign Accounts Tax Compliance Act (FATCA) reflecting the compliance requirements. The plan includes detailed mechanisms for implementation of all stages of law locally, as well as at the international branches, subsidiaries and affiliate levels. Moreover a detailed internal presentation was prepared regarding the implementation requirements to advise the Executive Management and the concerned departments. In addition, the Members of the Board of Directors were also provided with a presentation to clarify the law and its requirements, and the practical steps to comply with.

- Enhance the Consolidated Supervision

On a constant basis, the concept of consolidated supervision is being enhanced to meet the Bank's expansion strategy. The requirements of the Central Bank of Qatar are being considered in order to strengthen the control on overseas branches and subsidiaries of the Group to serve the Corporate Governance framed out by QCB. This is achieved by ensuring adequate representation on the Board of Directors of the subsidiary to enable control of the Board decisions. In addition to ensure adoption of the same Corporate Governance approach, particularly in respect of the composition of the Board Committees and ensuring the independence of the Internal Auditors and Compliance Officers. The requirement of QFMA for the administrative segregation between the Bank and its affiliate is considered as well.

- Enhance Internal Control Tools in Overseas Branches and Subsidiaries

During 2012, the internal control tools in overseas branches were also enhanced by ensuring the timely update and the development of their related internal policies and procedures as well as their effectiveness. Several visits to overseas branches and subsidiaries were conducted by the Group Internal Audit and the Group Compliance in accordance with Qatar Central Bank requirements to check the efficiency of the internal control systems and ensure compliance with regulatory requirements of the host countries as well as the requirements of QCB to detect any deviations and correct them as appropriate.

3.7 Customers Protection

In order to enhance the relationship with stakeholders, particularly the current and prospective customers, QNB has set appropriate means to create a separate and dedicated unit for Complaints Management. The unit will be responsible for the preparation and implementation of several advanced mechanisms to receive complaints from customers and related parties of the Group, such as shareholders, investors and suppliers of services, and resolve them as soon as possible.

In addition, practical steps were taken to enhance the confidentiality of customers' and related parties information, in order to reduce the conflicts of interest and insider dealings by applying new mechanisms restricting the access to information or data to the relevant departments/users. Electronic controls to prevent any illegal intrusion were implemented through the application of (Need-to-Know Basis) principle.

3.8 Social Responsibility

As the QNB group is interested in contributing effectively to Qatari Society activities and the environment, several social activities that directly contribute to the development of the individual and the community were sponsored in the fields of culture, arts, health, humanitarian, environment, sports and education. In addition to Economic Affairs and participation in local and regional seminars.

4. The Board of Directors (BOD)

The BOD monitors and guides QNB Group strategy through the review and approval of the various Group policies, including the investment and credit policies, whether originated directly by the BOD or through the Board Committees, to ensure the adherence to specific standard limits in order to minimise the Group's risk exposure.

The BOD also ensures that QNB Group adopts a number of policies and rules that include the functions and responsibilities of the Board, along with defining the duties of its members. These policies and rules are developed in compliance with the provisions of applicable laws, with the possibility of being amended from time to time. The BOD also administers the development and implementation of the code of conduct for its members, explaining their roles and responsibilities and establishing the principles of ethical behavior. The Board Charter was published on the Bank's website on the Internet.

The BOD meets at least six times a year to review and approve the annual budgets, capital expenditures and business plans. Moreover, the BOD regularly monitors the Group's progress towards achieving its strategic goals and objectives, and recommends the necessary adjustments where applicable. As part of its duties, the BOD also ensures the implementation of an internal control system, including risk management, internal audit, compliance and financial control.

4.1 Board Composition

In conformity with QNB Group Articles of Association, (10) Members of the BOD are elected or nominated for three years renewable for the same period. During the General Assembly, which was held on 7 February 2010, (5) Members of the BOD from the private sector were elected. Following this meeting, Qatar Investment Authority (QIA) appointed the other (5) Members. The term of the current Board expires in February 2013.

Members of the BOD have the requisite expertise and management skills that qualify them to conduct their duties towards the Bank's best interests. Board members are selected according to the criterion of "the right person in the right place", taking into account the efficiency and competence of the Members. They are also committed to investing the required amount of time and attention towards the accomplishment of their duties for the duration of their tenure.

In order to preserve the principle of transparency in the nomination for Membership of the BOD, and in order to ensure the rights and interests of all shareholders to stand for the Board Membership process by the direct election of the General Assembly without exclusion or deprivation, the BOD maintains strict and direct supervision over the nomination and election process and does not delegate such tasks to any of its committees. Nominations and appointments are made in accordance with an approved mechanism to accept candidates in line with QCB requirements. Moreover, for this specific purpose, the BOD has adopted a clear policy in light of international professional and technical standards to measure the eligibility of individuals to apply for Board Membership.

4.2 Board Members' Fiduciary Duties

Each Board Member owes the Bank the fiduciary duties of care, loyalty and compliance with the rules set out in related laws and regulations including QCB Corporate Governance Guidelines, QFMA Corporate Governance Code and the Board Charter. Board Members act at all times on an informed basis, in good faith, with due diligence and in the best interests of the Group and all shareholders and act effectively to fulfill their responsibilities towards QNB Group.

4.3 The Chairman of the Board

The Chairman is responsible for heading the Board of Directors meetings and ensuring the proper functioning of the Board; in an appropriate and effective manner including timely receipt by the Board Members of complete and accurate information. In addition, to approve the agenda of every meeting of the Board of Directors taking into consideration any matter proposed by any other Board Member; this may be delegated by the Chairman to a Board Member but the Chairman remains responsible for the proper discharge of this duty by the said Board Member. The duties of the Chairman, in addition to the provisions of the Board Charter, also endeavours to encourage all Board Members to fully and effectively participate in dealing with the affairs of the Board of Directors for ensuring that the Board of Directors is working in the best interest of the company in addition to ensure effective communication with shareholders and communication of their opinions to the Board of Directors.

4.4 Independent and Non-Executive Board Members

QNB Group's BOD is composed of (10) Members all of them are Non-Executive Members, out of them (6) are Independent Members. Moreover, none of the BOD members assumes executive responsibilities and no member holds a full-time or part-time job with the Group in accordance with QFMA Corporate Governance Regulations. The BOD has completed the evaluation of the Board's performance as well as the performance of its members as a whole using the self-assessment and group-assessment criteria in the evaluation. An induction program was put in place for new Board Members in order to ensure they have proper understanding of the manner in which the bank operates.

4.5 Board Secretary

The BOD has appointed a Secretary of the Board who is entrusted to record, coordinate and register all Board's meetings, in addition to keeping custody of records, books and reports sent and received by the Board. The Secretary's functions also include the distribution of information and coordination among Members of the Board and between the Board and stakeholders within the Group, including shareholders, Executive Management and staff, and to ensure the timely access of Members of the Board to all minutes of meetings, information, documents and records relating to the Group.

Mr. Mohamed Mahmoud Muslim Arar - Secretariat Management Diploma- is the Secretary of the Board of Directors since 1990. He has previous experience in banking and secretarial work, as he has been a member of the Bank since 1974 in the Current Accounts Department of the Bank, then moved to Credit Facility Management in 1980. He was appointed as Office Manager of the Group CEO in 1988.

Mr. Ghanem Hasan Al-Hail – Bachelor of Law, is the Deputy Secretary of the Board of Directors. He is the Head of the Legal Department of the Bank since 2008 and has previous experience of six years at the Ministry of Civil Service and Housing.

4.6 Board Meetings

The BOD meetings are held regularly or when invited by the Chairman or by two Board Members, according to QNB Group's Articles of Association. The invitation for the Board meeting should be communicated to all members at least one week prior to the meeting. In this regard, any member can add a

subject to the meeting's agenda. The Group's Articles of Association also provide detailed information on the attendance, quorum, voting and meeting requirements. The Board should periodically meet in order to ensure it is adequately fulfilling its roles and responsibilities. The requirements of the article (104) of the commercial companies law number (5) of the year 2002 is also considered where as any absence of any member for three consecutive meetings of the Board, or non-consecutive five meetings without any acceptable excuse by the Board, the member shall legally be considered as resigned. The Board should hold at least six meetings during the year. In 2012, the BOD held *six* meetings.

The Article (117) of the Commercial Companies' Law states that "the General Assembly is entitled to dismiss the Chairman or any elected member based on the recommendation made by the Board of Directors with absolute majority or based on the request signed by shareholders who own a minimum quarter of the underwritten shares in the capital. In the latter case the Chairman must convene the meeting of the General Assembly within ten days from the date of dismissal; otherwise, the concerned department – in the Ministry of Business and Trade – will address an invitation for the meeting".

4.7 Board Committees

To appropriately perform their duties, the BOD is assisted by three specialised committees composed of Members of the Board that report directly to it and perform functions on its behalf and improve its efficiency. The Chairman of the Board of Directors shall not be a member of any of these committees. These committees include the Group Executive Committee, Group Audit & Compliance Committee, and Group Policies, Development, Governance & Remuneration Committee.

The following is a summary on the composition, duties and the working mechanism of these committees:

- Group Executive Committee

The Group Executive Committee is composed of four Board Members; one of them is selected by the BOD as Chairman of this Committee. The Group Chief Executive Officer attends all meetings, without voting rights.

The Group Executive Committee reviews overall credit and investment exposures, and approves credit facilities exceeding the authorised ceiling set for the Executive Management up to the Committee's limit

as delegated by the Board. The Committee reviews, on a quarterly basis, the status of litigation matters and recommends action to be taken on impaired loans. The Committee also oversees and approves corporate social responsibility expenditures. The Committee held *five* meetings during the year 2012.

- Group Audit and Compliance Committee

The Group Audit and Compliance Committee reviews the Financial Statements; ensures effectiveness of the Internal Control and the performance of Internal Audit, External Audit, Compliance, Combat of Money Laundering and Terrorist Financing within the QNB Group. For the purposes of confirming the adherence to transparency and independence principle, the Internal Audit and Compliance Divisions report directly to the Group Audit and Compliance Committee whereas the Chiefs of both the Audit and the Compliance are responsible to submit reports and observations to the Committee on a quarterly basis and as needed. The Committee held *eight* meetings during the year 2012.

- Group Policies, Development, Governance & Remuneration Committee

This Committee develops the long-term strategy of QNB Group. It ensures the annual business plans and budget are in line with the long-term strategy by monitoring the quarterly performance of the Group. The Committee is also entrusted with the development and promotion of business activities, products and services and the allocation of resources across the Group, along with marketing and communication plans.

On a periodic basis, the Committee reviews and assesses changes in the local and international Corporate Governance practices and recommends improvements to the Board. The Committee also reviews group-wide policies and provides recommendations prior to final approval by the Board. The Committee also forms the QNB Group's remuneration policy including that for the BOD and Executive Management, through a framework and policy to be approved by the Board. The Board's remuneration is approved by shareholders at the annual General Assembly meeting, which has the sole right on such a decision based on the Board's proposal. The Committee held *five* meetings during the year 2012.

5. The Board of Directors and the Executive Management Members' Remuneration

In accordance with Commercial Companies Law Number (5) for the Year 2002, and its subsequent amendments, as well as Qatar's Central Bank Law Number (33) of the Year 2006, QNB Group adopted a special remuneration policy for the BOD in line with the said regulations, whereby the Group's Articles of Association has established a framework for the Board Members' remuneration which is far below the limits referred to in the Commercial Companies Law. During the General Assembly held in February 2010, the remuneration policy of the BOD Member was duly acknowledged to be in line with QCB instructions for the year 2010, by which a mechanism regarding the remuneration policy dedicated to the BOD Members should be presented on a yearly basis to the General Assembly for approval.

The said mechanism includes the following elements:

- Presentation of the BOD remuneration to the General Assembly for approval on a yearly basis.
- The remuneration will include all allowances, fees and benefits.
- The remuneration has to commensurate with the efforts exerted by the BOD Members in the development of QNB Group's profit and their contributions as per the approved mechanism.
- The calculation of remuneration will be a percentage of the profits not exceeding 0.5% of the annual profits.
- The Board's remuneration is treated as expenses (deductible from the profits).

With regards to the Executive Management, Group Policies, Development, Governance & Remuneration. The Committee defines a specific policy for remuneration of the Executive Management before presenting it to the BOD for approval. The policy draws down a mechanism where by the remuneration is tied to performance for each employee, through their achievement of the tasks assigned to them and in accordance with the profitability, risk assessment and the overall performance of QNB Group.

6. Executive Management

In accordance with the Corporate Governance Code of QFMA, article (7) and the Corporate Governance Guidelines issued by QCB, in order to ensure the separation of powers between the Chairman of the BOD and the Group Chief Executive Officer (GCEO), the BOD has given this aspect due attention and has adopted a clear policy since the establishment of the Bank with a complete segregation between the duties of Chairman of the BOD and the GCEO.

In line with this policy, the day-to-day operations of the Group are managed and presided over by Mr. Ali Shareef Al-Emadi as GCEO for the QNB Group, a position he was assigned to since August 8th, 2005. He is assisted in his duties by a specialised and highly qualified team from the Executive Management. Four Executives report directly to the GCEO: The Executive General Manager – Chief Business Officer; the Executive General Manager - Chief Operating Officer; General Manager – Chief Risk Officer; and General Manager - Chief Financial Officer. Two other Executives, appointed by the Group Audit and Compliance Committee, responsible for generating reports and reporting on violations and concerns to the Committee and GCEO are the Group Compliance Officer and the Group Chief Audit Executive.

Executive Management of the QNB Group is fully aware of its role on governance, through its commitment to implement the legislative requirements and the BOD's instructions in a way to strengthen the control environment in the various processes and banking activities. This includes determining the deviation from the objectives, ensuring the convergence of operations to achieve the desired goals and implementing corrective actions when required. Executive Management is also committed to assess the behavior of individuals and organisational units through the development of effective internal controls, which enhance the monitoring of business performance and risk measurement. In addition, soft controls have been implemented, such as incremental audit checks, segregation of duties, and restriction of powers, in addition to the implementation of ceilings on all banking operations through the adoption and monitoring of an authority matrix.

The GCEO relies on a number of multi-function internal committees in the execution of his functions. Based on the Corporate Governance Project that the QNB Group implemented since 2007, nine specialised committees were formed. The Committees' meetings are authenticated if a quorum of majority of the Committee Members at least attended, including the Chairman of the Committee or his deputy. If any member is absent, a representative must be nominated to attend the meeting. Where a majority of the attendees votes are the norm for decisions, the vote of the Chairman of the Committee

has to prevail in case of a tie, with the exception of the Group's Credit Committee where unanimous decisions are required, and any suggestion that is not approved by all the members is denied.

In addition, the GCEO presides over the Crisis Management team which includes the GM - Chief Risk Officer as Vice President and members from the various divisions of the Bank. The Crisis Management team addresses issues that may affect the QNB Group reputation, customers trust, financial matters, and operation failures in some preset scenarios. A summary of the tasks of the various committees is highlighted below:

6.1 Group Risk Committee

The Group Risk Committee is headed by the GCEO, with the General Manager - Chief Risk Officer as the Vice Chairman. The Committee also includes the Executive General Manager – Chief Business Officer, Executive General Manager – Chief Operating Officer, General Manager - Chief Financial Officer, Assistant General Manager – Chief Credit Officer and Executive Manager Operational Risk. The Group Chief Audit Executive and Group Compliance Officer attend the meetings as required observers. The Head of Operational Risk acts as Secretary for this Committee.

The Committee meets at a minimum every two months provided that the majority of the Committee Members at least attended including Chairman of the Committee or his deputy. The decisions taken are by majority of the attendees, with the Chairman vote deciding in case of a tie. The committee held *six* meetings during 2012.

The Group Risk Committee establishes, implements and monitors QNB Group's risk management strategy and defines risk policies. It reviews the processes and control framework for the management of risks and defines related roles and responsibilities across the QNB Group. The Committee also monitors risk management activities from several perspectives: operational, credit, market, strategic, legal and reputational. The review of the Committee's policies and supervision of its activities falls under the responsibilities of the Board.

The Committee reviews compliance with policies and procedures, audit recommendations, regulatory requirements, including combating money laundering and counter terrorist financing requirements. It also implements and manages the Crisis Management Plan and framework and provides strategic direction during a crisis, including the management of external communications - liaising with media, regulatory authorities, emergency services and government agencies.

6.2 Group Credit Committee

The Group Credit Committee is headed by the GCEO, with the General Manager - Chief Risk Officer as the Vice Chairman. The Committee also includes the Executive General Manager – Chief Business Officer, General Managers of Corporate Banking and International Banking, Group Chief Credit Officer and the Executive Manager Centralised Credit Risk. The Credit Analyst of the Centralised Credit Risk department acts as Secretary for this committee.

The Committee meets at least every month provided that a majority of the Committee Members at least attended including Chairman of the Committee or his deputy. The decision consensus is unanimous. Any proposal not supported by all members present is rejected. The Committee held *forty five* meetings during 2012.

The Group Credit Committee reviews, recommends and implements approved credit policies and procedures relating to all corporate and financial institutions across the Group. The Committee also reviews and recommends the investment strategy, policies and procedures to the Group Executive Committee and BOD.

The Committee reviews the delegated authorities related to credit and investments and recommends amendments to the BOD where appropriate. It also escalates its decisions to the Group Executive Committee of the BOD credit facilities which exceed its authority.

The Committee also assumes the responsibility to review and approve the range of investment products across the Group and approves acceptable brokers/dealers and custodians for the Group. It also monitors and reviews the performance of all the investment portfolio activities. In addition, the Committee monitors and reviews country risk exposures, for compliance with the approved investment limits and ratios. The Committee also provides investment and credit risk reports to the Board as and when required.

6.3 Group Asset and Liability Committee

The Group Asset and Liability Committee is headed by the GCEO, with the General Manager – Chief Financial Officer as the Vice Chairman. Other members of this Committee include the Executive General Manager – Chief Business Officer, General Manager – Chief Risk Officer, General Managers of Corporate Banking and Treasury, Assistant General Manager – Treasury Operations and Executive Manager Group Risk Infrastructure & Governance. Other members of senior

management may be invited to attend if needed. The Head of Group Financial & Regulatory Reporting acts as a Secretary for this Committee.

The Committee meets every month provided that a majority of the Committee Members at least attended including Chairman of the Committee or his deputy. The decisions are taken by majority, with the Chairman vote deciding in case of a tie. The Committee held *twelve* meetings during the year 2012.

The Committee reviews and recommends the strategies, policies and procedures related to Asset Liability Management across the Group. It also monitors and reviews Treasury performance and products, including banking and trading book portfolios; interest rate risk; liquidity risk; and foreign exchange risk. The Committee also ensures compliance with Treasury's limits and ratios.

The Committee oversees inter-group transfer pricing policy. It also monitors monthly financial performance and budget targets and market share targets against performance.

6.4 Group Strategy Committee

The Group Strategy Committee is headed by the GCEO, with the Executive General Manager – Chief Business Officer as the Vice Chairman. The Committee also includes the Executive General Manager – Chief Operating Officer, General Manager – Chief Risk Officer, General Manager – Chief Financial Officer and General Manager – Strategy. On a regular basis, General Managers of Business and Support Divisions are invited. The Assistant General Manager - Economics, Financial Analysis and Research acts as Secretary for this Committee.

The Committee meets at a minimum on a quarterly basis provided that a majority of the Committee Members at least attended including Chairman of the Committee or his deputy. The decisions are taken by majority, with the Chairman vote deciding in case of a tie. The Committee held *five* meetings during 2012.

A main function of this Committee is to develop a five-year strategy for approval by the BOD, while making recommendations for adjustments as needed. In line with the five-year strategy, the Committee develops the annual business plan and budget for the QNB Group and monitors quarterly the performance against it. The Committee monitors and analyzes market movement developments and the competitive positioning, quantitatively and qualitatively against peers in the Middle East and North Africa Region.

QNB Group's specialised strategic vision was crystallised in early 2011, in coordination with the implementation of a company project defining the Group's strategy until the year 2017. The Group's strategic plan was hence approved by the BOD and disseminated to the concerned departments, in order to harmonise the action plans of each department with the Group's strategic vision. Moreover, for the purpose of strengthening this strategic goal, the Group's Executive Management organised a workshop for its members and the General Managers of the overseas branches, subsidiaries and affiliates, and presented the milestones of the strategic plan, while emphasising the objectives intended to be achieved and the projects and products to be adopted.

6.5 Centralised Purchasing Committee

The Centralised Purchasing Committee is headed by the GCEO, with the General Manager – Chief Financial Officer as the Vice Chairman. The Committee includes the Executive General Manager – Chief Business Officer, Executive General Manager – Chief Operating Officer, and General Manager – General Services and Special Projects. Required observers in this Committee include the Group Chief Audit Executive, Group Compliance Officer and Head of Legal. This Committee also includes a representative from the concerned Department as an Observer. The Head of Business Services acts as a Secretary for this committee. The Committee meets as and when required, and the decisions are taken by majority with the Chairman's vote deciding in case of a tie.

The Centralised Purchasing Committee ensures the compliance with Tenders and Auction Policy directives, manages relevant contractual relations and is committed to disclose any situation of conflicts of interest emanating from members. It reviews and approves the procedures for purchases and auctions, along with the formation of auction working groups to oversee bid openings, selection and evaluation. The Committee also reviews and approves vendors list and associated products and services, and the awarding of tenders and auctions. It has the authority to form sub-committees in the other jurisdictions where required.

6.6 Group Information Technology Committee

The Group Information Technology Committee is headed by the Executive General Manager - Chief Operating Officer, with the General Manager – Information Technology as the Vice Chairman. The Committee includes the Executive General Manager – Chief Business Officer, General Manager – Chief Risk Officer and General Managers of Strategy, Retail Banking, Operations and International Banking. The Head of Operations, the Head

of Planning and Governance – Information Technology acts as Secretary of this Committee.

The Committee meets at a minimum every two months provided that a majority of the Committee Members at least attended including Chairman of the Committee or his deputy. The decisions are taken by majority, with the Chairman's vote deciding in case of a tie. The Committee held *five* meetings during 2012.

The Group Information Technology Committee is responsible to establish IT standards across QNB Group and to align all IT activities across the Group to meet business plans and objectives. The Committee also formulates and monitors the implementation of the annual IT strategy across the Group, including capital and operating expenditure budgets assigned to IT projects and services. It is also the responsibility of the Committee to prioritise the management of IT projects across the Group and to monitor the progress towards their implementation.

In addition, this Committee sets, monitors and reports on the aspects related to technology key performance indicators (KPIs) and key risk indicators (KRIs). The Committee also makes relevant recommendations for enhancing the value and contribution of the Group's information systems, as appropriate.

6.7 Group Business Development Committee

The Group Business Development Committee is headed by the Executive General Manager – Chief Business Officer, with the General Manager – Corporate Banking as the Vice Chairman. The Committee includes the Executive General Manager – Chief Operating Officer, General Managers of International Banking, Asset and Wealth Management, Treasury, Strategy, Retail Banking and Communications. The Head of Global Sales, Cash Management acts as Secretary for this Committee.

The Committee meets at a minimum of once every two months, provided that a majority of the Committee Members at least attended including Chairman of the Committee or his deputy. The decisions taken are by majority, with the Chairman vote deciding in case of a tie. The Committee held *eleven* meetings during the year 2012.

The Group Business Development Committee formulates the implementation framework for realising expansion plans and aligns the required regulatory, business, support and marketing resources. The Committee develops a five-year international expansion plan in line with QNB

Group's five-year strategy. It also reviews mergers and acquisitions to implement appropriate integration standards across QNB Group business.

The Committee reviews the competitor products and services and recommends business plan amendments as needed. It also reviews regulatory developments and their impact on business strategy and products. The Committee develops and monitors implementation of operational standards across the Group. It maintains inter-group working priorities in areas of business and operations, at the same time it reviews support units' delivery against business objectives. It is also the Committee's responsibility to review and recommend marketing plans and branding opportunities, as well as the participation in events and ensure maximum benefit from staff and management engagement.

6.8 Group Operations and Services Committee

The Group Operations and Services Committee is headed by the Executive General Manager – Chief Operating Officer, with the General Manager – Operations as the Vice Chairman. The Committee includes the Executive General Manager – Chief Business Officer, General Manager - Chief Risk Officer and General Managers of General Services, Information Technology, Retail Banking and International Banking and Assistant General Manager – Operation Control and Business Excellence. The Assistant General Manager Domestic & Electronic Operations and Executive Manager Operation Risk are invited to attend the meetings without voting right. The Assistant General Manager - Operations Control and Business Excellence acts as Secretary for this Committee.

The Committee meets at a minimum once every two months provided that the majority of the Committee Members at least attended including Chairman of the Committee or his deputy. The decisions taken are by majority, with the Chairman's vote deciding in case of a tie. The Committee held *six* meetings during 2012.

The Group Operations and Services Committee ensures the follow-up and conducts regular reviews of the Bank's operational activities, transactions monitoring, procedures execution and improvements, operational efficiencies, oversight of premises and facilities, insurance and back-office centralisation initiatives. The Committee aligns all operations activities with QNB Group's vision, mission and business plans. It conducts a regular re-engineering program to support continuous process and service improvement.

The Committee prioritises the management of relevant projects and manages QNB Group real estate interests. It reviews and monitors branch, office and ATM expansions across the Group. It also defines and monitors the implementation of security and safety standards across the Group. The Committee also monitors the implementation of internal and external signage and branding standards, and provides quarterly capital budget utilisation and reassignments reports.

6.9 Group Human Capital Committee

The Group Human Capital Committee is headed by the Executive General Manager – Chief Operating Officer, with the General Manager – Human Capital as the Vice Chairman. The Committee includes the Executive General Manager – Chief Business Officer, General Manager – Chief Risk Officer and General Managers of Retail Banking, International Banking and Strategy. The Assistant General Manager - Human R Services also is a member. The Assistant General Manager - Human Resources Strategy and Integration acts as Secretary for this Committee.

The Committee meets at a minimum of once every two months, provided that the majority of the Committee Members at least attended including the Chairman of the Committee or his deputy. The decisions taken are by majority, with the Chairman vote deciding in case of a tie. The Committee held *six* meetings during 2012.

The Group Human Capital Committee handles all human capital matters across the Group, including manpower planning, recruitment, job evaluations, promotions, disciplinary actions, compensations and benefits review. The Committee also handles the integrated performance management and development, learning and development initiatives, staff rewards and recognition, and the implementation of staff suggestion schemes. The Committee regularly reviews the Human Resources policies and recommends changes, as needed, and deals with the fulfillment of the nationalisation program objectives.

7. QNB Group Organisation Structure, and Succession Plan

7.1 Organisation Structure

As part of the ongoing Corporate Governance project which started since 2007, the BOD is keen to update the organisation structure of the Bank when required to be in line with international best practices, support the application of Corporate Governance and enhance the internal control of various management levels. The updates also fulfill regulatory requirements and cover future plans of internal and external growth as well as the development of financial and banking services locally and abroad.

The QNB Group is also featured with high capability of adapting and harmonising the organisational structure to cope with the changes and challenges in the business environment, both internal and external. During 2012, a series of modifications to the organisational structure were made, as referred to in the introduction of this report on the QNB Group Achievements during 2012 to Strengthen Corporate Governance Approach.

7.2 Succession Planning and Leadership Development

Since 2007, the Management of QNB Group was keen to implement a strategic succession plan to be reviewed and updated constantly to ensure business continuity at all times, across all Management levels. The plan includes Leadership Development strategy such as the Talent Management framework. Internationally benchmarked assessment and development methodologies, processes and tools were launched to adequately and objectively identify talented employees to fill Executive Management and Middle Management positions.

During 2012, several amendments to the succession plan were implemented in accordance with the new changes to the Organisation Chart as referred to in the introduction of this report on the QNB Group Achievements during 2012 to strengthen the Corporate Governance approach.

7.3 Training and Development of Future Leadership Profiles

QNB Group is considered the market leader, in the State of Qatar, for the recruitment, retention and development of experienced and recently graduated Qatari individuals. The Bank has developed a structured induction process supported by an

extensive number of career-linked development programs designed to help Qatari employees not to only excel in their jobs but to also prepare them to assume future leadership positions within QNB Group.

The Bank's objective is to build training and development centres, and implement and execute training and development programs, under the supervision and support of the Executive Management and in line with the best interests of QNB Group's overall people vision and strategy. Since 2011, an Executive Retention Plan (Long Term Incentive Plan) was launched aiming towards selected members of the Executive Leadership Team, designed to retain top talent and to provide the Bank with leadership continuity and stability. The retention plan left a positive impact in providing the Group with a stable Executive Leadership Team throughout 2012.

8. Risk Management

QNB risk exposures are mitigated through various specific mechanisms for risk assessment and control. The success of risk management in QNB Group is generated from the ability to focus on the roles and responsibilities defined for the BOD, various committees, Executive Management, officers and staff. Risk management is considered an important element for the QNB Group to ensure continued profitability, and every employee in the Group is responsible for dealing with potential risks when carrying out his/her duties.

The BOD assumes the ultimate responsibilities for monitoring QNB Group risks, by assuming the responsibility of risk assessment and supervision, in coordination with the GCEO, the Group Risk Committee, the Group Credit Committee, and the Group Assets and Liabilities Committee. The BOD also performs complete supervision over credit, market and operational risks affecting the Group.

The BOD has determined the objectives and framework of the Group's risk management policy and is committed to monitor the various risks on a daily basis through the various committees that are responsible for the establishment of the risk management policy based on the objectives and mechanisms identified by the Board. The Group Risk Management department, headed by the Group Risk Officer, undertakes the implementation of the policy.

Risk management policies and procedures are established in order to identify, assess and monitor the risks at Group level. The process of independent risk oversight is a part of the strategic planning for QNB Group and includes business risks such as variables that may arise in the environment, technology and business.

The BOD assumes full responsibility for the development of strategic risks and the application of the relevant principles, frameworks and policies. This includes the implementation of appropriate restrictions with respect to products, issuer, geographic location, and maturity. However, separate and independent entities responsible for the management and control of certain risks are nominated and pre-defined. Accordingly, QNB Group's Treasury, Risk Management and Internal Audit Divisions are responsible for the Group's commitment to trading restrictions imposed by the BOD. In this regards, detailed monthly reports are submitted to the Group Assets and Liabilities Committee.

The Group Risk Management Division is considered the ultimate administrative authority vested to deal with the various risk aspects, at Group level. The Department undertakes the formulation and review of the risk management strategy, defines the risk management policies, evaluates the activities of risk management and control mechanisms, and assesses and determines the Group's operational, credit, market, strategic, legal, and reputational risks. Group Risk Management also ensures the implementation of operational plans to monitor and manage these risks, reviews and monitors cases of fraud and operating losses, and oversees the legal disputes at all levels of QNB Group.

In order to achieve the strategic objectives of QNB Group, the Group Risk Department has spent obvious efforts on strengthening Risk Management, as referred to in the introduction of this report on the QNB Group Achievements during 2012 to Strengthen Corporate Governance Approach.

9. Internal Control System

The BOD assumes full responsibility for the QNB Group System of Internal Controls whereby specific policies, guidelines and controls covering the entire Group's transactions have been devised. Moreover, the determination of responsibility limits, performance monitoring, privileges and authorisations on all banking operations have been implemented in addition to a clear policy for segregation of duties and dual control. QNB Group's Executive Management is considered responsible for the overall control of these systems in coordination with the concerned General Managers, Divisional Managers and domestic and overseas Branch Managers. The responsibility of implementing efficient internal control systems at the Group level is the direct responsibility of every employee at the Group.

The existing applicable internal control tools provide reasonable assurance, though not absolute, to the soundness and accuracy of financial data, the safeguarding

and preservation of assets, the detection of fraud, implicit responsibility or loss and deliberate financial error while adhering to applicable laws and regulations.

The Group Audit and Compliance Committee, on behalf of the BOD, performs on a regular basis, a review of the framework of internal controls and assesses the internal systems through the evaluation of processes carried out by the Group Internal Audit and Group Compliance in addition to the reviews that the external auditors conduct. The BOD confirms the adequacy of the existence of effective internal controls at Group level, based on the recommendations and advices presented by the Group Audit and Compliance Committee as supported by the Group Internal Audit and Group Compliance through:

9.1 Group Internal Audit

The Group Internal Audit is an independent function within QNB Group that intends to add value to the Group's operations and improve their performance. It is the responsibility of the Group Internal Audit to determine and report on the failures or weaknesses in the systems and operations of the Group in order to control its activities and adequately manage its risks. The department also reviews the systems and internal controls, for the activities of the Group, by assessing the efficiency and effectiveness of the systems and the implemented procedures, and by ensuring compliance with the control mechanisms implemented by management. The department also ensures compliance with all rules, regulations and internal procedures, and reviews the validity and reliability of the information that is provided to management.

The Group Internal Audit submits its reports directly to the BOD or through the Group Audit and Compliance Committee. The remuneration of the department is determined by the Group Audit and Compliance Committee, which enhances its objectivity and independence. The Group Chief Audit Executive is nominated by the Group Audit and Compliance Committee and submits periodic reports directly to the Committee and the GCEO.

In order to enhance the principle of independence and transparency, and in order to adhere to international standards, the Group Internal Audit has performed the "Quality Assessment" project for Internal Audit Activities, which is performed by the Institute of Internal Auditors Inc, USA (IIA) as an independent party, once every five years.

The report of the External Quality Assessment of the Institute has affirmed QNB's continued adherence to standards and practices on internal audits issued by the

Institute. The Institute specifically lauded our robust audit follow-up system, reporting methodology and registration of “residual risks” with the Risk Committee. QNB is classified as ‘conforms’ [to standards] category, which is the highest rating of the Institute.

9.2 Group Compliance

Monitoring of compliance with laws, provisions and standards is considered the common prominent responsibility to the Group Audit and Compliance Committee, Executive Management and the BOD. Group Compliance is an independent function, characterised by an official status within the Group, which undertakes the identification, evaluation, monitoring and reporting on compliance risks which include the risk of legal sanctions, legislative and financial loss, or damage to the reputation of the Group as a result of failure to abide by the laws and regulations, the charter of professional conduct and the standards of good practices.

These legislations include, but are not limited to, the laws and regulations of QCB, the directives or instructions issued by relevant authorities where applicable on the Group in the State of Qatar, in addition to the laws of each country where the Group operates. Group Compliance is also responsible to ensure compliance with regulations dealing with combating money laundering and terrorist financing.

In order to enable Group Compliance to efficiently perform its functions and responsibilities, it has been granted authority to deal with compliance matters within the Group’s activities and has been given unrestricted access to all information, records of employees and operations of the Group in Qatar and abroad. Group Compliance is also empowered to conduct investigations relevant to any possible irregularity. Group Compliance responsibilities are carried out through the implementation of a compliance program that specifies its activities. The Group Audit and Compliance Committee approves the compliance annual plans which are executed in accordance with the Group Compliance Charter, its policies and procedures. Group Compliance submits periodic reports to the Group Audit and Compliance Committee and the GCEO concerning the compliance issues, irregularities, and the corrective action hence implemented.

During 2012, Group Compliance has made proven efforts to enhance the implementation of the principles of Corporate Governance and Institutional Compliance, along with supporting the Executive Management and Board of Directors in the

consolidation of Corporate Governance concepts and to meet legal and regulatory requirements of QNB Group as well as identifying and assess the risks of business related discipline. The different steps taken by Group Compliance in this regard are referred to in the “Achievements” section of this report.

As a result of the Group’s compliance efforts to adhere to the regulatory requirements and directives, no penalty of whatever nature was imposed on QNB Group by any regulatory authority during the year 2012.

10. External Audit

According to the Commercial Companies Law Number (5) for the Year 2002, Article (141), and QCB instructions – applicable to the date; QNB Group’s General Assembly appoints an external auditor for one fiscal year based on recommendations made by the Group Audit and Compliance Committee, where the General Assembly assesses the evaluation of this remuneration. Currently, KPMG (Qatar’s Auditor’s Registry Number. 251), was assigned to audit QNB Group accounts until the 31st of December 2012. The external auditors attend the General Assembly meetings to present their report and answer shareholders’ questions.

Based on QCB’s instructions and in line with International Standards, the External Auditor conducts the review and the audit of the financial statements quarterly and annually, according to the relevant International Standards on Auditing. The External Auditor presents his reports to the BOD and the General Assembly in conformity with the Laws of the State of Qatar.

11. QNB Group Ratings

During 2012, Standard & Poor’s, Fitch, Capital Intelligence and Moody’s affirmed QNB’s rating. The QNB Group credit rating is considered amongst the highest in the region.

The following table highlights the rating of QNB Group’s by the most important rating agencies world-wide:

QNB Group	Fitch	Capital Intelligence	S&P	Moody’s
Long-Term Rating	A+	AA-	A+	Aa3
Short-Term Rating	F1	A1+	A-1	P-1
Outlook	Stable	Stable	Stable	Stable

12. Capital and Shares

As of December 31st, 2012 QNB Group’s share capital reached QAR 6,997,294,000 consisting of 699,729,400 ordinary shares of QAR 10 each, noting that the Group does not hold international certificates of deposit. The ownership structure of QNB Group has been stable since its establishment in 1964. A (50%) stake is held by the Government of the State of Qatar through its investment arm – Qatar Investment Authority (QIA), while the remaining (50%) is held by the public, whereby any natural or legal person, except QIA, cannot at any time possess more than (2%) of the shares other than by way of inheritance or testament.

This is considered as an important aspect designed to reduce the dominance of the majority shareholders on minority shareholders. Consequently, the BOD composition reflects the ownership structure whereby five members of the ten BOD Members, including the Chairman, are representatives of QIA, while the remaining five members are from the private sector and are elected by shareholders at the General Assembly meeting.

13. Shareholders’ Rights

QNB Group maintains open and transparent channels of communication with its shareholders and has published all the information for investors and stakeholders on a regular basis through its web site as well as the other media. The QNB Group has also developed a modern version on its website www.qnb.com.qa that provides detailed reports to shareholders on Corporate Governance, financial data and other important information on disclosure of financial and non-financial information. A special work team, including the General Manager – Group Chief Financial Officer and Assistant General Manager – Economics, Financial Analysis and Research, are entrusted to provide analysts and shareholders on the latest update of QNB Group activities.

The Group’s Articles of Association also confirm that all capital shares hold equal rights, without discrimination, in terms of ownership in the Bank’s assets, profits, attendance to the General Assembly meetings and voting, in application to the principle of “one vote per share.”

In accordance with the Commercial Companies Law Number (5) for the Year 2002, the Articles of Association stated that the General Assembly shall hold one ordinary meeting within four months following the end of each financial year. The Board of Directors may call for a meeting of the General Assembly at its own discretion or whenever requested to do so for a certain purpose by the External Auditor or by shareholders holding at least one tenth of the capital. In case of an extraordinary meeting,

an application in writing shall be addressed to the Chairman by shareholders holding at least (25%) of the company share capital. Notification of the General Assembly meeting as well as the meeting agenda are published prior to its date as per the Commercial Companies Law and the Bank’s Articles of Association, and is published on the Bank’s website. Copies of the Annual Report and financial statements are also published at least 15 days prior to the annual General Assembly meeting, to give the shareholders reasonable time to obtain and to discuss the Bank’s performance with the Chairman of the BOD and other Members of the Board. The General Assembly may hear any proposal included in the agenda by the Board of Directors, and such proposal may be presented by a number of shareholders owning not less than a tenth of the total number of shares. Shareholders have the right to vote during the General Assembly in person or be replaced by another shareholder as a proxy.

The BOD presents its suggestions on the dividends distribution to the shareholders in the General Assembly based on QNB Group performance and results along with the Group strategy. The shareholders have the sole authority to approve and decide about the profits allocation together with the modalities.

- The Article (22) of the Corporate Governance Code regarding the Shareholder’s Register in the point (3) stipulates that any shareholder shall have the right to obtain a copy of such register. We recommend reconsidering this requirement which is incompatible with the principle of the confidentiality of the information, especially for Bank shareholders, taking into account the right of shareholders to have access to any information or reports regarding financial matters along with any other aspect of the Bank’s business as set out in the Commercial Companies Law.
- The Article (28) item (2) of the Corporate Governance Code regarding the rights of minority shareholders requires the inclusion of particular provisions in the Articles of Association to protect the minority shareholders right to object to the vote of majority shareholders in favor of large deals.

We would like to note that article (42) of the Articles of Association of the Bank is in line with article (133) of the Commercial Companies Law, stating that the decisions of the General Assembly shall be binding all shareholders whether they were present in the meeting in which the decisions were taken or absent, whether they agreed to the decision or

disagreed. However, the Charter of the Board of Directors includes in the assigned tasks to the Board the obligation to submit appropriate recommendations to the General Assembly, while meeting to take a strategic decision, so as to take into consideration the interests of the Bank and the minority shareholders.

14. Disclosure

QNB Group abides by all disclosure requirements and furnishes all the financial and audit reports as well as all information accurately and transparently, including financial data, Qatar Central Bank's reports and the disclosures to the Qatar Exchange. QNB is considered among the first companies to publish its financial statements in the Middle East and North Africa region.

Based on this, the Bank is committed to a clear policy of disclosure, since the Corporate Governance Report intended for QFMA includes information about the BOD with briefs on the position of each member, as well as their membership on the Boards of other companies (Appendix). Since there are no major shareholders other than Qatar Investment Authority, which own 50% of the Bank's Capital, no further details require disclosure regarding the major shareholders.

QNB Group affirms that all the statements supplied in this regard are accurate, true and are not misleading to the best of our knowledge and belief. In addition, all of the QNB Group annual financial reports comply with the International Financial Reporting Standards (IFRS). The External Auditors' report includes affirmations that they have received all the required information and that the audit was conducted in accordance with the International Standards on Auditing (ISA).

15. Conflicts of Interest and Insider Trading

QNB Group has established its own internal policy applicable to stakeholders, personal account dealing, tenders, auctions and outsourcing based on the Commercial Companies Law number (5) for the Year 2002 and Qatar Central Bank instructions in this regard. According to this policy, all the QNB Group employees are required to periodically disclose any personal interests and dealing in the Bank's shares, including third parties that have relations with the Bank. In addition, the CPC members are requested to disclose any personal interests during the tendering of any bids or auctions relevant to contracts and projects and commitments of the Bank.

QNB Group is also applying the Qatari Commercial Companies Law number (5) for the Year 2002, article number (108) regarding the works of contractors and general tenders, that allows everybody to compete and participate in tender offers equally. If an offer is made by the Chairman of the BOD or any Board Member or Managers, it must be presented to the shareholders in the General Assembly for approval.

16. Customers' Complaints

Customers' complaints are a crucial source of information in order to enhance and develop the Group's activities, whereby customers are considered key to success and prosperity. Some organisations consider the customer as the backbone for their survival, continuity and success. Therefore, the establishment of a customers' satisfaction unit, that also pursues their complaints has become a major and crucial objective for the Bank Executive Management in developed institutions.

In the light of progress in legislation, laws and regulations that govern the relationship with the customers and for the purpose of promoting and developing the transparency with stakeholders, QNB Group has established the framework and the appropriate mechanism for an independent unit specialised in managing customers' complaints (Complaint Management). The Unit is responsible for developing and implementing several advanced mechanisms to receive and manage complaints raised by customers and related parties such as shareholders, investors and service providers, on a timely basis. The creation of these channels contributes to the enhancement of transparency, emphasises the principle of continuity and achieves equality in dealing with all parties alike, whereas a detailed report is periodically submitted by Risk Management to the Executive Management of the Group stating the nature of the complaints and the relevant departments involved in the resolution, so that adequate mechanisms will be implemented preventing the reoccurrence of the same incident in the future.

In addition to the above, the creation of the Complaint Management unit contributes to the creation of a professional culture that takes care of the various stakeholders that maintain a relationship with QNB Group. This also emphasises the application of the principle of equality, while remaining compliant with all regulations and legislation when providing a service or implementing a project.

Conclusion

QNB Group is committed to respect the rights of all its stakeholders and those who have dealings with the Group through the adoption of the highest standards of transparency and integrity in all its dealings and disclosures and following best international practices. In this respect, the Group Corporate Governance Manual has been adopted and the whistle-blowing mechanism has been enhanced to ensure the confidentiality and protection for the employee who reports a suspicious situation.

Moreover, and in order to confirm our commitment to maintain the secrecy of our customers', shareholders' and stakeholders' information, the Chinese Walls concept has been implemented, whereby the information is retained with the relevant internal party without being leaked out to other parties, unless for business purposes.

Moreover, the BOD has reinforced the concept of Equal Opportunity by the adoption of a remuneration and compensation policy that motivates distinguished employees to provide a better performance and encourages the other employees to deploy serious efforts to develop their performance in line with the strategic objectives of the Group in the coming five years.

Furthermore, at QNB Group, we believe that stability is considered one of the main economic indicators and an important prerequisite to achieve successful business in the long term. In order to succeed in an active contribution towards the society, we constantly intend to assume responsibilities higher than those solely associated with profitability, mainly in terms of developing a trustworthy relationship with the customers and stakeholders through the establishment of modern and advanced channels for the reception of complaints, enhancing Corporate Governance components, and managing the Group with wisdom.

Reference to article (30) of the Corporate Governance Code issued by the QFMA, QNB Group has provided the QFMA with the required annual report within the time stipulated for this task.

Regarding Article (17-5) of the QFMA's Code that stipulates the necessity to disclose any conflict between the recommendations of the Group Audit and Compliance Committee and the decisions of the BOD taken following these reported suggestions. We would like to confirm that the system of regularly raising the adopted reports between the Group Audit and Compliance Committee and the BOD, ensures full commitment of all responsible parties to abide by the Committee's recommendations and that during the year 2012 no conflicts of such kind have occurred in QNB Group.

Rashid Misfer Al-Hajri
Member of the BOD
Chairman of the GACC

Yousef Hussain Kamal
Chairman of the BOD

Appendix

The Board of Directors and Brief Overviews of Practical Experience

BOD Member	Brief Overview of BOD Members Practical Experience
H.E. Yousef Hussain Kamal Chairman	H.E. Yousef Hussain Kamal is the Chairman of the Board since 1998 and has been a Member of the Board since 1988. He is also currently the Minister of Economy and Finance, the Secretary General to the Supreme Council for Economic Affairs & investment, Chairman of the Board of Qatar Steel, Qatari Diar Company, Qatar Financial Centre Authority, Qatar Aviation lease and Investment Committee for Civil and Military Pension Funds. His Excellency is also Vice Chairman of Qatar Airways, Executive Board of Qatar Foundation and a Board Member of Sidra Medical Research, Qatar Investment Authority and Supreme Committee for Qatar 2022.
H.E. Sheikh Jassem Bin Abdulaziz Bin Jassem Bin Hamad Al Thani Vice Chairman	H.E. Sheikh Jassem Bin Abdulaziz Bin Jassem Bin Hamad Al-Thani has been a Member of the Board since 2004 and was elected as Vice Chairman in 2011. He is also currently the Minister of Business and Trade, the Deputy Chairman of the Higher Council for Communications & Information Technology and a Member of the Supervisory Committee of Porsche, as well as being a Board Member of the Higher Council for Economic & Investment Affairs and the Qatar Foundation Fund.
H.E. Sheikh Hamad Bin Jabor Bin Jassim Al Thani	H.E. Sheikh Hamad Bin Jabor Bin Jassim Al-Thani has been a Member of the Board since 2004. He is a Chairman of the Group Executive Committee and a Member of the Group Policies, Development, Governance and Remuneration Committee. He is also currently a Chairman of the permanent Population Committee and a Member of the Boards of Qatar University, Hamad Medical Corporation and Qatar Water & Electricity Company. He is president of Qatar's Statistics Authority.
H.E. Sheikh Hamad Bin Abdulla Bin Khalifa Al Thani	H.E. Sheikh Hamad Bin Abdullah Bin Khalifa Al-Thani has been a Member of the Board since 2007. He is also currently the Chairman of the Board of Qatar Investment & Projects Development Holding Company (QIPCO Holding) and a Member of the Boards of Qatar Airways and Qatar Real Estate Investment Company.
Mr. Ahmad Mohamed Ahmed Al Sayed	Mr. Ahmed Mohammed Al Sayad is a Member of the Board and has been such since 2010 and a Member of the Group Executive Committee. He is also currently the Managing Director and Chief Executive Officer of Qatar Holdings, as well as being the Vice Chairman of Qatar Exchange and Deputy Chairman of Arab International Bank.

Appendix - Continued

The Board of Directors and Brief Overviews of Practical Experience

BOD Member	Brief Overview of BOD Members Practical Experience
Mr. Bader Abdullah Darwish Fakhroo	Mr. Bader Abdullah Darwish Fakhroo has been a Member of the Board since 2001 and is a Member of the Group Executive Committee. He is also currently the Chairman of Darwish Holding Company.
Mr. Rashid Misfer AL- Hajri	Mr. Rashid Misfer Al-Hajri has been a Member of the Board since 1998 and he is the Chairman of the Group Audit and Compliance Committee.
Mr. Ali Hussain Ali Al-Sada	Mr. Ali-Hussain Ali Al-Sada has been a Member of the Board since 1998 and he is a Member of the Group Executive Committee. He is also currently the Chairman of Qatar Syrian Company for Investment and Development, as well as being a Member of the Boards of Qatar Navigation and Safwah Financial Services, Tharawat Investment House and Dalala Holding Company.
Mr. Fahad Mohammed Fahad Buzwair	Mr. Fahad Mohammed Fahad Buzwair has been a Member of the Board since 2001. He is the Chairman of the Group Policies, Development, Governance and Remuneration Committee, also a Member of the Group Audit and Compliance Committee. He is also currently the Chairman of Buzwair Group.
Mr. Mansoor Ebrahim Al-Mahmoud	Mr. Mansoor Ebrahim Al-Mahmoud has been a Member of the Board since 2004 and Member of the Group Audit and Compliance Committee. He is also currently the CEO of Qatar Development Bank, Office Manager of H.E. the CEO of Qatar Investment Authority and a Member of the Boards of Qatari Diar, Hassad Food Company, Enterprise Qatar and Doha Film Institute.

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