Pathway to Net Zero

Carbon Management Plan 2023/24 to 2028/29

The Scottish National Investment Bank

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Executive Summary

At the Scottish National Investment Bank, we're committed to supporting Scotland's target of Just Transition to net zero by 2045. We're working hard to reduce greenhouse gas (GHG) emissions in our business, as well as showing leadership by supporting the organisations we invest in to manage and reduce their own emissions.

A key focus of this plan is reducing GHG emissions across our business functions – our operational emissions. Over the coming years, we'll continue to develop our approach to managing operational emissions as our business and processes mature and this plan establishes an initial baseline.

Operational emissions

Our operational emissions are based on data collated for the financial year 2022/23 (FY22/23) and equalled 58.66 tonnes of carbon dioxide equivalent (tCO_2e) and form our carbon footprint baseline. This includes future estate changes, electricity, gas, business and commuter travel, water, waste, and hotels.

We aim to reduce our operational emissions by a minimum of 5% by the end of financial year FY28/29 against the baseline. This target is measured, yet ambitious, as we acknowledge that our emissions profile is likely to increase as we continue to grow.

Investee emissions

The businesses we invest in – our investees – are the largest source of emissions linked to our bank. The complexity of carbon management, linked to the nature of these emission sources means that developing a robust baseline of the portfolio is difficult, particularly as investees may not have established appropriate processes to record. This position will vary continuously as our portfolio changes and investee companies grow. This Carbon Management Plan (CMP) is our first step in measuring and quantifying investee emissions, allowing us to record current levels and establish what emissions can be attributed to us, based on our level of investment.

We'll work closely with investees to help them take action to manage, measure and ultimately reduce their emissions. We'll continue to report on investee emissions through our usual channels, including Impact Reports and, moving forward, using the Taskforce on Climate-Related Financial Disclosures (TCFD) framework.

Management of the CMP

We all have a part to play in our net zero journey. Day-to-day management of this plan lies with our Associate Director of Climate Impact, supported by the Chief Executive Officer. We're establishing a Climate Action Network (CAN) to engage our team and promote and monitor our work.

As our portfolio fluctuates, we'll review this plan annually to make sure it's fit for purpose to deliver focussed operational carbon savings, and to support our portfolio companies. The CMP will be reviewed on an annual basis to ensure that it remains up to date, in line with both our TCFD aspirations and public bodies climate change duties reporting.

Commitment one

By FY28/29, we'll reduce our operational carbon emissions by 5%.

Commitment two

In FY23/24, we will increase transparency by reporting against the Taskforce on Climate-Related Financial Disclosures Framework. This will show how we're taking action to build a more resilient financial system through climate-related disclosure.

Commitment three

We will ensure that all new investments deliver a carbon management plan or net zero strategy.

If current investees don't have a carbon management plan or net zero strategy, we'll work with them to put one in place.

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Foreword

In our business plan for the current year, we committed to developing our first carbon management plan and to voluntarily meet the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD) framework.

These commitments are important to us, not only because achieving a just transition to net zero carbon emissions by 2045 is one the Bank's primary missions, but also because the way we deliver our missions is vital for building our credibility and our mission-driven culture. We would not encourage and support investee companies to measure, report and manage their carbon emissions without recognising that we should do the same.

We are a young institution, like many of our investee companies, and we want to lead by example in managing and measuring our carbon footprint, to learn alongside our investees as we do so.

The Scottish National Investment Bank is privileged to have a key role where we can influence change and transition in the Scottish economy in many ways, responding to both risks and opportunities. This includes in our supply chain, through our operations and employees, and of course through our activity as an impact investor.

The climate emergency is a global challenge. We have been tasked with viewing it through the specific lens of the Scottish economy, and through the Bank's investment activities, to help adapt and rebalance our domestic economy towards leadership in sustainable technology, services and industries.

Enabling a Just Transition across our economy will not be a simple journey. It is vital that we apply all our efforts and influence if we want to deliver the benefits at a domestic level as well as capitalise on the opportunities that change like this can bring. Across our portfolio we have a range of companies who can play a critical role today, as well as there being future opportunities through projects such as ScotWind. We have the chance to harness our expertise in traditional energy to forge new leadership in renewables.

Inevitably, there are tensions in our approach. We are seeking to invest in high growth companies - many of whom, and across our portfolio as a whole, are likely to increase their carbon footprint as they grow. We recognise this is why we need to fully understand the data and manage the impact of our portfolio appropriately.

We believe that for all our investees, our focus on carbon management also adds value. Helping companies to understand how they manage non-financial data such as carbon emissions is crucial to set them up for success in the economy of the future.

Our commitment to reduce our greenhouse gas emissions across our operations by at least 5% against our FY22/23 baseline will be difficult. In practice, we will need to work to reduce both direct and indirect emissions by a much greater amount than 5% of the baseline figure quoted within this plan to achieve our target, as we confront the underlying trend of an increasing footprint. However, this effort is vital on our journey towards becoming a net zero organisation and our responsibility is to lead by example within the wider ecosystem.

This document is the first step in developing our carbon management, transparency and reporting. We will soon share our disclosures against the TCFD framework, our second commitment for this financial year. Over time we will build on these foundations across our own operations and our investment activity to ensure we maximise our potential insight and impact for the benefit of the Scottish economy and its role in leading the way to meet this most critical of global challenges.

Al Denholm
Chief Executive Officer

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1. Introduction

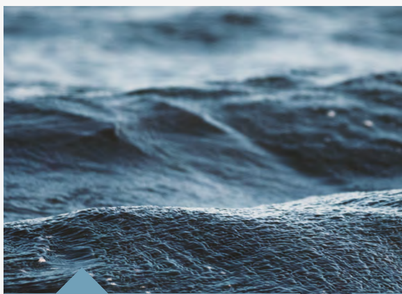
1.1 About us

Scottish National Investment Bank ('the Bank') was established in 2020 by Scottish Ministers. All of our investments must meet the aims of at least one of our three key missions – to support Scotland on its journey to net zero, to improve places and communities, or to harness innovation.

We are a development bank, typically investing between £1 million and £50 million, via debt or equity.

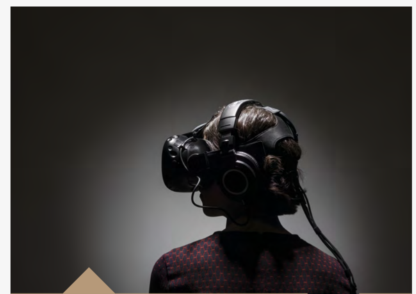
The Bank has a stated vision for investing not only the public capital we are allocated by the Scottish Government, but also to attract in third party capital. Our portfolio is based on sound commercial decisions that prioritise economic, societal and environmental returns, guided by our missions.

Our missions



Achieving a Just Transition to net zero by 2045

Extending equality of opportunity through improving places by 2040



Harnessing innovation to enable our people to flourish by 2040

We have 64 staff and operate from two leased offices in Edinburgh and Glasgow.

We committed to creating this Carbon Management Plan (CMP) in our FY23/24 Business Plan. This CMP shows how we'll reduce our operational emissions and start our journey to net zero, as well supporting our investees on their own net zero journeys.

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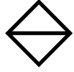

2. Our performance so far

The Bank launched in 2020 at the height of the Covid-19 pandemic, which means we've taken an early-stage approach to some of our work. We have always fulfilled our statutory reporting requirements, but some initial reports were limited due to the amount of data available.

In FY22/23 we reviewed our processes to improve data collection and create a clearer picture of our operational carbon footprint. This helped us accurately measure and monitor Scope 1, 2 and 3 operational emissions. At the end of FY22/23, our carbon footprint was 26.2 tonnes of carbon dioxide equivalent (tCO_2e). However, this excluded commute travel and projected annual emissions associated with our new office which is captured as part of this plans baseline.

Operational emissions since our 2020 launch

Source	Emissions Scope	Measure	2020-21	2021-22	2022-23
Total Emissions		**tCO_2e**	**34.2**	**17.2**	**26.2**
Gas	Scope 1	tCO_2e	16.2	0	2.67
Electricity	Scope 2	tCO_2e	8.5	5.4	6.18
Water	Scope 3	tCO_2e	0.007	0.08	0.11
Waste	Scope 3	tCO_2e	0.4	0.62	0.05
Business Travel	Scope 3	tCO_2e	–	1.61	8.541
Hotel	Scope 3	tCO_2e	–	0.11	1.12
Homeworking	Scope 3	tCO_2e	9	9.36	7.5

Scope 3 figures are based on our own operations and don't include investee emissions. Throughout this plan, we'll continue to note the separation between our own Scope 3 operational emissions and emissions from our portfolio. Because our portfolio changes regularly, we plan to recalculate investee emissions every year and capture these in both our Impact Report and future TCFD reports.

2.1 Developing our approach and plan

As a publicly funded institution, we're bound by reporting requirements set by our only shareholder, the Scottish Government. In considering the best way to understand our operational impact and our investees' impact, we have decided to separate our emissions into two parts: operational and portfolio (investee) emissions.

We will work hard to reduce the emissions we control, while supporting and influencing the reduction of emissions where we invest. We have chosen to establish a baseline for our operational emissions and section 5 has more information on how we manage and measure investee emissions.

We've introduced GHG accounting processes that meet a range of reporting requirements. To establish a net zero pathway for operational emissions, we use the "Greenhouse Gas Protocol: Corporate Value Chain (Scope 3) Accounting and Reporting Standards" operational control approach. With this approach, an organisation accounts for 100% of the GHG emissions from operations under its control, like business travel and electricity consumption. It does not account for operations where there is an interest and no control*.

*ghg-protocol-revised.pdf (ghgprotocol.org)

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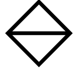

2. Our performance so far continued

2.2 Portfolio emissions

Separating our emissions doesn't mean we won't report on emissions associated with our investment portfolio. As a financial institution, measuring investee emissions is an essential starting point for managing risks and identifying opportunities linked to climate change. But because these emissions sit out-with the Bank, managing and controlling them brings a fundamental challenge.

Powering a fair journey to net zero is one of our core missions, but our role is to support and enable this, not to deliver it directly. As our portfolio grows and investments mature, it's likely we'll see increased emissions over time. We will use our influence to support the reduction of these emissions, helping investees to consider net zero implications and make a fair transition.

Commitment two

In FY23/24, we will increase transparency by reporting against the Taskforce on Climate-Related Financial Disclosures framework.
This will show how we're taking action to build a more resilient financial system through climate-related disclosure.

3. The context for carbon management

There is overwhelming scientific evidence that the changes and impacts we see in our weather patterns because of climate change will intensify over time. This demands a significant reduction in GHG emissions.

This CMP defines our strategic and operational measures to reduce CO^2 equivalent emissions by levels set by the Scottish Government. This is aimed at limiting global warming to 1.5°C, compared to pre-industrial levels.

We want to be transparent – as noted, we're committed to using the TCFD framework to show the impact we're having on the climate through our operations and our investments. (See Appendix.)

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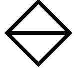


4. Operational emissions

Estimating our operational contribution to global climate change starts with establishing a carbon footprint boundary. This defines the activities that are under our control, like our estate, workforce and transport activities.

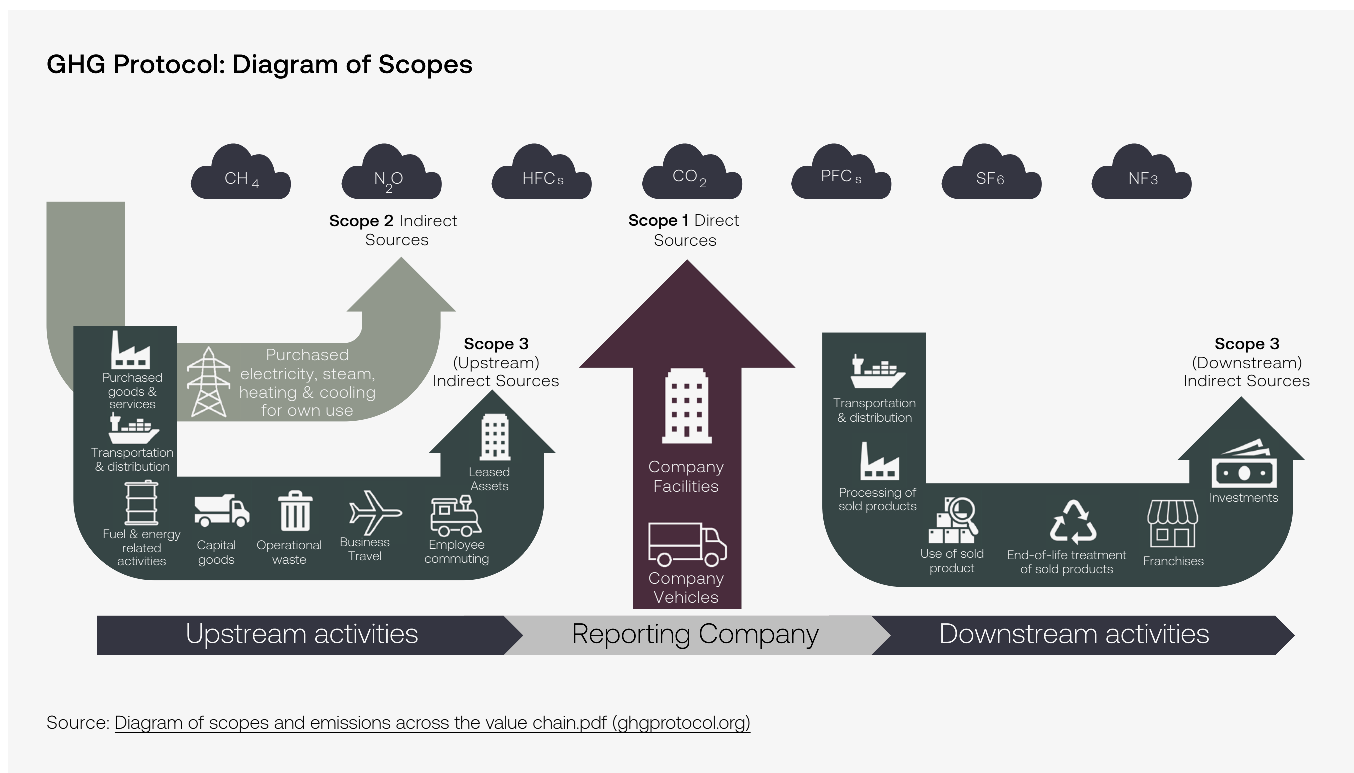
4.1 Setting our operational carbon footprint boundary

Emissions sources are defined by the World Resources Institute Guidance for Public Sector Organisations and the GHG Protocol. They're sorted into three scopes:

- **Scope 1** - direct emissions from owned or controlled sources
- **Scope 2** - indirect emissions from generating electricity, steam, heating and cooling, purchased and consumed
- **Scope 3** - all other indirect emissions in a company's value chain (identified as part of our corporate functions)

The figure below provides examples of what is included in the three scopes.

GHG Protocol: Diagram of Scopes



Source: Diagram of scopes and emissions across the value chain.pdf (ghgprotocol.org)

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4. Operational emissions continued

The figure below shows the boundary of our operational carbon footprint.

Operational carbon footprint boundary

Scope 1
Natural Gas

Scope 2
Electricity

Scope 3
Waste
Water
Commute Travel
Hotels
Hybrid/Homeworking
Business Travel

4.2 Data sources

We collect data from multiple internal and external sources to calculate our operational emissions. This includes our building facilities management contractors, travel agent, and our finance and operations departments. Staff commute travel is captured by an employee survey.

Data points are converted into tonnes CO2 equivalent (tCO_2e) using the UK Government's Department for Energy Security and net zero GHG reporting conversion factors. The factors are updated annually in May/June. Updates include changes based on new data availability, methodology improvements, and error correction.

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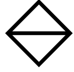

4. Operational emissions continued

4.3 Operational carbon footprint baseline

Since launch, we have collated and reported on emissions in our Public Bodies Climate Change Duties reports. Our operational baseline is now based on FY22/23, with commute travel emissions and our new office space added.

We've chosen FY22/23 as our baseline year because it is our most complete dataset, reflecting the current shape of our operations. However, our actual figures are not representative of what our operations will look like moving forward. To ensure this plan remains fit for purpose, we have engaged with the landlord at our new Glasgow office to estimate emissions based on their figures. While this provides a fuller picture of what our operations will look like moving forward, we predict our emissions will likely increase over the next 1 – 2 years, due to continued growth of the business and the expanded boundary.

The table below provides a detailed breakdown of our emissions.

Operational carbon footprint baseline

Source	Emissions Scope	Measure	2022-23
Gas	Scope 1	tCO_2e	6.49
Electricity	Scope 2*	tCO_2e	10.98
Water	Scope 3	tCO_2e	0.18
Waste	Scope 3	tCO_2e	0.22
Business Travel	Scope 3	tCO_2e	8.54
Hotel	Scope 3	tCO_2e	1.12
Commute Travel	Scope 3	tCO_2e	23.63
Homeworking	Scope 3	tCO_2e	7.50
Total Emissions		**tCO_2e**	**58.66**

*Includes Scope 3 - Electricity transmission and distribution.

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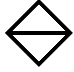


4. Operational emissions continued

4.4 Operational target

It's important to set measurable, achievable targets against realistic timelines. We've seen our footprint grow as our data collection methods have improved; as noted, this will likely continue as we grow. Based on anticipated growth and a fuller operational emissions profile (increased headcount, estate changes and investee engagement), we aim to decrease emissions by 5% by the end of FY28/29 against the FY22/23 baseline tCO_2e.

This target is our initial commitment; we expect to refine and improve over time as we mature and develop our approach. As a publicly funded company with net zero at our heart, we want to be ambitious in our targets and goals.

Commitment one

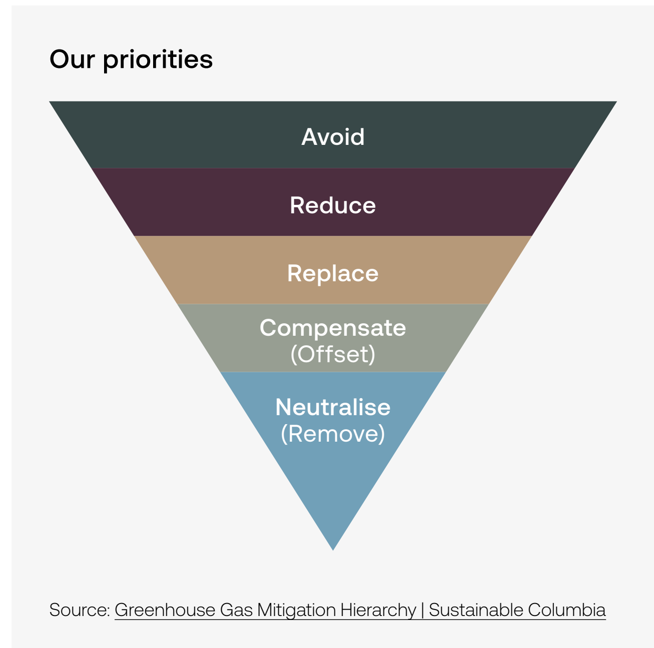
By FY28/29, we'll reduce our operational carbon emissions by 5%.

Our priorities for the next five years will be to avoid, reduce and replace operational emissions. We'll do this through a range of behavioural change projects, as we believe that is the best way to create meaningful change.

We operate from leased offices; changes to our offices may impact our ability to meet our target. We'll manage this through a version control process and may re-baseline, so our plan stays relevant and fit for purpose.

The figure opposite shows our priorities in-line with the Greenhouse Mitigation Hierarchy.

Our priorities



Source: Greenhouse Gas Mitigation Hierarchy | Sustainable Columbia

In November 2022 we set a commitment to be net zero by 2045 which aligned with the Scottish Government target. At that time, we noted we were still putting processes in place to achieve our target.

We have now re-evaluated that initial target, based on a better understanding of our operational emissions. Therefore, we have set a net zero target of 2030 and at that time compensate for any emissions which we cannot avoid, reduce, or replace using offset credits which are aligned to the Scottish Government guidance i.e., Woodland Carbon Code or Peatland Code. While this means that we will be "net zero," we will still, where possible, continue to avoid, reduce, and replace emissions in order to continually improve our emissions impact.

Any offset credits we procure, will meet the requirements of our procurement policy which ensures that goods and services obtained by the Bank are objectively assessed for 'value for money' and the sustainable procurement duty.

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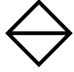

5. Managing our portfolio emissions

Our three missions are at the core of what we do, and our net zero mission directly aligns with the ambition to achieve a Just Transition to net zero carbon emissions by 2045. At a portfolio level we hold interests in many companies through investments including debt, equity, and intermediated funds. We want to be transparent about the emissions these companies generate and clearly state how much of their total emissions can be attributed to us, based on our investment level.

As noted in section 2.1, our approach separates our operational emissions from our portfolio emissions. Portfolio emissions are considerably higher and so supporting the decarbonising of our portfolio is an integral part of our net zero mission. This plan integrates climate change into all investment decisions, as well as helping us understand the climate risk and opportunities posed by our investments.

Commitment three

We will ensure that all new investments deliver a carbon management plan or net zero strategy.

If current investees don't have a carbon management plan or net zero strategy, we'll work with them to put one in place.

In formalising this requirement and measuring the emissions profile of our portfolio, we will be able to better support our investees to establish appropriate carbon management processes, aimed at enabling them to set interim targets on their own journey to net zero.

While we will measure and support our portfolio in addressing their emissions, it is important to stress that the management and control of emissions is the responsibility of investees.

Therefore, a balance needs to be found between measuring portfolio emissions and setting emissions targets for our portfolio; our role should be viewed as *supporting* Scotland's transition to a low carbon, net zero economy rather than to deliver the target itself.

It's difficult to establish a portfolio baseline and any baseline can only ever reflect a snapshot in time. We're a development bank: as our portfolio grows and our investments mature, investee emissions are more likely to increase than reduce.

Our objective is to make sure carbon management and net zero implications are considered across our portfolio, supporting investees to identify improvements to help Scotland's transition. We'll re-baseline our investee emissions each year, making sure we accurately reflect emissions associated with our investments.

5.1 Recording portfolio emissions

In line with our impact recording cycle, we record portfolio emissions on a calendar year basis. 2022 was the first complete year of carbon emissions recorded across our portfolio.

Portfolio emissions reporting for the Bank align with the GHG Protocols Category 15 "Investments". Category 15 has been designed primarily for private financial institutions (e.g., commercial banks), but is also relevant to public financial institutions and other entities with investments. Further detail on Category 15 can be found in section 5 of the Appendix.

As noted in section 2.1, we apply an operational control consolidation approach for our operational emissions boundary. All portfolio emissions are categorised as Scope 3 because we provide capital or financing as a service.

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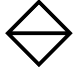

5. Managing our portfolio emissions continued

We take a pragmatic approach, reporting on investees' Scope 1 and Scope 2 emissions, which then form our Scope 3. This does depend on the type of investment however, and we may include selected Scope 3 emissions for transparency of our carbon intensive investments.

Category 15 divides financial investments into four:

- equity investments
- debt investments
- project finance
- managed investments and client services.

We attribute portfolio emissions to the Bank based on our proportional share of investment.

We help investees report their emissions by supporting them to define a boundary and choose an appropriate point in time. This helps us collate our data, particularly as deals are concluded at different times.

Our portfolio is dynamic, and we may need to support some investees more than others. For example, if we invest in a business with no process for managing and recording emissions, we'll support them to build this capacity.

5.2 Defining the portfolio emissions boundary

We focus on each investee individually, making sure Scotland's net zero aspirations are considered by each organisation. This helps us identify individual needs and drive best practice in carbon management and emissions reduction.

Our investments last for a finite period; it's essential to engage with investees from the beginning of our relationship to ensure good practice and targets are established.

For our reporting requirements, the scope and boundary of each investee's emissions is based on the type of investment we have made. We will continually review our position on the boundaries of our portfolio to ensure transparency and a best-practice approach.

To determine an investee's footprint, we identify their boundary during their climate risk assessment, setting it in line with the three scopes of the GHG Protocol.

Scope 1 and Scope 2 are mandatory reporting requirements for all investees. If an investee doesn't have a mature carbon management process, it's unlikely we'll place additional requirements to include all aspects of Scope 3. As investees mature, we may choose to include Scope 3 in the future.

Selected Scope 3 requirements are identified during the climate risk assessment, and are mandatory for manufacturing, infrastructure and built environment companies. These companies are required to take a product life cycle carbon footprint assessment measuring either the total GHG emissions of a product (manufacturing); or embodied carbon assessment associated with the materials used to construct the investment project (infrastructure/built environment).

In most cases, manufacturing companies will complete a carbon assessment for one product then scale it up based on the number of units produced. A 'cradle to gate' assessment measures total GHG emissions, from raw material extraction, through manufacture, to the factory gate.

For larger-scale infrastructure or built environment projects, for example a wind farm, investees are required to report on carbon associated with relevant construction elements, including plant and materials. This means capturing embodied carbon: an estimate of the energy used to extract, refine, process, transport and fabricate a material or product.

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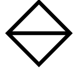

5. Managing our portfolio emissions continued

5.3 Portfolio data collation and emissions calculation methods

Investees are required to establish in-house data collection methods based on their reporting boundary. As noted, this will usually be directly related to the company's assets, activities and electricity consumption (Scope 1, 2 and selected 3).

It's likely the data used to calculate an investee's emissions will be supplied by a third party and we'll support investees to obtain relevant data. We provide access to an emissions calculator based on the Department for Energy Security and net zero emission factors, developed in line with the GHG Protocol Corporate Accounting and Reporting Standard. If needed, we'll offer extra support to calculate selected Scope 3 sources linked to embodied carbon.

It's anticipated that implementing carbon management plans and net zero strategies will enhance processes for portfolio companies, leading to improved datasets with increased accuracy and including additional Scope 3 emissions. In turn, this will improve awareness and insight, helping our portfolio companies develop a fuller picture of their climate impact; improving carbon transparency; setting targets for carbon reduction; and establishing longer-term projection, monitoring, and reporting to establish a timeline to support Scotland's transition to net zero.

5.4 Emissions relative to investment

As noted, we don't directly control our investee companies. We apply an operational control consolidation approach to our emissions boundary, which means we attribute investment emissions under Scope 3. We account for a proportion of investee emissions in the reporting year, consolidating this to our Scope 3 investment emissions for reporting, separate to our Scope 3 operational emissions.

Our investees will evolve through any period. We require them to report at fixed times linked to our own reporting cycle. We report on investee emissions and attribute a proportional, pro-rata share to our Scope 3 investment emissions, relative to the time of the investment in the reporting period.

For GHG accounting and reporting, we split our portfolio emission calculation into equity/other investments and project finance/debt investments.

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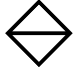


5. Managing our portfolio emissions continued

5.5 Calculating emissions from equity and other investments

Calculating emissions associated with equity investments will be in line with the investment-specific method outlined in Category 15 of the GHG Protocol: Technical Guidance for Calculating Scope 3 Emission. This methodology requires us to collect Scope 1 and Scope 2 emissions directly from investees.

Once calculated, we'll identify our proportional share of emissions based on the percentage share of equity we have in the investee company. We'll then apply this to their emissions profile to attribute this to our own portfolio emissions footprint. Typically, equity investments of less than 20 percent ownership would be classed as having neither financial control nor significant influence, but our impact framework brings influence over all equity investments without necessarily having financial control.

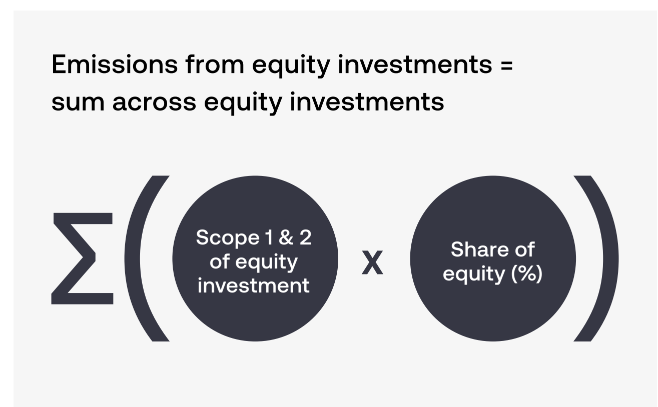
For reporting purposes, we identify equity investments as:

- **Subsidiaries** – where we hold 50% (+) ownership and have financial control (due to public sector finance limitations, it is unlikely that we would ever hold more than a 49% stake in a company).
- **Affiliated company** – where we hold between 20% and 49% ownership, with significant influence but not financial control.
- **Minority interest** – where we hold less than 20% ownership, with influence but not financial control.
- **Joint ventures** (non-incorporated joint ventures/partnerships/operations) – where our partners have financial control.

As noted, we may require investees from manufacturing, infrastructure or the built environment to report selected Scope 3 emissions. In these cases, we'll agree data collection methods individually.

Under Category 15 of the GHG Protocol, other investments (that is, investments into funds or limited partnerships) fall under the banner of 'optionally reported'. That means there isn't a recommended calculation method. We calculate those emissions using the same methodology as equity investments.

The figure below shows an example calculation for equity investments.



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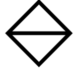

5. Managing our portfolio emissions continued

5.6 Calculating emissions from project finance/debt investments

Calculating emissions associated with project finance and debt investments will also be in line with the investment-specific method outlined in Category 15 of the GHG Protocol. Because of the way our investments are structured, investees will outline the use of proceeds to us as part of the investment agreement. We will then apply project-specific methods to calculate emissions.

To attribute our share of the emissions, we'll account for a proportional share of Scope 1 and Scope 2 emissions in each reporting year, based on our investment in relation to the total costs associated with the investee's activities.

If Scope 3 emissions are significant and the investment is in manufacturing, infrastructure or built environment, we will capture and account for proportional Scope 3 emissions.

5.7 Portfolio reporting, requirements, and targets

Under our terms of investment, companies must report identified emissions sources through impact monitoring reports. This helps us monitor portfolio performance as well as fulfilling our own reporting requirements.

We acknowledge that a 100% net zero portfolio is unrealistic. As a development bank, our investments catalyse business growth. For any business to truly reach net zero, it has to understand its climate impact, prioritise emission reductions and ensure the environmental integrity of any offsets used to reach net zero.

Our Ethical Investment Policy sets out our requirements for businesses and projects to develop plans to manage their emissions in a way that is consistent with Scotland's net zero ambitions.

Investee maturity determines the best approach: a carbon management plan may be developed to establish appropriate management practices for their emissions, or investees may create a net zero strategy detailing their approach to reducing emissions as close to zero as possible, with a process for offsetting emissions they can't reduce on their own.

Establishing these requirements help us be clear about our investees' emissions. More importantly, they give investees a sound footing to understand their carbon footprint, manage emissions and ultimately move to net zero.

We don't currently place direct carbon reduction targets on investees, but they are expected to:

- use their carbon management plan or net zero strategy to establish a carbon footprint baseline for Scope 1, 2 &3 emissions
- set targets to reduce emissions
- implement the required projects or changes to meet their targets.

5.8 Scope 3 portfolio emissions

We report on investee emissions through our annual Impact Report and TCFD commitment. We allocate a proportional share of emissions to our Scope 3 portfolio emissions and engage and influence our investee companies to reduce their emissions. This may not always be possible during the timescale of an investment, which makes it difficult to set an appropriate net zero target for our Scope 3 emissions.

During this plan's life, we'll continually evaluate and report our Scope 3 portfolio emissions. It's likely we'll have to compensate for these emissions in future through buying offset credits.

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6. Scope of influence

In this CMP we have defined our carbon footprint boundary and the methods we'll use to quantify emissions sources across our operations and our investment portfolio. We know that our supply chain and stakeholders also create indirect Scope 3 emissions that we don't measure or report.

While it's vital to report clearly and meet all our reporting requirements, we believe it's also important to address emissions which aren't part of our reporting. That's why we're including a voluntary additional scope: Scope of influence ('Scope i').

6.1 Scope i

Scope i is defined as indirect Scope 3 emissions associated with service providers, partners, supply chain and stakeholders. They don't form part of a company's corporate function, they don't have direct control over them, and they aren't part of their reporting footprint. However, the organisation is able to influence the processes and actions that cause the emissions.

Scope i helps us and our investees think about our wider influence, by understanding, influencing and supporting partners and stakeholders to address their own emissions, removing the need to class any emissions as out of scope.

While we don't quantify, capture or report these emissions, we won't ignore them. Scope i emissions may have a greater social and environmental impact than our own operational emissions – it's essential to engage with our partners and stakeholders to reduce them. Emphasising carbon reduction and transparency across our entire sphere of influence will help address some of the more challenging emissions sources.

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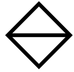

7. Carbon offsetting

As noted, we follow the principles of the GHG Mitigation Hierarchy and prioritise avoiding and reducing our emissions. As Scotland transitions to net zero, we know there will be emissions sources that we don't manage directly, such as our share of investee emissions, plus others which will reduce as government commitments are realised, such as decarbonisation of public transport.

In future, we'll likely need to compensate for these emissions using forms of carbon offsetting.

Carbon offsetting compensates for emissions through schemes to reduce or store carbon elsewhere. There are two main approaches:

- **Emissions reduction** – invest in reducing an existing emissions source, for example peatland restoration.
- **Emissions removal** – invest in projects to remove carbon emissions from the atmosphere, for example tree planting.

"Carbon offsetting compensates for emissions through schemes to reduce or store carbon elsewhere."

7.1 How offsetting works

Carbon offsets are bought through a credit system, where one organisation pays for another organisation to reduce or remove emissions. This 'carbon credit' is essentially a token representing the reduction or removal of the emission.

Any offsets we buy will meet Scottish Government public sector guidance. We'll only buy Scottish-based carbon credits through UK/Scottish Government-endorsed schemes to ensure the environmental integrity of any offsets purchased and we'll always disclose our offsetting.

We'll use five criteria to assess any offsetting projects:

1. **Permanence** – can the GHG removal be reversed, for example through a forest fire? What mitigation is in place?
2. **Leakage** – can increased emissions occur elsewhere from the offset, for example construction emissions?
3. **Additionality** – would the project have happened if it wasn't used to offset carbon?
4. **Verification** – is the carbon removal or reduction measurable and verified?
5. **Co-benefits** – are there wider benefits, such as biodiversity net gain or climate change adaptation e.g., mature, biodiverse woodland vs monoculture/ non-native, etc.

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8. Our carbon management projects

We've created a range of projects to avoid, reduce, or replace carbon emissions to help achieve our operational emissions target and establish good practice for investees.

We've chosen not to quantify predicted carbon savings for each project because of yearly variation and limited operational emissions. Some projects depend on factors like emerging technology, national policy and legislation, staff behaviour and levels of hybrid working. Others highlight areas where we'll increase transparency by working with investees and building our knowledge. The table below shows our Carbon Management Plan projects.

Carbon Management Plan projects FY23/24-FY28/29

<table>
<tr><th>Project Name</th><th>Overview</th><th>Emission Source</th><th>Estimated Timescale</th></tr>
<tr><td>Climate action network</td><td>Establish a climate action network to support carbon management plan delivery.</td><td>Scope 1, 2, 3</td><td rowspan="7">2023 to 2029</td></tr>
<tr><td>National climate change agenda</td><td>Support Scottish Government and Sustainable Scotland Network to develop climate-related plans, guidance and initiatives</td><td>Scope 1, 2, 3</td></tr>
<tr><td>Bespoke climate literacy training</td><td>Deliver climate literacy courses to all employees to help them understand climate change and respond to it appropriately. Mandatory for new team members.</td><td>Scope 1, 2, 3 & i</td></tr>
<tr><td>Portfolio carbon management plans/ net zero strategies</td><td>Support investees to develop carbon management plans or net zero strategies. Require all new investees to develop a plan or strategy within a year of our investment.</td><td>Scope 1, 2, 3 & i</td></tr>
<tr><td>Commute travel to work survey</td><td>Carry out a yearly commute to work survey to capture emissions associated with staff travel to work.</td><td>Scope 3</td></tr>
<tr><td>Hybrid working</td><td>Promote and encourage hybrid working.</td><td>Scope 3</td></tr>
<tr><td>Promote vegan/ vegetarian business catering</td><td>Encourage non-meat alternatives for business catering.</td><td>Scope i</td></tr>
<tr><td>Operational offsetting plan</td><td>Establish a mechanism to offset emissions we can't reduce.</td><td>Scope 1, 2, 3</td><td rowspan="5">2024 to 2025</td></tr>
<tr><td>Climate governance</td><td>Update, enhance, and formalise our climate governance structure to meet TCFD needs.</td><td>Scope 1, 2, 3</td></tr>
<tr><td>Portfolio emissions calculator</td><td>Investigate adding the investee emissions calculator to impact reporting portal</td><td>Scope 3</td></tr>
<tr><td>ULEV salary sacrifice</td><td>Launch a salary sacrifice scheme to support staff to buy ultra-low emission hybrid vehicles.</td><td>Scope 3</td></tr>
<tr><td>Business travel position statements</td><td>Establish our business travel position statements and encourage staff to always consider public transport as their first option.</td><td>Scope 3</td></tr>
<tr><td>Staff personal electronics reuse/ recycle initiative</td><td>Develop an initiative to reuse/recycle personal electronic equipment no longer required by staff.</td><td>Scope i</td><td>2025 to 2026</td></tr>
<tr><td>Increased cycling facilities</td><td>Offer staff more cycling and active travel facilities.</td><td>Scope 3</td><td rowspan="3">2028 to 2029</td></tr>
<tr><td>Remove gas from our buildings</td><td>Work with facilities partners to remove gas boilers from our offices</td><td>Scope 1</td></tr>
<tr><td>Electricity</td><td>Work with facilities partners to buy electricity for our offices from a renewable source.</td><td>Scope 2</td></tr>
</table>

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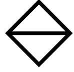

9. Governance

Our governance structure around climate change will evolve as we grow and mature in certain areas, such as TCFD. The Bank is led by a Board of Directors who are responsible for delivering our missions. The Board is made up of a Non-Executive Chair, two Executive Directors, and eight other independent Non-Executive Directors.

The Chief Executive Officer reports to the Board and is responsible for managing and operating the Bank, supported by the Executive Committee.

The Executive Committee oversees development and adoption of sustainability and climate policies, plans and strategies. These are overseen by the Impact team, which includes the Associate Director of Climate Impact who coordinates climate-related activities including day-to-day decision-making and reporting. This includes operational governance for the carbon management plan, leading on climate risk and opportunities linked to investments, and collating climate-related data.

9.1 The Risk Management and Conflicts Committee

The Risk Management and Conflicts Committee (RiskCo) oversees our climate actions with the Non-Executive Director who chairs the committee having designated responsibility for climate risk and opportunities. This includes the climate plan, strategic priorities, initiatives, and other actions aimed at addressing climate change risks and opportunities.

RiskCo reviews, approves and monitors:

- risk attitude and appetite
- risk management infrastructure and systems
- the way risks are reported, assessed, and quantified
- risk policies and limits
- the way conflicts of interest are managed.
- processes to comply with laws, regulations, codes of practice and fraud prevention
- subsidy control position
- freedom of information legislation compliance processes
- plans to become regulated by the Financial Conduct Authority.

9.2 The Valuations Committee

The Valuations Committee (ValCo) oversees the investment methodology and processes, and the effective operation of the Executive Investment Committee. Members of the ValCo take part in the final stages of investment decision-making.

ValCo supports the Board to develop and oversee our strategic initiatives and investment business plan. It monitors progress against our responsible investment objectives and commitments from an economic and non-financial performance perspective, including climate-related performance related to our investments.

9.3 The Climate Action Network

As noted, we will establish a Climate Action Network (CAN). Made up of key staff, CAN will be convened by the Associate Director of Climate Impact and will meet quarterly to support the projects and actions in this plan.

We expect CAN will support data collation internally and externally, help deliver projects and actions. We will engage with relevant stakeholders and key players in the public and private sector to understand climate change best practice and promote a culture of carbon reduction throughout the Bank.

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10. Reporting

We'll capture our performance through our defined reports and disclosures, increasing transparency about emissions in our operations and investees. We'll highlight potential and future climate-related risks and identify ways to reduce emissions, all with the aim of raising awareness of our climate impact as well as the climate's impact on us.

As a publicly funded body in Scotland, we have a statutory requirement to report yearly on our climate change duties. This was established under Section 44 of the Climate Change (Scotland) Act 2009 and in accordance with Schedule 2 of the 2015 Order.

The duties require public bodies to act in ways that:

- best contribute to the delivery of the targets set in the Act
- best help deliver any programme laid before the Scottish Parliament under section 53
- are most sustainable.

Reports must be submitted by 30 November every year. The required reports relate to all areas of operational climate change, so we'll use them to measure our carbon management plan performance.

10.1 Annual Report and Accounts

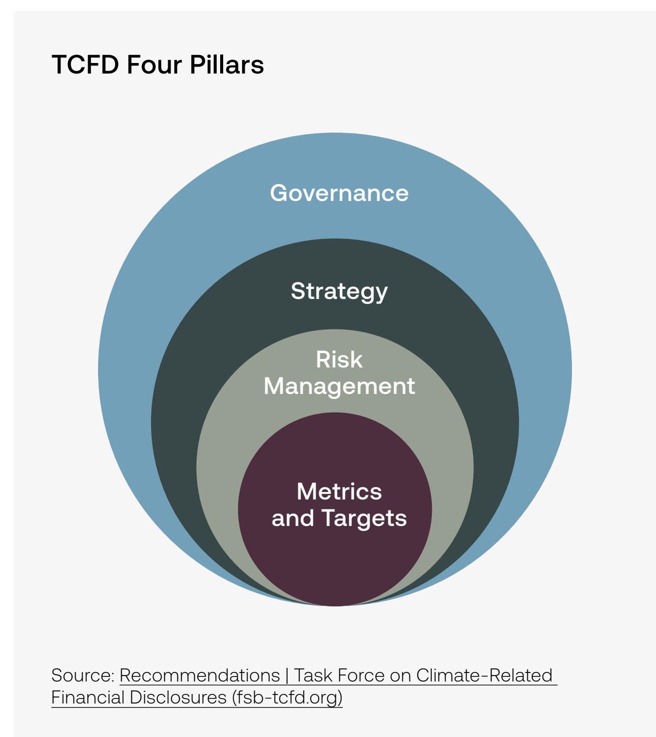
We'll include our annual operational emissions performance in our Annual Report and Accounts, with a year-on-year summary of operational performance.

10.2 Taskforce on Climate-Related Financial Disclosures (TCFD)

Since launch, we have been committed to supporting TCFD and its recommendations as the reporting framework for climate-related financial disclosures. As noted, we'll publicly declare this through a statement of support.

Adopting TCFD reporting will help us identify, assess and act on the risks and opportunities from climate change. We'll produce our first TCFD report in FY23/24, across four areas, as shown in the figure below.

TCFD Four Pillars



Source: Recommendations | Task Force on Climate-Related Financial Disclosures (fsb-tcfd.org)

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11. Communicating our climate ambition

As well as our reporting and disclosure requirements, we want to communicate widely about climate change. We will use our internal communication channels to ensure staff are well engaged on the subject and provided with relevant training on emerging climate science and frameworks. All staff complete bespoke climate literacy training.

Through our scope of influence, we will engage with relevant stakeholders across the public and private sector, providing details on our approach to climate change and where appropriate, support the development of guidance and thought pieces which can aid the wider ecosystem in Scotland. We will also run open training sessions for stakeholders and investees, encouraging emission reductions across our wider scope of influence.

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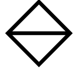

Appendix: the expanded context

1. Climate change

Climate change is defined as long-term shifts in temperature and weather patterns that persist for an extended period, typically decades or longer. The shifts may be natural, for example through variations in the solar cycle, but since the 1800s climate change has been driven by human activity. Burning fossil fuels generates GHG emissions that act like a blanket wrapped around the earth, trapping the sun's heat and raising temperatures.

We have already seen evidence of a changing climate in Scotland. The last few decades saw our climate warming, rainfall patterns changing, and sea levels rising[1]. The latest MET Office United Kingdom Climate Change Projections indicate that climate changes experienced over the last century will continue and intensify over coming decades[2].

Long-term climate change trends for Scotland include:

- average temperature increases across all seasons
- weather remains variable and becomes more variable
- typical summers are warmer and drier
- typical winters are milder and wetter
- intense, heavy rainfall events increase in winter and summer
- sea levels rise
- frost and snowfall reduce[3].

Future climate change depends on successfully reducing GHG emissions. With the increasing cost of finite resources and stricter regulations, there is intensifying pressure for companies to tackle their impact on emissions and, ultimately, the environment.

2. Legislative context

The Climate Change (Scotland) Act 2009 was amended by the Climate Change (Emissions Reduction Targets) (Scotland) Act 2019. This revised existing targets, creating more ambitious emissions reduction goals for Scotland with the aim of reaching net zero by 2045.

Publicly funded institutions have a critical role in delivering these targets. Named bodies must submit their annual emissions performance to Scottish Ministers through the Climate Change (Duties of Public Bodies: Reporting Requirements) (Scotland) Order 2015.

The 2020 Amendment Order set out additional reporting requirements and public bodies now have to declare a date to become net zero. This is defined by creating absolute zero Scope 1 emissions, net zero Scope 2 emissions and identified Scope 3 emissions.

1. Adaptation Scotland: Climate trends and projections
2. UKCP18 (metoffice.gov.uk)
3. Climate_projections_for_Scotland_summary_single_page_FINAL.pdf (adaptationscotland.org.uk)

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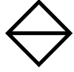

Appendix: the expanded context continued

3. International context

During the United Nations climate change Conference of the Parties held in Paris (COP21) in December 2015, 196 countries (including the UK), agreed to adopt the world's first legally binding international treaty on climate change. The Paris Agreement came into force on 4 November 2016, with a goal to limit global warming to 1.5°C compared to pre-industrial levels. To do this, countries agreed to aim to reach their peak in GHG emissions as soon as possible to achieve a climate-neutral world by 2050. The Paris Agreement was a landmark, setting a binding agreement and bringing all nations into a common cause combat climate change ambitiously and adapt to its effects.

The commitments were strengthened in 2021 during COP26 in Glasgow, when nations adopted the Glasgow Climate Pact. Strengthened commitments include efforts to build resilience to climate change, to curtail GHG emissions, and to provide the necessary finance for both. Collectively, nations agreed to work to reduce the gap between existing emission reduction plans and the actions required to reduce emissions, to limit the rise in global temperatures to 1.5°C.

4. The Taskforce on Climate-Related Financial Disclosures (TCFD)

The Financial Stability Board met with public and private sector representatives in 2015, setting up a taskforce to discuss issues around the Paris Agreement. This led to recommendations designed to standardise global climate-related disclosures, making it easier to understand the carbon-related impacts of assets, and assess risks posed by climate change to the financial sector.

In 2017, the taskforce issued climate-related financial disclosure recommendations designed to help institutions provide better information to support evidence-based capital allocation.

Their disclosure recommendations cover four areas:

- governance
- strategy
- risk management
- metrics and targets.

The recommendations are supported by 11 disclosures. Together, this builds a framework to help investors understand how organisations consider and assess climate-related risks and opportunities.

In FY23/24 we'll declare our support for the TCFD and its recommendations, using the framework to demonstrate how we're playing our part to build a resilient financial system through climate-related disclosure.

5. Category 15

Category 15 is designed primarily for private financial institutions (e.g., commercial banks), but is also relevant to public financial institutions (e.g., multilateral development banks, export credit agencies) and other entities with investments not included in Scope 1 and Scope 2.

Investments may be included in a company's Scope 1 or Scope 2 inventory depending on how the company defines its organizational boundaries. For example, companies that use the equity-share approach include emissions from equity investments in Scope 1 and Scope 2. Companies that use a control approach account only for those equity investments that are under the company's control in Scope 1 and Scope 2. Investments not included in the company's Scope 1 or Scope 2 emissions are included in Scope 3, in this category. A reporting company's Scope 3 emissions from investments are the Scope 1 and Scope 2 emissions of investees.

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