

ANNUAL CORPORATE GOVERNANCE REPORT 2010





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Dear QNB Group Shareholders,

We are pleased to present the first annual QNB Group Corporate Governance Report.

This report has been prepared following the issuance of the Corporate Governance Code by the Qatar Financial Markets Authority (QFMA) on 27 January 2009. Article 30 of this code stipulates the submission by all the listed companies of an annual Corporate Governance Report.

QNB Group is committed to implement the highest level of the international best corporate governance practices adopted by Organization for Economic Cooperation and Development (OECD), the Basel Committee, the International Corporate Governance Network and other multilateral organizations that aim to develop and reinforce global corporate governance standards along with a special emphasis on the corporate governance guidelines issued by Qatar Central Bank.

QNB Group has always advocated maintaining high corporate governance standards and believes that this is the foundation for the continuing success and sustainability of all Group activities through the coordinated efforts of the Board of Directors, Executive Management, staff at all levels together with the partnership and support of QNB Group's shareholders, customers and stakeholders.

Sincerely,

Yousef Hussain Kamal
Chairman

1. Introduction

QNB Group is committed to applying the rules of sound corporate governance as an integral part of the Bank's culture in the conduct of its strategic and day to day activities in order to enhance the trust of its current and potential investors through increasing transparency and disclosure. In addition to the enhancement of the corporate culture, the corporate governance practices aim to improve the internal and external control tools.

QNB Group managed to set-up coherence and paired relationship between the tasks and responsibilities of both the Board of Directors (BOD) and the Executive Management. The BOD has the responsibility of the overall supervision and strategic guidance through the endorsement of the strategic initiatives, policies and main objectives while managing of the Bank's day to day affairs is the responsibility of the Group Chief Executive Officer (GCEO).

Aiming to apply the principles of corporate governance issued by Qatar Financial Markets Authority (QFMA) on 27th January, 2009 and Qatar Central Bank guidelines for Corporate Governance, the BOD decided during the meeting of 16th March 2010 to adopt and to apply a new set of policies and procedures for the implementation of the corporate governance best practices throughout QNB Group, confirming that the increasing attention and care the BOD and Executive Management are paying to this project while compromising the legal and regulatory requirements with the actual approach of the Bank to conduct its business in line with the international corporate governance guidelines set by the Organization for Economic Cooperation and Development (OECD), the Basel Committee recommendations, the International Corporate Governance Network and all the other international institutions.

2. The Scope

QNB Group established an official corporate governance framework since 2007 and adopted a comprehensive project designed by a specialized company to cover all aspects of governance. The project, at that time, included nine interconnected phases aimed to culminate at a cohesive and comprehensive framework for corporate governance. The project was based on the rules and regulations issued by the State of Qatar, Qatar Central Bank instructions, as well as Qatar Central Bank's Law number (33) of the year 2006. The approach consists of the adoption and the implementation of a comprehensive set of policies and procedures, manuals, organization charts and detailed job descriptions, specifying the authorities, responsibilities, internal and external reporting requirements mission and responsibilities of the BOD and its Committees as well as a charter for each committee. The same was provided to the Bank's Executive Committees.

The implementation of this corporate governance project in QNB Group gives the BOD the assurance of effective oversight of the Bank's operations and confirms its constant care to the importance of ongoing development of the corporate governance practices to meet changeable needs. Indeed, the BOD decision dated 16th March 2010 confirms this intention through constant update of the corporate governance practices along with some amendments, as needed, in order to be in line with local and global regulations developments.

Based on the above, the Annual Corporate Governance Report to QFMA aims to ensure transparent disclosure of the Bank's corporate governance practices. These practices embody the values and principles that the BOD and all the employees should comply with such as the charters of the BOD and its committees the Bank's systems and internal controls, policies of dealing with the related parties and insider trading rules in addition, the codes of conduct are reviewed annually to ensure the appropriate implementation of best professional practices which fulfill the needs of QNB Group.

3. The Board of Directors

The BOD monitors and guides QNB Group strategy through the approval of the proposed investment and credit policies after their review, whether they were originated directly by the BOD or through the Board Committees, to ensure the adherence to specific standard limits in order to minimize the Bank's risk exposure.

The BOD meets at least six times a year to review and approve annual budgets, capital expenditures and business plans. Also, the BOD regularly monitors the Bank's progress towards its strategic goals and objectives, and recommends the necessary adjustments to achieve them. 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.

3.1 The Board of Directors Composition

In conformity with QNB Group Articles of Association, the General Assembly was conducted on 7th of February, 2010 and elected the members of the BOD for a three years period ending 2013. Following this meeting, new members from the private sector joined the BOD and Qatar Investment Authority (QIA) appointed the other five members.

Board members are elected by shareholders based on QNB Group Articles of Association with consideration to the applicable regulations, noting that the BOD members have the requisite expertise and management skills that qualify them to conduct their duties in the Bank's best interests. They are also committed to investing the required amount of time and attention to the accomplishment of their duties for the duration of their tenure.

For transparency purposes through the nomination and election of Members to the BOD, and in order to ensure the preserving of the rights and interests of all shareholders in the nomination process by the direct voting of the General Assembly without exclusion or deprivation, the BOD maintains strict and direct supervision over the nomination and election process and did not assign such task to any of its committees. Nominations and appointments are made in accordance with an approved mechanism to accept candidates in line with Qatar Central Bank requirements in this regards. Moreover and specifically for this purpose, the BOD has adopted a clear policy in light of the international professional and technical standards to measure the eligibility of individuals to apply for the Board membership.

3.2 Independent and Non-Executive Board Members

QNB Group BOD is composed of (10) Members, all of them are Non-Executive, and (6) of them are Independent. Moreover, none of them hold a managerial position at the Bank. In addition, and in accordance with QFMA code, no Board Member holds a full-time job at the Bank. The BOD has completed the performance reviews of its members as a whole using the self-assessment criteria in their evaluation.

3.3 Board Meetings

The Board of Directors' meetings are held regularly, according to QNB Group Articles of Association, at least six times a year. Meetings may be held at the request of the Chairman of the BOD or based on a request of two of its Members. The BOD met (7) times during the year 2010.

3.4 Board Committees

To appropriately handle its duties, the BOD is assisted by three specialized Board Committees reporting directly to it in order to perform its functions and improve its efficiency. These Committees include the Group Executive Committee, Group Audit & Compliance Committee, and Group Policies, Governance, Development & Remuneration Committee.

- **Group Executive Committee**

The Executive Committee is composed of five Board members; the BOD members will select the Chairman of this committee. The Group Chief Executive attends all meetings, without voting powers.

The Executive Committee reviews overall credit and investment exposures, and approves credit facilities above the authorized limit set for the Executive Management up to the committee's limit as delegated by the Board. The committee reviews, on 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. During 2010, the committee met 6 times.

- **Group Audit and Compliance Committee**

The committee carries out its responsibilities dealing with a number of major areas including Financial Statements, Internal Control, Internal Audit, External Audit, Compliance, and Reporting Responsibilities. The committee also verifies the effectiveness of controls to combat money laundering and terrorist financing activities. The committee reviews significant accounting and reporting issues in the light of regulatory directives and professional pronouncements and correlates their impact on the financial statements of the QNB Group.

For the purposes of compliance with the Bank's transparency and corporate governance regulations, the Internal Audit and Compliance Divisions report directly to the Group Audit and Compliance Committee, the Chiefs of both the Audit and the Compliance are directly reporting to the Committee on a quarterly basis and as needed. During 2010, the committee met 9 times.

- **Group Policies, Governance, Development & Remuneration Committee**

The 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, while at the same time monitoring quarterly performance. The committee is entrusted with the development of QNB Corporate Social Responsibility Strategy, along with marketing and communication plans.

On periodic basis, the committee reviews and assesses changes in the local and international corporate governance practices and makes recommendation improvements to the Board. The committee also reviews group-wide policies and provides initial approval prior to final approval by the Board. The committee also forms the QNB Group's remuneration guidelines and develops a policy on remuneration of the BOD and Executive Management. The committee also ensures that the remuneration framework is in place and in line with the remuneration policy and the BOD guidelines. The Directors' remuneration should be approved by the shareholders in the annual General Assembly of the Bank. During 2010, the committee met 4 times.

4. 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.

Moreover, following the issuance of the new QCB instructions in 2010 regarding the remuneration policy dedicated to the BOD; QNB Group during the General Assembly held in February 2010, adopted a remuneration policy for the members of the BOD in line with QCB instructions and the above mentioned rules. The said policy includes the following elements:

1. Presentation of the BOD remuneration to the General Assembly for approval on a yearly basis.
2. The remuneration will include all allowances, fees and benefits.
3. The remuneration has to be commensurate with the efforts exerted by the BOD members in the development of QNB Group's profit and their contributions within the established policies.
4. The calculation of remuneration will be a percentage of the profits not exceeding 0.5% of the QNB Group annual profits.
5. The treatment of the remunerations of the members of the Board as expenses.

Regarding the Executive Management of the Bank, the Group's Policies, Governance, Development & Remuneration Committee assigns a specific policy for remuneration of the Executive Management before presenting it to the BOD for approval, based on policies 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.

5. Executive Management

In accordance with the corporate governance requirements of QFMA, article (9) and the corporate governance guidelines issued by Qatar Central Bank, and to assure the separation of powers between the Chairman of the BOD and the Group Chief Executive Officer (GCEO), the BOD has adopted a strict policy since the foundation of the Bank consisting in a complete segregation between the Chairman of the BOD and the Group Chief Executive Officer.

In line with this policy, the day-to-day operations of the Bank are managed and presided over by Mr. Ali Shareef Al-Emadi as GCEO for the QNB Group, a position he was assigned to on 8th August 2005. He is assisted in his duties by a specialized 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, responsible for generating reports and reporting on violations and concerns to the GCEO are the Group Compliance Officer and the Group Chief Audit Executive.

The GCEO relies on a number of multi-functions internal committees in the execution of his functions. Based on the corporate governance project that the QNB Group implemented since 2007, nine specialized committees were formed. The Committees meetings are authenticated if quorum number of attendees is attained, including the chairman of the committee or his deputy. If any member is absent, a representative must be nominated to attend the meeting. Where majority rules 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, there is a Crisis Management team presided by the GCEO and the GM - Chief Risk Officer as Vice President. The team includes members from the various divisions of Bank. The Crisis Management team addresses issues that may affect QNB Group reputation, trust of its customers, financial issues, and operation failures in some preset scenarios.

A summary of the tasks of the various committees is highlighted below:

5.1 Group Risk Committee

The Group Risk Committee is headed by the GCEO, with the General Manager - Chief Risk Officer as the Vice Chairman. Other members of this committee include the Executive General Manager – Chief Business Officer, Executive General Manager – Chief Operating Officer, General Manager - Chief Financial Officer, As-

sistant General Manager – Credit and Executive Manager Operational Risk. The Group Chief Audit Executive and Group Compliance Officer attend the meetings as observers. Acting as a Secretary for this committee is the Head of Credit Risk. The committee meets at a minimum every two months and decisions taken are by majority, with the Chairman vote deciding in case of a tie. During 2010, the committee met 5 times.

The Group Risk Committee creates, implements and monitors QNB Group 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 on all fronts: operational, credit, market, strategic, legal and reputation. 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 by Qatar Central Bank and other regulatory bodies, including anti money laundering 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.

5.2 Group Credit Committee

The Group Credit Committee is headed by the GCEO, with the General Manager - Chief Risk Officer as the Vice Chairman. Other members of this committee include the Executive General Manager – Chief Business Officer, General Managers of Corporate Banking and International Banking and the Assistant General Manager – Credit. Acting as a Secretary for this committee is the Head of Credit Administration.

The committee meets at a minimum every month and decision consensus is unanimous. Any proposal not supported by all members present is rejected. During 2010, the committee met 38 times.

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

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

The committee has also 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.

5.3 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 Manager – Treasury and Head of Asset and Liability Management. Other members of the senior management team may be invited to attend as needed. The Head of Financial Reporting acts as a Secretary for this committee. The committee meets every month and decisions are taken by majority, with the Chairman vote deciding in case of a tie. During 2010, the committee met 11 times.

The committee reviews and recommends the strategy, 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.

5.4 Group Strategy Committee

The Group Strategy Committee is headed by the GCEO, with the Executive General Manager – Chief Business Officer as the Vice Chairman. Other members of this committee include the Executive General Manager – Chief Operating Officer, General Manager – Chief Risk Officer, General Manager – Chief Financial Officer and General Manager – Strategy. On regular basis, General Managers of Business and Support Divisions are invited. The Assistant General Manager - Economics, Financial Analysis and Research acts as a Secretary for this committee. The committee meets at a minimum on a quarterly basis and decisions are taken by majority, with the Chairman vote deciding in case of a tie. During 2010, the committee met 6 times.

A main function of this committee is to develop a five-year strategy for approval by the BOD, while making recommendation for adjustment 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.

5.5 Centralized Purchasing Committee

The Centralized Purchasing 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, 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 as an Observer a representative from the concerned Department. The Head of Business Services acts as a Secretary for this committee. The committee meets as and when required, decisions are taken by majority with the Chairman vote deciding in case of a tie. The Centralized Purchasing Committee ensures the compliance with Tenders and Auction Policy directives, and manages relevant contractual relations. 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.

5.6 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. Other members of this committee include the Executive General Manager – Chief Business Officer, General Manager – Chief Risk Officer and General Managers of General Services and Special Projects, Retail Banking, International Banking and QNB Al Islami. The Head of Operations, Control and Business excellence is also a member of the committee. The secretary of this committee is the Head of Support and Operation – Information technology. The committee meets at a minimum every two months and decisions are taken by majority, with the Chairman vote deciding in case of a tie. During 2010, the committee met 4 times.

The Group Information Technology Committee is responsible to set up 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 project and services. It is also the responsibility of the committee to prioritize 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.

5.7 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. Other members of this committee include the Executive General Manager – Chief Operating Officer, General Managers of Corporate Retail Banking, International Banking, QNB Al Islami, Treasury, Strategy, Infrastructure and Communications. The secretary for this committee is the Assistant Manager – Cash Management. The committee meets at a minimum once every two month and decisions taken are by majority, with the Chairman vote deciding in case of a tie. During 2010, the committee met 10 times.

The Group Business Development Committee formulates the implementation framework for realizing 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, along with developing the Islamic Banking Strategy in conformity 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 review 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.

5.8 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 – General Services and Special Projects as the Vice Chairman. Other members of this committee include the Executive General Manager – Chief Business Officer, General Manager - Chief Risk Officer and General Managers of Information Technology, Retail Banking and International Banking. The Heads of Business Services and Operations, Control and Business Excellence are also members. The secretary for this committee is the Head of Operations Control and Business Excellence. The committee meets at a minimum once every two month and decisions taken are by majority, with the Chairman vote deciding in case of a tie. During 2010, the committee met 6 times.

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

The committee prioritizes 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 utilization and reassignments reports.

5.9 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. Other members of this committee include the Executive General Manager – Chief Business Officer, General Manager – Chief Risk Officer and General Managers of Retail Banking, International Banking and Strategy. The Heads of International Human Resources and Group Human Resources Centers of Excellence are also members. The secretary for this committee is the Head of Domestic Human Resources. The committee meets at a minimum once every two month and decisions taken are by majority, with the Chairman vote deciding in case of a tie. During 2010, the committee met 5 times.

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 review Human Resources policies and recommends changes, as needed and deals with the fulfillment of the nationalization program objectives.

6. QNB Group Organization Structure and Succession Plan

6.1 Organization Structure

As part of the corporate governance project which started in 2007, the BOD approved the new organization structure for the Bank to comply with the supervisory requirements and to cover future plans of internal and external growth, recognizing that the organization structure plays an integral role in the expansion of the QNB Group as well as the development of its financial and banking services locally and abroad.

6.2 Succession Plan

In its consideration to the merits of planning for succession within the organizational structure of QNB Group, the BOD initiated the introduction of a system for the identification and development of the best human resources for Executive Management and Middle Management positions. This initiative achieved positive results since the Bank's promotions stand to an implemented policy where employees' qualifications are accurately assessed on a regular basis. With the objective of enhancing this field, the Bank organized a specialized seminar to the Executive Management during the month of February 2010 and scheduled a future session for Middle Management. In the meantime, QNB Group is in the process of developing succession plans for implementation in the next phase.

QNB Group is considered the leader in the State of Qatar in the recruiting of fresh Qatari graduates and implementation of the development programs for their induction into the Bank. The development programs include fostering of banking skills and training in appropriate financial skills to enable them excelling in fulfilling the requirements of their positions as well as to prepare them to fill leadership positions at QNB Group in the short and long-term. The Bank's sponsorship of a management training program for talented Qatari nationals was launched in the beginning of 2010, and will run for the next five years. The training

and development centre implements and executes those programs under the supervision and support of the Executive Management in the interest of the Bank's strategic vision for the future and in line with QNB Group overall strategy.

7. Risk Management

Risk management is exercised at several levels including the BOD, the Board's committees, the Executive Management team and member of the various management committees. This approach, combined with a five-point centralized risk management module enables QNB Group to effectively deflect credit and market risks, IT security risks, legal risks and operational risks. Routine assessments by the Group's dedicated risk management team facilitate taking proactive, precautionary measures that minimize risk exposure.

Additionally, Group Risk ensures that the BOD is always updated on the major risks that face the Group and other related issues at least on quarterly basis. Among the fixed items in such updates are the Top 10 risks that face the QNB Group as rated by the Group Risk Committee, list of all risk events / loss events if any that has been encountered during the period. Moreover, the update includes credit key risk indicators, business continuity challenges, IT security issues, capital adequacy and legal cases raised by the Bank or against it.

While QNB Group continued to expand into new markets during 2010, it continues to adopt its traditional cautious business approach, carefully evaluating risk potential in any strategic alignments it is pursuing prior to committing to a course of action.

QNB Group takes great care in supporting its operational processes through its ongoing commitment to meet its obligations towards Basel II. The Bank also modernized its Treasury systems and introduced state of the art technologies in this field while enhancing security measures.

The central computer room's operations were also upgraded and achieved ISO 27001 certification. In the area of safeguarding technical assets, the Bank is currently working in cooperation with international companies specialized in electronic security to apply the latest international standards for credit card payments and to avoid internet frauds 24 hours.

8. Internal Control System

The BOD assumes full responsibility for the QNB Group internal control system and devised special policies, guidelines, controls, determination of responsibility limits, monitor performance of operations, applying of privileges and authorizations to complete daily operations and verifying the segregation of duties and executions in addition to enhancing dual control on all banking operations. QNB Group Executive Management is considered responsible for the overall control for these systems in coordination with 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. Group Audit & Compliance Committee, on behalf of the BOD, performs on a regular basis, a review of the framework of internal control and assesses internal systems through evaluation 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 the Group level based on

the recommendations and advice presented by the Group Audit and Compliance Committee and supported by Group Internal Audit and Group Compliance through:

8.1 Group Internal Audit

Group Internal Audit plays a vital role in assisting the Group with ways to improve how it conducts its business, in addition to its role in verifying adherence to policies and procedures. The auditing focuses on the effectiveness of the work systems, internal control and identification of weaknesses. Reports and recommendations for minimizing risks are raised directly to the Group Audit & Compliance Committee to assist Executive Management improving risk management tools and corporate governance procedures.

8.2 Group Compliance

Group Compliance monitors and evaluates all the policies and procedures related to QNB Group, in accordance with the Qatar Central Bank's instructions and the relevant laws and standards of the countries where the Group operates. In 2005, the BOD approved the compliance charter and the scope of work considering it as an independent division reporting directly to the Group Audit and Compliance Committee. During 2010, no fines were imposed on QNB Group from any regulatory authority for lack of compliance with any laws or regulations.

Over the years 2009 and 2010, Group Compliance intensified its efforts to ensure the application of the QFMA, the regulatory authority that specifies the requirements for corporate governance for public companies operating in the State of Qatar.

Group Compliance has completed research and studies focused on regional emerging markets where the Group is willing to explore, in order to ensure a better understanding of the legal and regulatory in these countries. Group Compliance adopts a philosophy based on "added value" in the Group's research of strategic opportunities, and the role of the Group Compliance revolves around the following objectives:

- Enhancing transparency and disclosure: QNB Group is committed to the highest standards of transparency, integrity and responsibility. This serves to consolidate effective scrutiny of the principles of compliance and the adoption of the whistle blowing policy that encourages employees to report wrongful actions without fear of retribution.
- Increasing awareness about compliance within the QNB Group where all enquiries regarding the legal obligations of the QNB Group towards existing policies and procedures are answered. In this regard, numerous workshops were conducted for the Bank's employees to increase awareness about the principles of compliance, combating of money laundering and terrorist financing and whistle blowing policy.
- In the interest of safeguarding the Group from any involvement in any suspicious activity in money laundering or terrorist financing, Group Compliance implemented a number of strict and effective monitoring systems through the daily and monthly monitoring of all the financial transactions and accounts of the customers as per Qatar Central Bank instructions and the guidelines of the Financial Action Task Force (FATF).

9. External Audit

In accordance with the Commercial Companies Law number (5) for the year 2002, Article (141), QNB Group General Assembly appoints an external auditor for one fiscal year based on recommendations raised by the Group Audit and Compliance Committee, where the General Assembly assesses the evaluation of his remuneration

and has the right to reappoint the auditor again, but not for more than five consecutive years. Currently, KPMG (registered under the number 251), was assigned to audit QNB Group accounts until 31/12/2010. The external auditors attend the General Assembly meetings to present their report and answer shareholders' questions.

- Article number (19) of the Code issued by QFMA regarding external auditors stipulates the necessity to change external auditors of listed companies every three years, while the Commercial Companies Law number (5) for the year 2002 article number (141) states that the public shareholding companies may appoint an external auditor for a period of up to (5) years. In addition, the Qatar Central Bank instructions – 12th edition – May 2010, page (311) enforce the necessity of appointing the external auditors of the Bank according to the article number (141) of the Commercial Companies Law number (5) and that the contract period for an external auditor should not exceed five years, further stipulating that they cannot be reappointed before two years from the end of their last appointment period. Based on that, QNB Group reaffirms its commitment to comply with the provisions of the Commercial Companies Law regarding the appointment of the External Auditor.
- As Article (1-19) of the QFMA Corporate Governance Code stipulates the necessity for an external auditor to conduct an independent external audit on a yearly and biannual basis, we confirm that in accordance with international standards relevant to auditing and the instructions of Qatar Central Bank relevant to the external auditor's reports, the external auditor is obliged to conduct financial audits once at the end of each fiscal year including the opinion of the auditor according to international standards. In regards to quarterly reports prepared for publishing, their preparation falls upon the Bank's Executive Management, with audits by the external auditors conducted according to the International Auditing Standard number (2410) relevant to auditing procedures. Also, as Qatar Central Bank did not require the external auditor to conduct biannual audits; therefore we see that there is a need for the revision of the mandatory of this article, since the Qatar Central Bank confirmed that biannual statements are reviewed without being subject to auditing. We recognize the need to review this point so it conforms to international standards and applies to all financial institutions in the Qatar Exchange. In addition to that, Article 48 of the "Securities Listing and Exchange Code" issued by QFMA clearly states that the interim financial statements should be reviewed while the annual financial statements must be audited by the external auditor.

10. QNB Group Ratings

Standard and Poor's (S&P) confirmed in March 2010 QNB Group long-term rating at A+ and the the short-term rating at A1, with Stable Outlook. QNB Group rating is considered among the highest in the region by international rating agencies.

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

	Moody's	S&P	Capital Intelligence	Fitch
QNB Group Long-Term Rating	Aa3	A+	AA-	A+

11. Capital and Shares

As 31st December 2010, QNB Group's share capital reached QR 3,914,570,290 consisting of 391,457,029 ordinary shares of QR 10 each. The ownership structure of QNB Group has been stable since establishment in 1964. A 50% stake is held by the Government of the State of Qatar through its investment arm – Qatar In-

vestment Authority (QIA), while the remaining 50% is held by the public. Consequently, the BOD composition reflects this ownership structure with five members of the BOD, including the Chairman being representatives of QIA, with the remaining five members from the private sector being elected by shareholders' at the General Assembly meeting.

12. Shareholders' Rights

12.1 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 to Qatar Financial Markets Authority includes information about the BOD with brief of the position of each member as well as their membership on the Boards of other companies (Appendix).

QNB Group affirms that all the statements supplied in this regard are accurate, true and are not misleading. 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).

12.2 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 web site 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.

The General Assembly meeting is always held within two months following the end of the fiscal year, in accordance with the Commercial Companies Law number (5) for the year 2002. Notification of the General Assembly meeting is 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 web site. Copies of the annual report and financial statements are also published at least 15 days prior to the date of the 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. Shareholders have the right to vote during the General Assembly in person or replaced by another shareholder as a proxy.

- Article (27) of the QFMA code related to the shareholders' rights and the distribution of dividends stipulates the obligation for the BOD to provide a clear and specific policy to the General Assembly regarding the distribution of dividends with a valid explanation behind the reasons and validation of the policy. We believe in the necessity of opening the subject for discussion to specify what is meant by the policy required, as an institution cannot place a fixed policy for the distribution of dividends, as it may have a negative impact on the value of the stock in the stock market. Dividend decisions are taken by the General Assembly meetings and are based on the performance of the Bank, its results and the recommendations of the Board.

- Article (22) relevant to ownership records stipulates under section (3) the right of a shareholder to get a copy of the shareholder list. We see the change here, since it is in contrast with the secrecy of personal information of QNB Group's shareholders, but in compliance with the rights of shareholder to view any information or report relevant to the financial aspects and dispose of the Bank according to the Qatari's Commercial Law.

13. Conflict of Interest and Insider Trading

QNB Group has its own internal policy applicable to tenders and auctions 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 obliged to disclose any personal interests periodically; 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 General Assembly for approval.

- Regarding Article (13) of the QFMA code relevant to conflict of interest and insider trading in sections (13-3 and 13-4) that stipulates the need for the Members of the Board to disclose their trade in the stocks or financial securities of the company, we believe that there is a need to revisit these two sections because making such information available to the public contradicts the secrecy of the shareholders' private information. In addition, the Commercial Companies Law specified the required mechanism that the management of a company must follow to allow any of its Board Members to have contracting works and general tenders as stated in the mentioned law article (108). Finally, the Commercial Companies Law article (121) specified the statements and information that must be disclosed about shareholders and does not refer to the transactions of the Board Members in the stocks of the financial institutions or their other financial papers.

Conclusion

QNB Group is committed to respect the rights of all its stakeholders and those that have dealings with the Group through the adoption of the highest standards of transparency and integrity in all its dealings and disclosures. QNB Group is also committed to ensuring fair treatment of its employees in accordance with the principles of justice and equality without any kind of discrimination. The BOD of QNB Group adopts a remuneration policy to motivate employees together with an appropriate mechanism that ensures raising the suspicious and unethical behavior to the BOD to address it and to take the remedial measures in total secrecy and with complete protection of the employee.

Reference to article (30) of the Corporate Governance Code issued by Qatar Financial Markets Authority, QNB Group has provided QFMA with the required annual report within the time allocated 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 2010 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 Members	Brief overviews of BOD members Practical Experience
H.E. Yousef Hussain Kamal Chairman	<p>H.E. Yousef Hussain Kamal Minister of Economy and Finance, is the Chairman of the Board and has been a member of the Board since 1988. He is also currently the Chairman of the Board of Qatar Steel, RasGas, Qatar Financial Authority and the Doha Securities Market, as well as being the vice Chairman of the Board of Qatar Petroleum. His Excellency is also a Board member of Qatar Foundation, Qatar Airways and Qatari Diar Real Estate as well as the Secretary General to the Supreme Council for Economic Affairs & Investment.</p>
H.E. Sheikh Jassem Bin Abdulaziz Bin Jassem Bin Hamad Al-Thani	<p>H.E. Sheikh Jassem Bin Abdulaziz Bin Jassem Bin Hamad Al-Thani Minister of Business and Trade, has been a member of the Board since 2004. He is also a member of the Group Executive Committee and He is currently 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.</p>
H.E. Sheikh Hamad Bin Jabor Bin Jassim Al-Thani	<p>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, Governance, Development and Remuneration Committee. He is currently a member of the Boards of Qatar University, Hamad Medical Corporation and Qatar Water & Electricity Company.</p>
H.E. Sheikh Hamad Bin Abdulla Bin Khalifa Al-Thani	<p>H.E. Sheikh Hamad Bin Abdullah Bin Khalifa Al-Thani has been a member of the Board since 2007. He is also the Chairman of the Board of Qatar Investment & Projects Development Holding Company and a member of the Boards of Qatar Airways and Qatar Real Estate Investment Company.</p>
Mr. Ahmad Mohamed Al Sayed	<p>Mr. Ahmed Mohammed Al Sayad is a member of the Board and has been such since 2010. He is a member of the Group Executive Committee and also 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.</p>

Appendix - Continued

The Board of Directors and Brief Overviews of Practical Experience

BOD Members	Brief overviews 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 the Chairman of the Commercial Arbitration Centre for the Gulf Cooperation Council and International Fund for Higher Education in Iraq, as well as being a member of the Board of the Supreme Education Council in Qatar.
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. He is also a member of the Boards of RasGas and Qatar Fuel Additive Company.
Mr. Ali Hussain Ali Al-Sada	Mr. Ali-Hussain Ali Al-Sada has been a member of the Board since 1998. He is a member of the Group Executive Committee. He is also 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.
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, Governance, Development and Remuneration Committee, also a member of the Group Audit and Compliance Committee, and he is the Chairman of Buzwair Group.
Mr. Mansoor Ebrahim Al-Mahmoud	Mr. Mansoor Ebrahim Al-Mahmoud has been a member of the Board since 2004. He is a member of the Group Audit and Compliance Committee; also a member of the Board of Directors of Qatari Diar, Hassad Food Company and United Arab Shipping Company.