

UAE-Specific Basel Pillar II Regulations for Banks (2025)

1. Pillar 2 Supervisory Review Process (SRP)

- **Process:** The Pillar 2 Supervisory Review Process (SRP) ensures that banks in the UAE maintain adequate capital to support all risks in their business. This process involves the Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory Review and Evaluation Process (SREP).
- **Risk:** Inadequate capital buffers to cover risks, leading to potential financial instability.
- **Risk Rating:** High
- **Control:** Regular stress testing and scenario analysis to assess capital adequacy under adverse conditions.
- **Test:** Conduct periodic stress tests and compare results against regulatory thresholds to ensure compliance.

Reference: Standards for Capital Adequacy of Banks in the UAE

2. Internal Capital Adequacy Assessment Process (ICAAP)

- **Process:** ICAAP requires UAE banks to assess their capital needs based on their risk profile and ensure they have sufficient capital to cover all risks, including credit, market, operational, and liquidity risks.
- **Risk:** Underestimation of risk exposure, leading to insufficient capital reserves.
- **Risk Rating:** Medium
- **Control:** Implement robust risk assessment models and regularly update risk parameters.
- **Test:** Validate risk models through back-testing and sensitivity analysis.

Reference: Pillar 2 – Internal Capital Adequacy Assessment Process (ICAAP)

3. Supervisory Review and Evaluation Process (SREP)

- **Process:** SREP is conducted by the UAE Central Bank to evaluate banks' risk management practices and capital adequacy. It includes assessing the quality of governance, risk management, and internal controls.
- **Risk:** Weak governance and risk management practices, leading to regulatory non-compliance.
- **Risk Rating:** High
- **Control:** Establish a strong governance framework and enhance risk management capabilities.
- **Test:** Conduct internal audits and regulatory compliance checks to ensure adherence to SREP requirements.

Reference: Pillar 2 - CBUAE Rulebook

4. Pillar 2 Capital Requirement

- **Process:** Pillar 2 capital requirement is a bank-specific capital requirement that supplements the minimum capital requirement (Pillar 1). It is determined based on the bank's risk profile and the outcomes of the ICAAP and SREP.
- **Risk:** Insufficient capital to cover bank-specific risks, leading to potential solvency issues.
- **Risk Rating:** High
- **Control:** Maintain a capital buffer above the regulatory minimum and conduct regular capital adequacy assessments.
- **Test:** Perform capital adequacy ratio (CAR) calculations and compare against regulatory benchmarks.

Reference: Guidance for Capital Adequacy of Banks in the UAE

5. Pillar 2 Disclosure Requirements

- **Process:** Pillar 2 requires UAE banks to disclose information on their risk management practices, capital adequacy, and the outcomes of the ICAAP and SREP. This promotes transparency and market discipline.
- **Risk:** Inaccurate or incomplete disclosures, leading to reputational damage and loss of investor confidence.
- **Risk Rating:** Medium
- **Control:** Implement robust disclosure policies and ensure accurate reporting of risk and capital information.
- **Test:** Conduct periodic reviews of disclosure documents to ensure accuracy and completeness.

Reference: Regulation Regarding Accounting Provisions and Capital Requirements

PRCT Matrix for Each Point

Process	Risk	Risk Rating	Control	Test
Pillar 2 Supervisory Review Process	Inadequate capital buffers to cover risks, leading to financial instability	High	Regular stress testing and scenario analysis	Conduct periodic stress tests and compare results against regulatory thresholds
Internal Capital Adequacy Assessment	Underestimation of risk exposure, leading to insufficient capital reserves	Medium	Implement robust risk assessment models and regularly update risk parameters	Validate risk models through back-testing and sensitivity analysis
Supervisory Review and Evaluation	Weak governance and risk management practices, leading to non-compliance	High	Establish a strong governance framework and enhance risk management capabilities	Conduct internal audits and regulatory compliance checks

Process	Risk	Risk Rating	Control	Test
Pillar 2 Capital Requirement	Insufficient capital to cover bank-specific risks, leading to solvency issues	High	Maintain a capital buffer above the regulatory minimum	Perform capital adequacy ratio (CAR) calculations and compare against benchmarks
Pillar 2 Disclosure Requirements	Inaccurate or incomplete disclosures, leading to reputational damage	Medium	Implement robust disclosure policies and ensure accurate reporting	Conduct periodic reviews of disclosure documents to ensure accuracy

This analysis provides a comprehensive overview of the UAE-specific Basel Pillar II regulations for banks, including detailed workflows, risk assessments, controls, and testing procedures. The references provided are based on the search results and snippets, ensuring the information is up-to-date and relevant as of 2025. ““