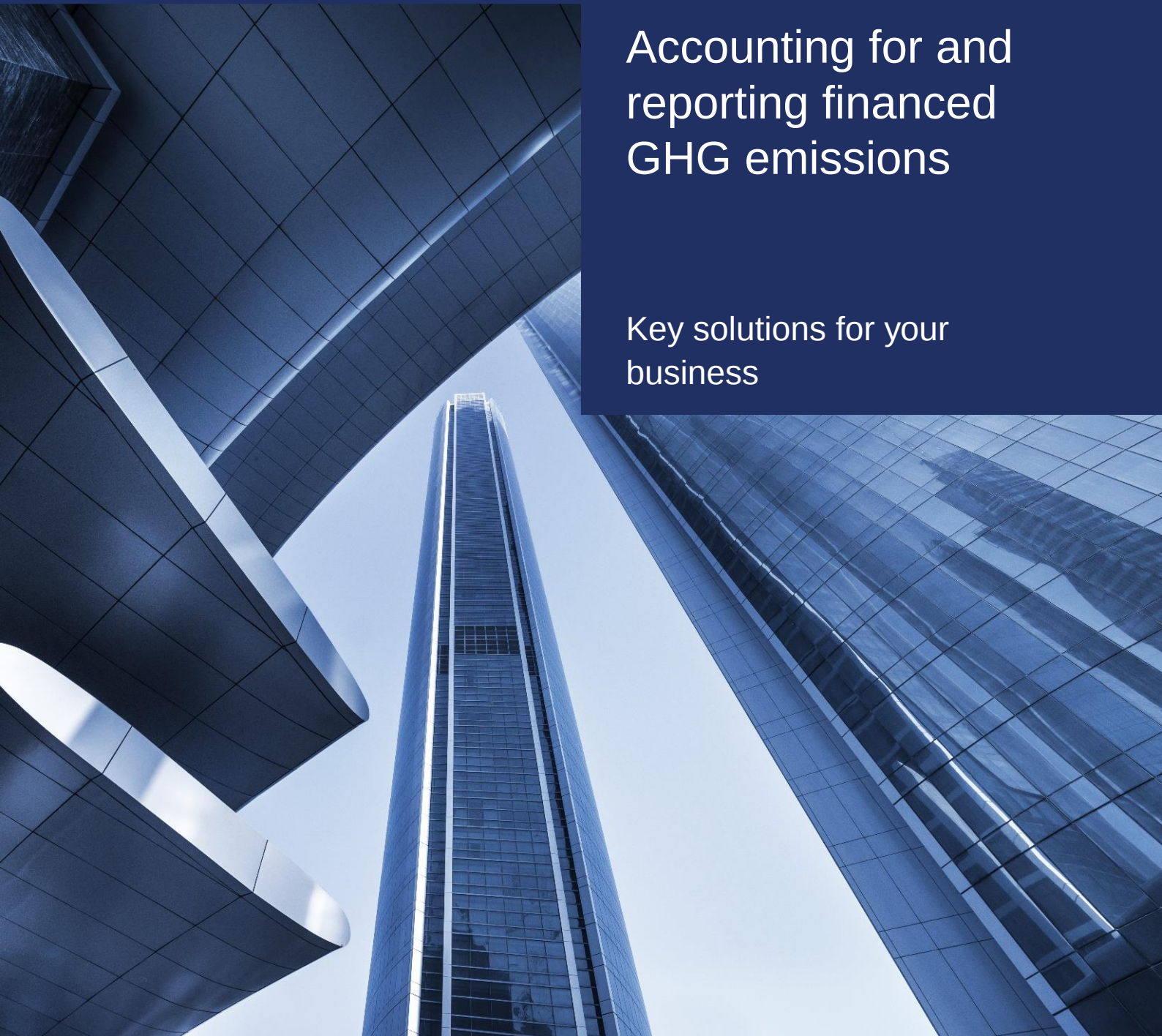


A low-angle, upward-looking photograph of several modern skyscrapers with glass facades, creating a sense of height and architectural grandeur. The buildings are set against a clear blue sky.

Accounting for and reporting financed GHG emissions

Key solutions for your business

Financed greenhouse gas emissions

The UAE National Climate Change Plan 2017–2050 mandates creating a National Greenhouse Gas (GHG) Monitoring, Reporting and Verification System. As of 2025, GHG emissions monitoring is mandatory for all UAE businesses, including financial institutions (FI). FI have low GHG emissions across all carbon emission scopes, however, Scope 3 stipulates quantifying GHG emissions from investments, or financed emissions.

Greenhouse gas emission scopes:

- Scope 1** Direct GHG emissions
- Scope 2** Indirect GHG emissions from imported energy
- Scope 3** Other indirect GHG emissions

Although each financial institution in the UAE determines its own boundaries for quantifying GHG emissions, it is highly likely that accounting for financed emissions will become mandatory.

In addition, the IFRS S2 standard, released in 2023, requires entities to measure their financed GHG emissions. This is the first requirement of its kind; previously, such a quantitative assessment was carried out by financial institutions voluntarily.

Under IFRS S2, FI comprise:

- Asset management companies
- Insurance companies
- Commercial banks

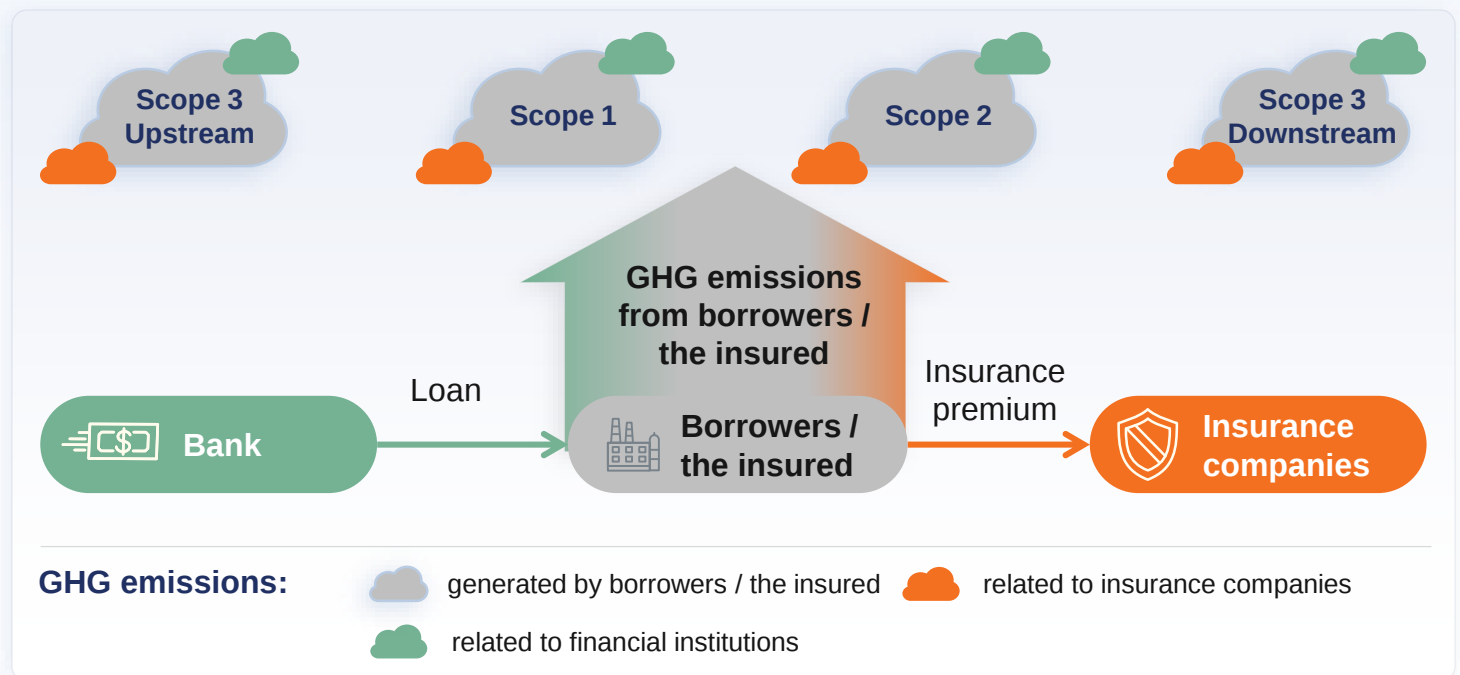


Recommendations for accounting financed GHG emissions are already included in existing industry standards, for example, ISO 14064-1:2018. However, these recommendations are rarely followed due to a lack of methodology and because they are voluntary in nature.



Quantifying financed GHG emissions provides an opportunity to a financial institution to enhance its reputation as a responsible investor.

What are financed GHG emissions?



Greenhouse gases are generated during economic activity. The existence of a business is often associated with raising debt funds and involves risk insurance. The sources of funds and the insurer are FI, which means they indirectly participate in the generation of GHG emissions.

Financed GHG emissions are linked to the investment and lending activities of FI. Financed emissions originate from the assets of borrowers (the insured), and some of their direct and indirect GHG emissions are also the indirect emissions of an FI.



The carbon intensity of a financial institution's portfolio is a specific indicator that characterises GHG emissions per unit of asset value (e.g. in tCO₂e/USD).

Financed GHG emissions form part of an asset's total GHG emissions. For an FI, they constitute other indirect emissions (Scope 3).

The standards for conducting GHG emission inventories categorise financed GHG emissions as follows.

ISO 14064-1:2018

Category 5. Indirect GHG emissions associated with the use of products from an organisation
d) Emissions from investments mainly target private or public FI. Emissions can be from 4 types of operations:

- Equity investments
- Debt investments
- Project finance
- Other

GHG Protocol

Scope 3. Category 15: Investments
For GHG accounting purposes, this standard divides financial investments into 4 types:

- Managed investments and client services
- Equity investments
- Project finance
- Debt investments



The approach to accounting for these categories is set out in the Partnership for Carbon Accounting Financials industry standard (PCAF).

FI responsibility for GHG emissions

The quantification of financed GHG emissions is performed in accordance with the Global GHG Accounting and Reporting Standard for the Financial Industry developed by the **Partnership for Carbon Accounting Financials (PCAF)**. The standard is internationally recognised and used in the verification of financial statements.

ATTRIBUTION FACTOR IS A KEY CONCEPT FOR FINANCED GHG EMISSIONS ACCOUNTING

Financed GHG emissions are determined relative to all the emissions of an asset or organisation using the attribution factor F_a .

$$\text{Financed GHG emissions} = \sum \text{Asset's GHG emissions} \times F_a$$

The PCAF standard requires that GHG emissions be accounted for within **three** types of portfolios, depending on the role of the FI in relation to the asset. Each type of portfolio is covered by a separate part of the standard:

Part A financed GHG emissions

Part B facilitated GHG emissions **Part C** insured GHG emissions

Financed

GHG emissions from investments and borrowers' activities

Role of the FI: **investor/lender**

Liability for GHG emissions is proportional to the value of the securities or the balance of the debt

Facilitated

GHG emissions from the activities of the issuers of securities whose issue is facilitated by an FI

Role of the FI: **underwriter, bookrunner**

Responsibility for GHG emissions is proportional to the cost of the securities issue and the role of the FI in underwriting

Insured

GHG emissions from the activities of an insurer and insured assets

Role of the FI: **insurer**

Liability for GHG emissions is determined based on the risks that are insured

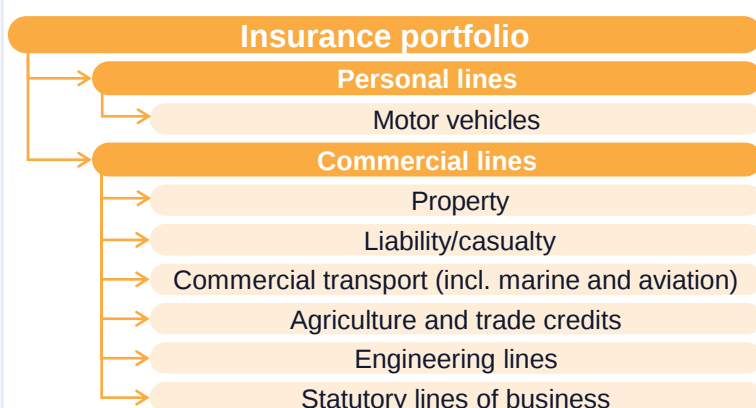
How to calculate the attribution factor

The PCAF standard allows the extent of a financial institution's responsibility for GHG emissions from financial and insurance portfolios to be assessed. Depending on the type of the portfolio or asset category, the methodology for calculating the attribution factor varies.



ASSET CATEGORIES ACCORDING TO PCAF STANDARD

—+ KEY ATTRIBUTION FACTOR F_a
 ×= CALCULATION METHODS

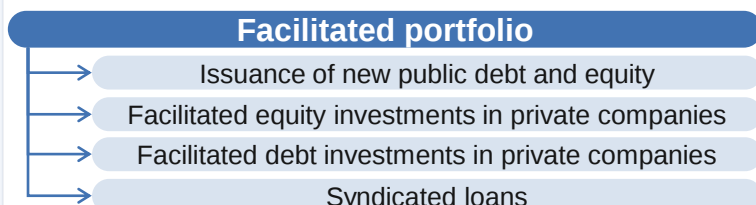


$F_a =$

$$\frac{\text{Insurance premium}}{\text{Total cost of ownership}}$$

OR

$$\frac{\text{Insurance premium}}{\text{Revenue of the company whose assets are insured}}$$



$F_a =$

$$\frac{\text{Facilitated amount}}{\text{Enterprise value of issuing company, including cash}}$$



$F_a =$

$$\frac{\text{Outstanding amount}}{\text{Enterprise value including cash}}$$

OR

$$\frac{\text{Outstanding amount}}{\text{Total value at origination}}$$

OR

$$\frac{\text{Outstanding amount}}{\text{PPP-adjusted GDP}^1}$$



Methods for calculating the attribution factor and GHG emissions are specified for each of the asset categories of FIs and insurers according to their industry specifics. A number of mechanisms can be used to calculate GHG emissions within one category.

While IFRS S2, ISO 14064-1:2018, and the GHG Protocol standards require the inventory of GHG emissions from financial activities, they do not indicate a specific preferred methodology. The PCAF standard allows this requirement to be fulfilled by offering the most detailed methodology for assessing financed GHG emissions.

¹ PPP-adjusted GDP – Purchase Power Parity-adjusted Gross Domestic Product

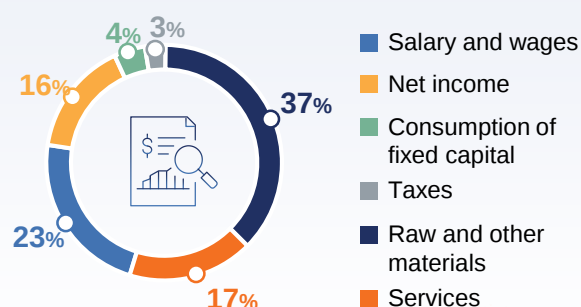
TENET's approach to accounting for GHG emissions from financial activities

ASSETS WITH HIGH ESTIMATION UNCERTAINTY

For some categories of FI assets (for example, loans issued to legal entities without specifying a purpose), the uncertainty of the valuation is very high. Also, many borrowers are not obliged to disclose information about GHG emissions and do not keep appropriate records. These assets form a significant part of the FI's portfolio and cannot be excluded from the calculation.

TENET's approach to accounting for GHG emissions from such borrowers is based on understanding how they allocate costs and estimating their consumption of raw materials. It is assumed that, within the industry, all companies without public reporting have the same cost allocation.

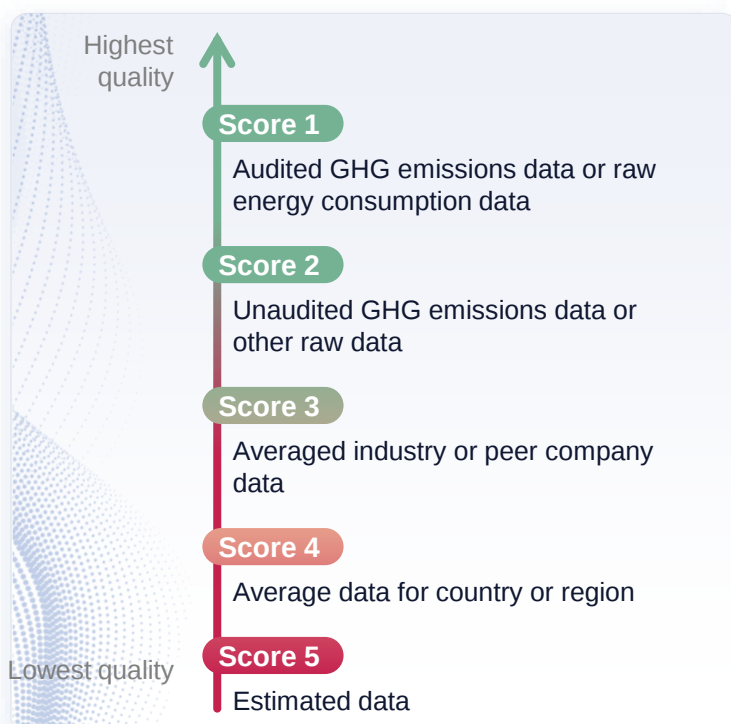
Cost allocation within the industry



INITIAL DATA QUALITY ASSESSMENT

Within the PCAF standard, all methods for quantitative GHG emission assessment are divided into **5 classes** according to the quality of initial data. 'Quality' is understood to mean the level of uncertainty that arises when these data are used:

- 1** – data of the highest quality (practically no uncertainty)
- 5** – data of the lowest quality (uncertainty is maximum)



OPTION 1: REPORTED DATA

- Data on GHG emissions obtained directly from the borrower or investee company
- Emissions data aggregated by a third party

OPTION 2: EMISSIONS BASED ON PHYSICAL ACTIVITY INDICATORS

- Actual energy consumption data
- Actual production data
- Comparison of data from reputable independent organisations with corresponding emission factors, based on physical activity indicators

OPTION 3: EMISSIONS BASED ON ECONOMIC ACTIVITY DATA

- Official economic figures for various industries
- Industry-average GHG emission rates

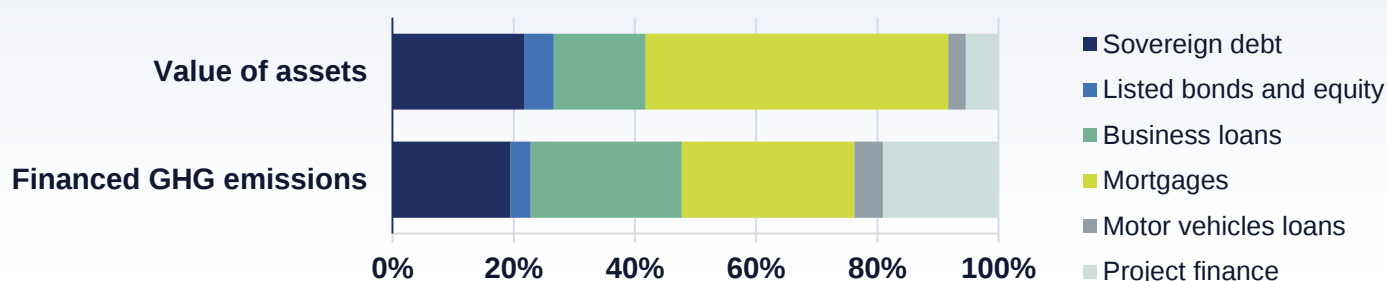
Following an assessment an FI will receive key metrics

CARBON INTENSITY COMPARATIVE ANALYSIS OF FI PORTFOLIOS

The carbon intensity of the assets in a portfolio can vary. The carbon intensity of a portfolio can be reduced by changing its composition, without decreasing its value.

Example:

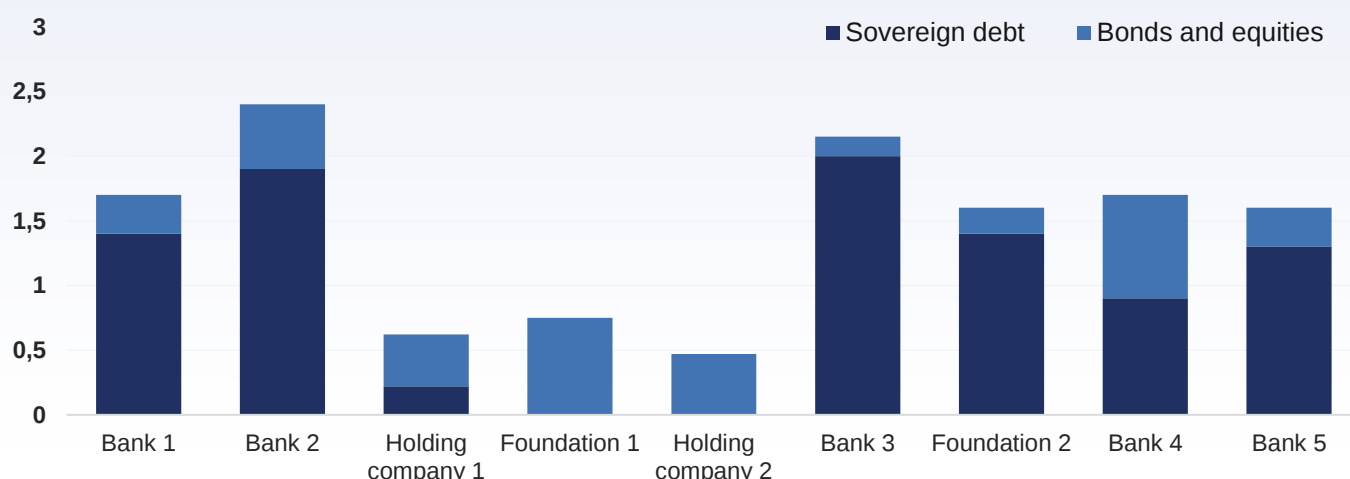
The share of different assets in the total volume of financed emissions and the total value of an FI's assets.



The interpretation of GHG emission data obtained enables an organisation to assess not only financial results, but also the environmental impact of its investments. As the carbon intensity of assets varies, it is possible to reduce financed GHG emissions without lowering the total value of assets.

Example:

The carbon intensity of securities portfolios of FI, tCO₂e/thousand USD



Financed GHG emissions can be used to establish the metrics and key performance indicators of FI. Financed GHG emissions are an additional indicator that can be considered when rebalancing a portfolio.

Why SW Tenet?

Our hand-picked team of sustainability professionals has extensive practical knowledge gained in all sectors and are certified across the entire spectrum of climate-related issues.

We monitor and apply global best practices, keep abreast with ever-changing requirements, while at the same time enhancing our own bespoke methodology.

Our integrated solutions range from assessment to implementation and verification support.

Key ESG services:

Climate

- Performing greenhouse gas inventories, including Scope 3 and financed emissions
- Preparing climate change and decarbonisation strategies
- Climate risks: qualitative and quantitative analysis of physical and transition risks in line with ISSB IFRS S2
- Developing carbon offsetting projects
- Boosting energy efficiency
- Assessing a product's carbon footprint

Sustainability

- Drafting ESG and sustainability strategies
- Preparing sustainability reporting that meets the requirements of GRI, SASB, IR, ISSB, CSRD, and the UN Global Compact
- Enhancing corporate governance and board of directors' performance
- Improving ESG rating scores and communication with investors
- Advising on sustainable financing
- Assessing supply chain sustainability

Environment

- Performing environmental due diligences, including as part of M&A
- Life cycle assessments of products and services
- Building biodiversity management systems
- Waste and water management strategies
- Circular economy services

Operational risks

- Assessing operational risks: quantitative and qualitative analysis

Health & Safety

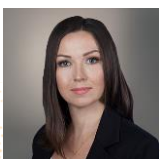
- Providing solutions for production safety management
- Performing safety audits

Physical asset management

- Maximising asset performance and reliability

Social aspects of business

- Addressing human rights in the business
- Consulting on social, charity, and sponsorship activities



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