



Overview of the CBUAE's new credit risk management regulation

Elevating compliance for
UAE financial institutions



Foreword

The Central Bank of the UAE (CBUAE) has issued the new credit risk management (CRM) regulation and standards, effective from 30 November 2024 and applicable to all licensed financial institutions (LFIs).

LFIs incorporated in the UAE with foreign subsidiaries, affiliates or international branches must comply with the regulation on a consolidated basis. UAE branches or subsidiaries of foreign institutions must also apply the regulation and standards to their activities in the UAE and their reporting to the Central Bank. Each LFI is required to implement a comprehensive framework to manage the credit risk it assumes, ensuring its financial resilience. In this context, the regulation establishes the minimum acceptable practices for CRM and provisioning for LFIs.

The regulation aims to establish minimum requirements for LFIs with regard to effective CRM. This includes aligning risk appetite with strategy, as well as improving governance, oversight and internal controls across risk identification, measurement, reporting and transfer. The regulation and standards set minimum requirements for credit risk governance and management, including standardizing the definition of “default”.

The accompanying credit risk standards supplement the regulation and are mandatory and enforceable in the same manner as the regulation.*



Material impacts

The CRM regulation and standards comprehensively cover the full credit risk lifecycle. While all areas will be affected, we anticipate the most significant impacts in the four key aspects highlighted below. The extent will vary among LFIs depending on their current maturity level in CRM practices.

This table provides a comparison between new and old regulations, along with implementation considerations to help LFIs effectively plan and execute their compliance roadmap.

Aspect	Area	New vs. old regulations	Implementation considerations
 Default definition (Article 6)	Credit risk assessment	<ul style="list-style-type: none"> Adds qualitative triggers (e.g. significant financial deterioration) while retaining the 90+ days overdue definition. Includes “unlikelihood to pay” criteria such as bankruptcy, insolvency or significant cash flow issues. Overdrafts trigger defaults if limits are breached without rectification. The materiality threshold for a default is greater than 5% of the total obligor exposure. 	<ul style="list-style-type: none"> Developing a comprehensive default identification framework incorporating both quantitative and qualitative indicators.
 SICR-driven triggers (Article 7)	Credit risk classification	<ul style="list-style-type: none"> Introduces default triggers based on the significant increase in credit risk (SICR). PD increase of 100% or more leads to default. Borrowers downgraded by two or more notches in external/internal ratings are treated as a default (previously not applicable). 	<ul style="list-style-type: none"> Revising risk classification systems to incorporate new SICR criteria. Developing early warning systems to identify potential SICR events.
 Collateral and haircuts (Article 10)	Credit risk mitigation	Changes in haircut schedules include: <ul style="list-style-type: none"> 1%–2% for short-term government bonds and 5%–8% for long-term bonds, vs. 0% previously. 25%–30% for residential real estate and 30%–40% for commercial, vs. 30%/50% previously. 15%–20% for liquid listed equities and 30%–40% for unlisted, vs. a fixed 30% rate previously 	<ul style="list-style-type: none"> Revising collateral valuation methodologies. Updating systems to reflect new haircut schedules
 Restructuring approach (Article 8)	Loan management	<ul style="list-style-type: none"> Categorizes restructuring into distressed and non-distressed with specific triggers such as financial distress, reduced repayment capacity or past due by 90+ days. 	<ul style="list-style-type: none"> Updating restructuring policies and implementing clear documentation processes. Developing separate workflows for each category

Highlights

The following articles establish the comprehensive regulatory framework that LFIs must implement to ensure compliance with the new CRM standards.

Article 02

Credit risk governance

This article covers the board's role in approving the credit risk strategy and oversight, with senior management responsible for implementation and risk mitigation.

Article 03

CRM framework

The framework must align with risk appetite, mitigate risks and ensure effective controls, limits, monitoring and management across all instruments and geographies.

Article 04

Credit risk oversight functions and roles

LFIs must have a chief credit officer (CCO) responsible for independent credit review, ensuring proposals align with the risk appetite and policies. The CCO conducts annual creditworthiness assessments and ensures Shariah compliance for Islamic finance.

Article 05

Credit underwriting

LFIs must have a clear underwriting policy, thorough due diligence, structured decision-making and proper collateral management, with accountability for credit decisions and performance.

Article 06

The definition of default

This article defines "default" for LFIs as non-payment (90+ days overdue) or unlikelihood to pay, with material exposure greater than 5%. Retail defaults apply at the facility level; wholesale defaults trigger obligor default. The cross-default principle applies to wholesale obligors.

Article 07

Significant increase in credit risk

LFIs must regularly assess SICR for each obligor, using facility, group or portfolio levels based on deferrals, DPD and other risk indicators. Assessments must be documented and consider macroeconomic factors.

Article 08

Restructuring

A credit facility is considered distressed if it is restructured due to financial difficulty or if payments are more than 90 days overdue. Restructurings for commercial reasons are non-distressed. LFIs must follow clear, documented processes, ensuring Shariah compliance for Islamic finance.

Article 09

Classification and provisioning

This article covers the classification of credit facilities into 1–3 stages, regular reviews, internal ratings, provisioning, senior management approval, and CBUAE regulations, including for Islamic finance and retail obligors.

Article 10

Credit risk mitigation

This article outlines guidelines for using collateral, including valuation, haircuts, management, enforceability, and Shariah compliance.



Article 11

Portfolio management and internal reporting

LFIs must monitor creditworthiness, integrate portfolio management, conduct annual reviews, and report to management for risk mitigation.

Article 12

Non-performing assets and write-off

This article outlines the board's responsibility for managing NPAs, including forbearance, collateral management, legal recovery, timely write-offs, and tracking post-write-off recovery efforts—especially for stage 3 exposures.

Article 13

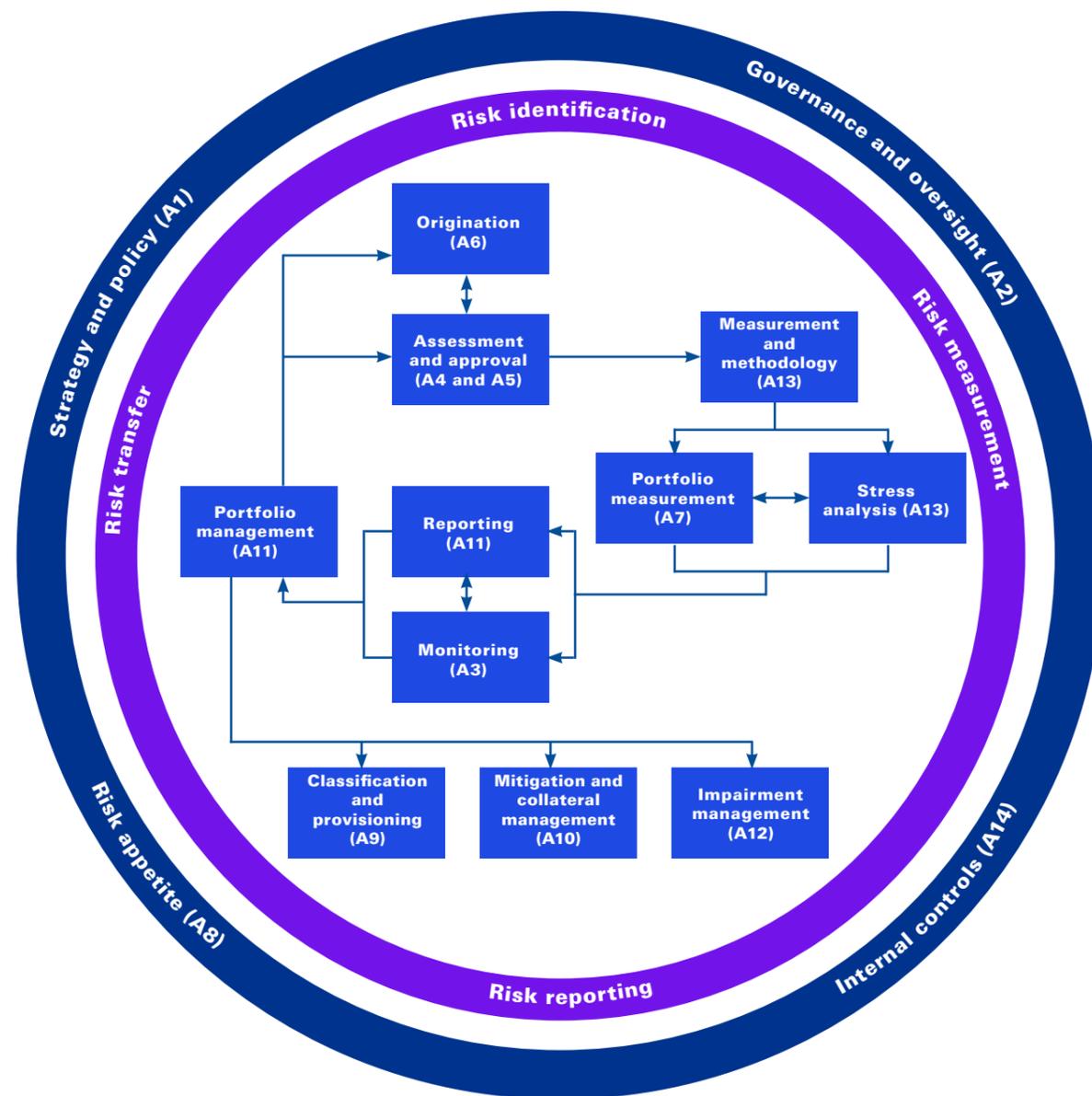
Credit risk models

LFIs must have tools to measure and analyze credit risk at various levels using models where appropriate, while ensuring compliance with CBUAE standards and maintaining effective controls for model validation and risk decisions.

The CRM framework: a thematic mapping

LFI's existing CRM frameworks will require uplifting and enhancement to accommodate the new requirements from the CBUAE. Figure 1 provides a visual representation of a traditional CRM framework, mapped to the new CRM regulation and standards articles.

As shown in this framework, while all areas are impacted, we anticipate the most significant changes in risk measurement and reporting, which will require enhanced governance and oversight controls. Key connections between areas (such as how classification and provisioning drive impairment management) are highlighted through the framework's interconnected design.



How KPMG can help

CRM is one of the most important business areas for financial institutions. The landscape is rapidly evolving, shaped by increased regulation, economic and sector volatility, advancements in technology and more recently, the growing role of AI. Considering the scope of the new regulation and standards, LFIs must enhance financial resilience by further developing and strengthening their CRM practices.

KMPG's implementation support framework

01

Gap analysis

Comprehensive assessment comparing your current credit risk practices against the new CBUAE requirements.

We identify compliance gaps, evaluate the impact on provisions and capital and develop a prioritized implementation roadmap with quick wins and long-term strategic changes.

02

Policy development

Revision and creation of credit risk policies to align with new regulatory standards. We update key frameworks including restructuring policies, IFRS 9 methodologies, default identification, and collateral management approaches, with clearly defined governance processes.

03

Model development and validation

Enhancement of credit risk models to incorporate new requirements for SICR identification, default triggers and ECL calculation.

We develop and validate models that capture regulatory requirements while aligning with your risk appetite and business strategy.

04

Process redesign

Transformation of credit workflows, approval procedures and governance structures to meet new regulatory standards.

We redesign your processes for restructuring classification, collateral management and provisioning to ensure compliance.

05

Training and change management

Development of staff capabilities to effectively implement and maintain new credit risk frameworks.

We provide comprehensive training programs and change management support to ensure sustainable compliance and effective institutional knowledge transfer.





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 **Excellence:**
We never stop learning and improving

 **Courage:**
We think and act boldly

 **Together:**
We respect each other and draw strength from our differences

 **For Better:**
We do what matters

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