

## CENTRAL BANK OF THE UAE

**Circular : 23 /00**

**Date : 22/7/2000**

**To : All National Banks**

**Attn : CEO/Managing Director /General Manager**

**Subject : Required Administrative Structure in Bank**

**Dear Sirs,**

After reviewing the opinions of banks through the last Notice No. 2/015/99 dated 12/1/1999, and since the administrative institutional structure is considered the best safety-net against risks at banks, the Board of Directors of the Central Bank decided to implement the following in regard to the administrative structure at national banks:

### **An effective Board of Directors**

1. The post of Chairman should be separated from the rest of posts, in such a way that the Chairman chairs Board meetings, oversees the process of executing its decisions and discusses with Board members matters relating to identifying the policies and strategies of the bank. The Chairman also studies statements, information and statistics and reviews the activities carried out by the CEO and his assistants in order to achieve the policies and strategies of the bank.
2. Overlap of Board's functions with that of the general management functions should be prohibited, in such a way that the Chairman would not occupy the post of the CEO (or Managing Director or General Manager).
3. The Board should be formed from individuals who represent the shareholders properly and who have their independent views and contributions. Furthermore, the Board should be presented with all matters shown in the attached "Special Appendix".
4. Forming of an "Executive Committee" is optional, but when it is formed by the Board of Directors it should carry out a specified portion of the Board's functions, as per an authorization from the Board. The committee presents its decisions to the Board. It is preferred that the Chairman is not to head this Committee.
5. The post of Chief Executive Officer (or Managing Director or General Manager) should be separated from the rest of posts, in such a way that the person who occupies this post possesses authorities and responsibilities which are identified by a Board's decision. The CEO reports significant transactions or major decisions and activities to both the Board and the Chairman.

### **A Balanced Organization Chart with clear Reporting lines:**

The following Organizational Structure is for guidance only and to emphasize the concept of balance for a better safety net.

1. In all cases, a manual entitled "Corporate Standards Manual" should be established to identify the "authorities and responsibilities" of the departments, branches, and divisions as well as their reporting lines. The manual may also include standards regarding the behavior of staff inside as well as outside the company.

2. The appointment of the Chief Executive Officer, his deputy (if available), managers of the said departments, personnel manager, the manager in-charge of the branches, as well as branch managers, are subject to approval of the Central Bank, after reviewing their documents and ensuring that they are well qualified for the post in each case and possess experience relevant to the function of the department he would manage of length not less than 5 years.

3. In addition to the usual auditing functions, one of the roles of the Internal Audit Department is alarming for overlapping work functions as well as conflict of interest cases. Also to alarm in the event of any significant change, or when the bank enters an operation which may cause losses, or in the event of a substantial loss or an embezzlement case or violation of Laws or regulations. The manager in-charge of this department must be a very well qualified person, academically or through a professional specialization, with a working experience of not less than 5 years in auditing or banking or financial business.

This department reports to the Chairman, with a copy to each Board member and to the CEO of the bank. The manager of this department must also send a copy of the same report to the Central Bank as soon as it is issued.

When the Auditor in-charge submits his resignation or his services to be terminated, the Central Bank should be informed by the bank before execution.

When major and important issues take place, that might affect the position of the bank, the manager in-charge of the Internal Audit Department must inform the Central Bank immediately. The formation of an "Audit Committee" is optional.

4. A Credit Committee should be formed, by a Board resolution with not less than 5 members. This committee would review, approve or submit recommendations in regard to loans that exceed the value of half of one percent of capital and reserves of the bank. Also it will review all settlement and write-off cases.

These standards would be implemented with effect from 1st January 2001. Therefore, please make arrangements and take necessary steps from now.

Therefore, all previous circulars, decisions, directives or notices on the subject shall become cancelled.

Yours faithfully,

**Mohammed Bin Eid Al Meraikhi**

**Chairman of the Board**

**Special Appendix**

## **Regarding issues to be submitted for approval or information of the Board of Directors of the Bank**

As the Board of Directors of any bank is the highest authority in that bank and is responsible for the management, therefore, the following must be submitted to it.

For approval through a resolution:

1.
  1. The organization chart and any amendments carried out on it, as well as establishing subsidiaries and the ownership of what exceeds 5% of the capital of any company.
  2. To review CVs for Senior staff positions and to approve their recruitment, their salaries and benefits plus promotion or salary increase of any one of them (level of positions to be determined through a board resolution). Also a statement of those recruited below that level showing their names, nationalities and salary and position levels. A statement of all those terminated and reasons.
  3. If the staff annual bonus for the Chief Executive Officer and the rest of employees exceeds 5% of the net profit, it would require approval of the General Assembly of the bank before disbursement, and this would not cancel any requirement that is more restrictive within the bank's by-laws.
  4. Major loans and advances (the minimum limit to be determined by a Board's resolution), major projects and banking products.
  5. Settlements of major loans and advances (the minimum limit to be determined by the Board) and writing-off balances of loans and advances.
  6. The maximum limits for deposits, other dealings/transactions with banks and other financial institutions and exposure risks.
  7. To review and approve the annual budget including all categories of administrative and general expenses plus productivity per employee.
  8. Formation of the Assets and Liabilities Committee and other Committees plus determination of responsibilities and approving of any change to the structure of any one of other Committees.
  9. Any other issue considered significant by the board of Directors.

To be submitted for information:

10. Schedules of the loans, advances, and settlements which fall under the minimum limit but exceed a certain amount (for example AED 100,000).
11. Reports of the internal auditor the periodical and those issued when necessary.
12. Monthly statement of conditions and a statement of income. Those statements should be in reasonable detail, and compared to the prior month, the same month of the previous year and the budget.
13. Investment reports, which include securities by classifications, book value, market value, yield, summary of purchases and sales and investments traded or contracted by the management of the bank.
14. Personnel statistics as per a table, which reveals the nationality and family relationship in the case of wife, a son, a daughter or a cousin / niece, working for the bank.