Introduction and Purpose

- Added : All banks licensed by the Central Bank of the UAE must ensure that Pillar 1 risks are mitigated by capital.

- Added : Each bank is required to have a process to assess its overall capital adequacy as a function of its risk profile and its strategy.

- Added : The ICAAP is a critical reference for supervision and for the supervisory dialogue between banks and Central Bank.

- Added : This Guidance presents minimum expected practices to be considered by each bank in order to undertake their ICAAP.

- Added : All methodologies employed by a bank for its ICAAP should be relevant to its business model, risk profile, to the geographies of its exposures, and, in particular, to the features of the UAE economy.

Removed:1. This Standard discusses the key principles of supervisory review, with respect to banking risks.

2. Banks are only permitted to perform a Pillar I Plus approach.

3. All buffers are to be in addition to existing requirements.

4. The type of capital which the Central Bank will require banks to provide for pillar 2 risks will be solely at the discretion of the Central Bank.

ICAAP Executive Summary

- Added : ICAAP executive summary should explain the views of Senior Management and the Board on the suitability of the bank’s capital to cover the risks faced by the bank.

- Added : ICAAP executive summary should include: main findings, governance framework, bank's structure, current capital position, capital composition, budgeted capital position, stress scenarios, risk management processes, and conclusion.

ICAAP Governance

- Added : The Board of Directors is required to approve the ICAAP.

- Added : The ICAAP should be subject to an effective decision-making process.

- Added : The Board has ultimate ownership and responsibility of the ICAAP.

- Added : The Board is required to approve an ICAAP on a yearly basis.

- Added : The Board is also expected to approve the ICAAP governance framework.

ICAAP Methodology, Scope and Use Test

- Added : ICAAP is an ongoing process.

- Added : ICAAP should be supported by robust methodologies and data.

- Added : ICAAP should be conducted at each level, with a special focus on the group level for local banks.

- Added : ICAAP and the bank’s business strategy form a feedback process.

- Added : The ICAAP should have an interactive relationship with other key processes within the bank.

Capital Planning

- Added : Banks should have a capital plan approved by the Board.

- Added : The objective of capital planning is to ensure that banks are compliant with minimum regulatory requirements, viable and able to endure external economic changes, and have capital calibrated to their risk profile.

- Added : The ICAAP should be forward-looking and take into account both internal and external drivers over a period covering three (3) to five (5) years.

- Added : The multi-year capital forecast should be assessed and calibrated through two perspectives: Pillar 1 and Pillar 2.

- Added : Banks are required to fulfill internal risk appetite requirements in the bank’s self-assessment of Pillar 1 and Pillar 2 minimum regulatory capital requirements.

- Added : Banks should fulfill the minimum capital requirements plus capital buffer requirements under business as usual (BAU) conditions. Under stress testing (ST) banks should fulfill the minimum capital requirements without the requirement to meet buffer requirements.

Material Risks

- Added : All risks identified as material risks are expected to be addressed in the ICAAP.

- Added : Risk materiality should depend on each bank’s business model and risk profile.

- Added : The scope of such risk identification should cover the entire group, including all branches and subsidiaries of the bank.

- Added : The Central Bank considers credit concentration risk and interest rate risk in the banking book (IRRBB) as material risks.

- Added : Each bank should define a risk appetite pertaining to IRRRB that should be approved by the Board and implemented through a comprehensive risk appetite framework, i.e. policies and procedures for limiting and controlling IRRBB.

- Added : Each bank should have a process supported by adequate policies to manage IRRBB appropriately. This involves, as for any other risk, comprehensive identification, measurement, reporting, monitoring, and mitigation.

ICAAP Stress Test and Reverse Stress Test

- Added : Stress tests should be conducted regularly and should cover all material risks of the bank.

- Added : The scenarios should be designed to capture the risks and potential losses appropriately.

- Added : The methodology should