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ARCHITECTS OF HIGH-PERFORMANCE TRANSITIONS

sustainability, compliance, capital

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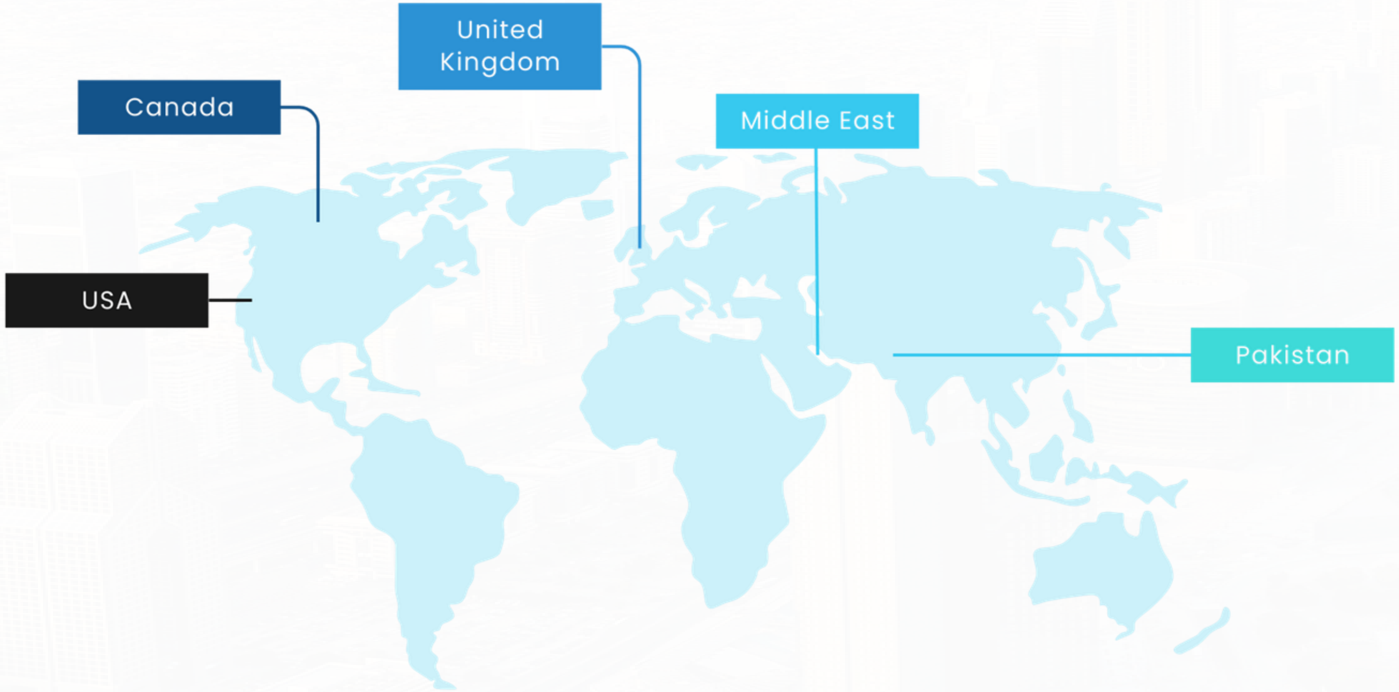
ABOUT US

We architect a unified data ecosystem fusing global sustainability standards with seamless capital access

we make it easy for global capital, businesses and governments to remain compliant, manage climate and social risk while driving superior financial performance and capital inflow



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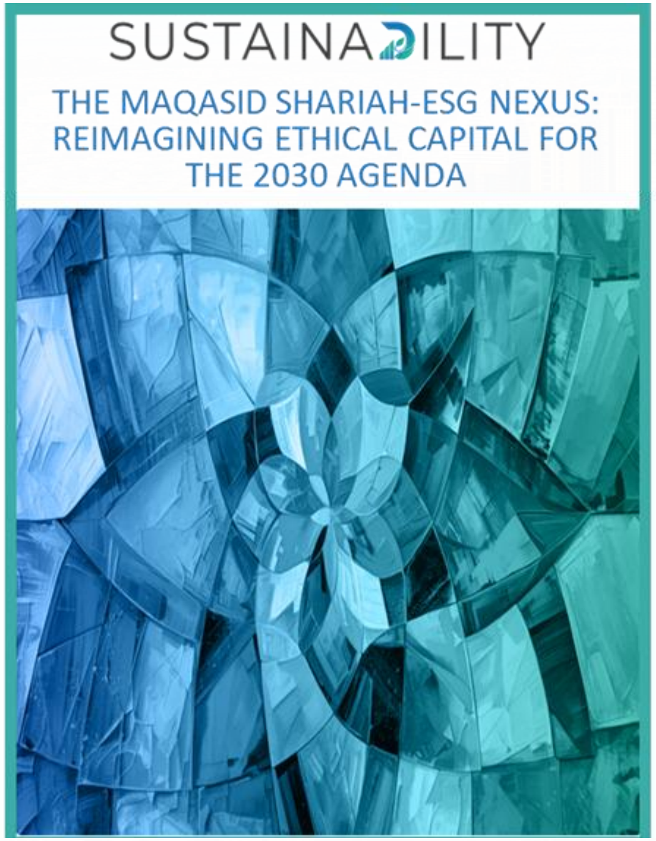
OUR THOUGHT LEADERSHIP



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CBUAE CIRCULAR 08/2025: CLIMATE-RELATED FINANCIAL RISK MANAGEMENT REGULATION

Key Context

Aligns with UAE's commitment to the Paris Agreement (2016)

Supports the UAE Green Agenda 2015-2030

Supports the UAE's Net Zero by 2050 strategic initiative

Supports the National Climate Change Plan (2017-2050)

Scope

The regulation applies to:

All Banks operating in the UAE

All Insurance Companies operating in the UAE

Key Requirements

Governance

Strategy

Risk Management

Capital Adequacy and Solvency

Disclosures

The circular establishes an overarching framework for **Climate-related Financial Risk Management**. It follows the "**Principles for the Effective Management of Climate-related Financial Risks**" issued in November 2023 and the "**Sustainability-related Disclosure Principles**" issued in June 2024.

ANATOMY OF THE REGULATION

Article	Total Clauses	Compliance Required	No Compliance Required
Article 1: Definitions	1	0	1
Article 2: Governance & Risk Appetite	10	10	0
Article 3: Strategy	7	7	0
Article 4: Risk Management	20	20	0
Article 5: Capital	3	3	0
Article 6: Enforcement	2	0	2
Article 7: Interpretation	1	0	1
Article 8: Publication & Application	3	2	1
TOTAL	**47**	**42**	**5**

CBUAE Circular 08/2025: Climate-related Financial Risk Management Regulation

KEY DEFINITIONS

Term	Definition Summary	Relevance
Climate-related Financial Risks	Financial risks from climate change including Physical, Transition, and Liability risks	Core concept for all compliance
Physical Risk	Risks from acute events (floods, storms) and chronic changes (temperature rise, sea level rise)	Risk identification and assessment
Transition Risk	Risks from policy, legal, technology, market, and reputation changes in low-carbon transition	Portfolio and strategy assessment
Liability Risk	Risks from compensation claims related to Physical or Transition risks	Legal and compliance consideration
Financed Emissions	GHG emissions from lending and investment activities (Scope 3, Category 15)	Metrics and reporting
Stranded Assets	Assets suffering premature write-downs due to transition	Portfolio risk assessment
Greenwashing	Misleading environmental claims	Disclosure and reputation risk

IMPACT TO EQUITY (I2E) FRAMEWORK

Our proprietary and innovative execution engine

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DISCOVER

Opportunity Mapping

Identify & Quantify Latent Impact Value

A verified Impact Opportunity Register detailing potential cost savings, revenue generation, and risk mitigation

Gap Analysis & Implementation Roadmap

VALIDATE

Assurance & Benchmarking

Establish Credibility & De-Risk Investment

An Auditable Impact Ledger providing transparent, credible, and investor-ready data on sustainable performance

Data Management, Dashboard, Disclosures

CAPITALIZE

Innovation & Market Leadership

Monetize Impact & Build Strategic Equity

Accelerated Enterprise Value Growth, enhanced access to capital, and a strengthened, defensible market leadership position

Sustainability Linked Financial Instruments

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PHASE 1: GOVERNANCE & STRATEGIC ALIGNMENT (IMMEDIATE)

Establish the **foundational governance structures and strategically aligning the bank's operations**

1. **Board & Senior Management Training:** Establish a formal training program to ensure the Board and Senior Management have "adequate understanding and knowledge" of climate-related financial risks (Article 2.2).
2. **Assign Accountability:** Formally delegate operational functions for climate risk to specific Board committees or Senior Management, ensuring documented responsibility and escalation procedures (Article 2.6).
3. **Resource Allocation:** Ensure dedicated human and financial resources are assigned to climate risk management (Article 2.7).
4. **Strategy Impact Assessment:** Conduct an initial assessment of how climate risks impact the bank's business model, activities, and long-term strategy (Article 3.1).
5. **Update Risk Appetite:** Embed climate-related financial risks into the bank's formal Risk Appetite Statement (RAS) and governance frameworks (Article 2.4).

PHASE 2: RISK FRAMEWORK & DATA INTEGRATION (Q1–Q2 2026)

Transitions from **governance to operational integration**

1. **Incorporate Climate Risk into Risk Categories:** Integrate climate risk into existing risk categories (Credit, Market, Operational, Liquidity) or establish it as a standalone category (Article 4.1).
2. **Customer Due Diligence (CDD) Updates:** Integrate climate risk assessment into the credit, investment, and underwriting policies. This includes identifying risks that impact customer creditworthiness at both the customer and portfolio levels (Article 4.7).
3. **Data Management Framework:** Implement data systems that support the identification, measurement, and reporting of climate-related exposures (Article 4.3).
4. **Green Product Governance:** If offering green or ESG-linked products, establish a robust governance framework including clear criteria for "green" qualification and dedicated approval committees (Article 2.8).

PHASE 3: ADVANCED MEASUREMENT & STRESS TESTING (Q2–Q3 2026)

Transition from **qualitative frameworks to quantitative rigor**

1. **Annual Scenario Analysis:** Develop the internal capacity to conduct climate scenario analysis at least annually. This must test the impact of severe climate pathways on the bank's risk profile (Article 4.11).
2. **ICAAP Integration:** Incorporate climate-related scenario analysis and risk assessments into the Internal Capital Adequacy Assessment Process (ICAAP) (Article 5.2, 5.3).
3. **Liquidity Impact Assessment:** Integrate climate risk drivers into the Internal Liquidity Adequacy Assessment Process (ILAAP) and stress testing programs (Article 4.10).

NGFS (Network for Greening the Financial System) Defined Scenarios

Scenario	Description
Orderly Transition	Early and predictable transition; moderate near-term costs; lower long-term physical losses.
Disorderly Transition	Delayed action then abrupt tightening; higher short-term costs/volatility.
Hot House World	Limited transition; higher physical hazards and disruption over time.

PHASE 3: SCENARIO ANALYSIS [PHYSICAL & TRANSITION]

Physical Risk Exposure (Site-level)

Score exposures and estimate downtime/repair costs; roll-up to Impact_Model.

A. Hazard scoring (fill for each site)

Site ID	Hazard	Exposure (1-5)	Vulnerability (1-5)	Adaptive capacity (1-5)	Overall score (0-10)	Downtime (days/yr)	Repair/response cost (AED/yr)	Confidence (Low/Med/High)	Source URL	Notes
S1	Extreme heat / refrigeration load	4	3	3	4	4	120,000	Med	Internal maintenance logs; facility KPI	Heat waves increase refrigeration load; risk of compressor failures
S1	Pluvial flooding (stormwater)	3	3	2	4	2	150,000	Med	Facility drainage assessment; insurer site survey	Warehouse access roads flood; affects inbound/outbound
S2	Extreme heat / worker productivity	4	2	3	3	1	30,000	Low	Manager estimate	Heat reduces productivity; limited shaded loading bays
S2	Road disruption from heavy rain	2	2	2	2	1	20,000	Low	Operational experience	Short-term delivery delays; diversions increase fuel use

B. Transition channels (qualitative scoring)

Channel	What to consider	Exposure (1-5)	Readiness (1-5)	Residual score	Notes / evidence
Policy & carbon pricing	Carbon cost, reporting requirements, efficiency mandates	3	2	2	Potential carbon reporting/price pass-through; limited internal carbon accounting today.
Market & demand shifts	Customer preferences, green procurement, export requirements	3	3	1	Key B2B clients asking for temperature-controlled emissions data; partial readiness via telematics.
Technology disruption	Electrification, efficiency tech, low-carbon substitutes	2	3	0	Refrigeration efficiency upgrades identified; pilots underway on smart controls.
Supply chain constraints	Supplier decarbonisation, logistics disruption, input scarcity	2	2	1	Dependence on refrigeration parts/consumables; limited secondary suppliers in region.
Financing & insurance	Loan covenants, pricing, coverage limits, disclosures	4	2	3	Bank requests scenario analysis + emissions; insurance renewals tightening after extreme weather.

Y

PHASE 3: SCENARIO ANALYSIS [IMPACT ASSESSMENT]

A. Snapshot year inputs and stressed values

Line item	Baseline	Driver (from Scenario_Assumptions)	Stressed
Revenue	48,000,000	Demand / volume change	47,520,000
COGS	28,400,000	Fuel price change	31,808,000
Opex	11,400,000	Electricity price change	13,041,600
Interest expense	980,000	Insurance premium change	1,127,000
Carbon cost (proxy)	0	Carbon price × total emissions	525,525
Physical downtime cost (proxy)	0	Stressed revenue/365 × downtime days (sum)	1,041,534
Physical repair/response cost (proxy)	0	Sum of site repair/response costs	320,000

B. Snapshot P&L roll-up (baseline vs stressed)

Line item	Baseline	Stressed	Δ (AED)	Δ (%)
Revenue	48,000,000	47,520,000	(480,000)	-1.0%
COGS	28,400,000	31,808,000	3,408,000	12.0%
Gross Profit	19,600,000	15,712,000	(3,888,000)	-19.8%
Opex	11,400,000	13,041,600	1,641,600	14.4%
EBITDA	8,200,000	2,670,400	(5,529,600)	-67.4%
Carbon cost	-	525,525	525,525	0.0%
Physical downtime cost	-	1,041,534	1,041,534	0.0%
Physical repair cost	-	320,000	320,000	0.0%
Interest expense	980,000	1,127,000	147,000	15.0%
Profit before tax (proxy)	7,220,000	(343,659)	(7,563,659)	-104.8%

PHASE 4: REPORTING & FINAL ALIGNMENT (BY SEP 2026)

Institutionalizing **transparency and ensuring full regulatory accountability**

1. **Internal Reporting Systems:** Establish reporting lines that provide timely and accurate climate risk information to the Board and Senior Management (Article 4.5).
2. **External Disclosures:** Align reporting with the Sustainability-related Disclosure Principles (June 2024) to ensure transparent public disclosure of climate-related risks.
3. **Submit Compliance Plan (If Needed):** If full compliance cannot be demonstrated by the deadline, submit a formal remediation plan to the CBUAE for approval (Article 8.2).

CHECKLIST (1/2)

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Governance Requirements Checklist

- ☐Board climate risk responsibilities documented
- ☐Board climate competence assessment completed
- ☐Board training program implemented
- ☐Senior Management responsibilities assigned
- ☐Climate Risk Committee/function established
- ☐Reporting lines documented
- ☐Climate risk appetite statement approved
- ☐Quantitative climate metrics defined
- ☐Annual review process established

Strategy Requirements Checklist

- ☐Climate risks integrated into business strategy
- ☐Short/medium/long-term horizons defined
- ☐Climate opportunities identified
- ☐Transition plan developed
- ☐Interim targets and milestones set
- ☐Client engagement program established

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CHECKLIST (2/2)

Risk Management Requirements Checklist

□Climate risk framework documented

□Risk identification process established

□Measurement methodologies implemented

□Monitoring dashboards created

□Credit risk integration completed

□Market risk integration completed

□Operational risk integration completed

□Liquidity risk integration completed

□Scenario analysis framework established

□Stress testing conducted

Capital Requirements Checklist

□ICAAP climate integration completed

□Capital stress tests conducted

□Climate capital buffers established

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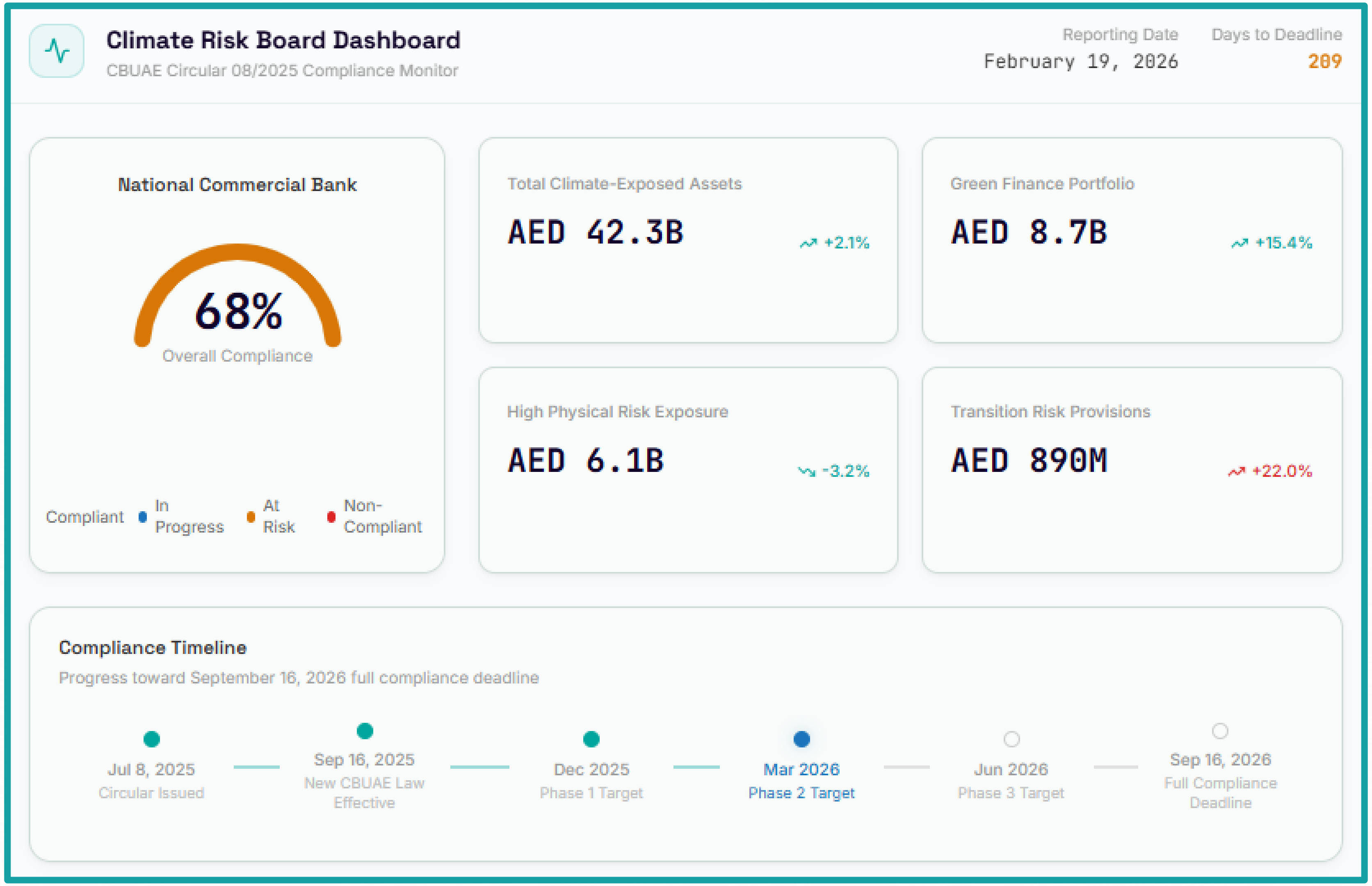
SAMPLE DASHBOARD (1/3)



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Climate Risk Board Dashboard

CBUAE Circular 08/2025 Compliance Monitor

Reporting Date: February 19, 2026

Days to Deadline: 209

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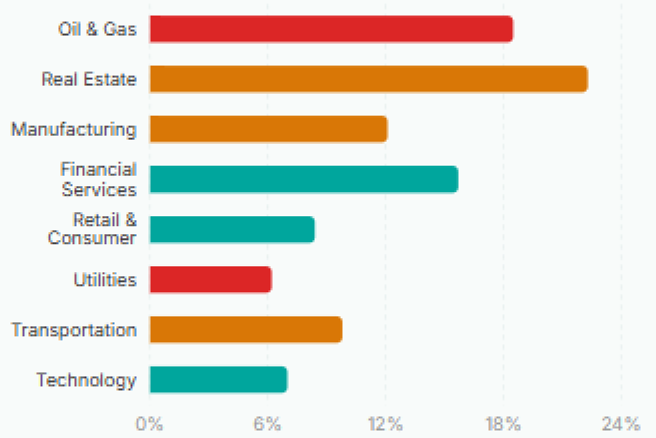
SAMPLE DASHBOARD (2/3)

Regulatory Compliance by Phase

Phase 1	Governance & Strategic Alignment	Articles 2 & 3	92%
Phase 2	Risk Framework & Data Integration	Article 4 (4.1–4.7)	65%
Phase 3	Measurement & Stress Testing	Articles 4.8–4.11 & 5	40%
Phase 4	Reporting & Final Alignment	Articles 4.5, 6 & 8	20%

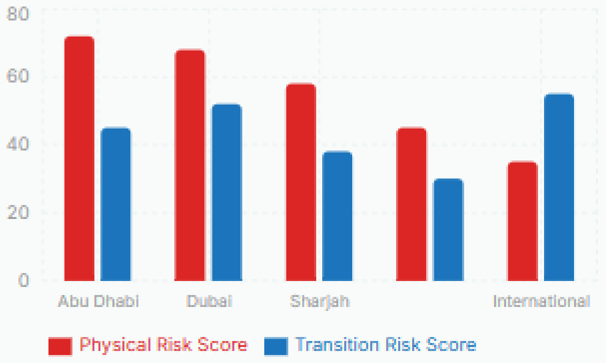
Portfolio Exposure by Sector

Climate risk-weighted exposure as % of total portfolio



Physical vs. Transition Risk by Region

Risk scores by geographic concentration (Article 4.7.6)



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Climate Risk Board Dashboard

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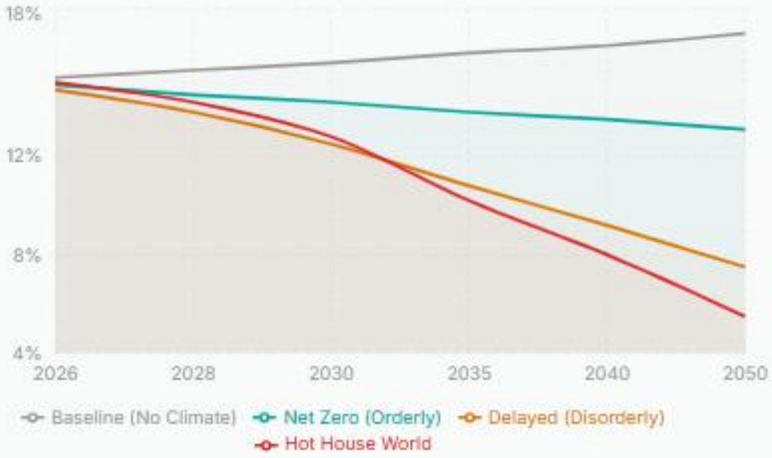
Capital Adequacy Under Climate Scenarios

Projected CET1 ratio (%) under different climate pathways (Article 4.11 & 5)



Scenario Impact Summary

Estimated impact on capital and provisions

Scenario	Capital Impact	Provision Increase
Net Zero 2050 (Orderly) Gradual transition with early policy action	-2.1%	+3.5%
Delayed Transition (Disorderly) Late, sudden policy shifts causing market disruption	-4.8%	+8.2%
Current Policies (Hot House) No additional climate policies; severe physical risks	-7.3%	+15.1%

SAMPLE DASHBOARD (3/3)

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HOW WE CAN ASSIST

Strategic Advisory & Data Management

Advanced Risk & Scenario Analysis

Sustainable Finance Innovation

Staff Training, Tools, Templates

Resource Augmentation, Remote & Onsite

Our 15-Month Implementation Roadmap

M1-4	Foundational Governance & Compliance
M5-9	Data Management, Portfolio Quantification & Scenario Analysis
M9-15	Strategic Value Capture – Green Financial Instruments

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KEY TAKEAWAYS

Proactive vs. Reactive

Compliance with Circular 08/2025 is not merely a regulatory checklist; it is a strategic imperative. Banks that integrate climate risk early will build long-term institutional resilience.

Opportunity in Transition

The shift to a low-carbon economy presents significant growth opportunities. Leading banks will leverage their green governance frameworks to pioneer new sustainable financial products and services.

Data is the Foundation

Robust data management frameworks are essential. Accurate identification and measurement of climate-related exposures are the prerequisites for effective risk mitigation and reporting.

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DISCUSSION

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