TCFD Report

2024

The Scottish National Investment Bank

“Scotland’s transition to a well-adapted, sustainable, low carbon and net zero economy will be challenging, and it’s vital that we fully assess and understand the impacts that climate change is having on our activities and the impact we are having on the climate.”

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Foreword

At the Scottish National Investment Bank, we are on an exciting journey of growth and refinement. As a relatively young institution, we are constantly learning, improving, and adapting – shaped by the growth of our investment portfolio, the evolution of our governance practices, and the insights we gain along the way. From day one, managing climate-related risks and opportunities has been at the core of our purpose. This is not just a responsibility we embrace; it's a mission that drives us, reflecting the trust placed in us to invest public funds wisely on behalf of the Scottish Government.

The responsibility of understanding and managing climate risk is one we take to heart. It's not just a box to tick – it's integrated into everything we do. Delivering meaningful investments to support Scotland's transition to a net zero economy means we must stay vigilant to the real-world impacts of climate change. We closely examine how physical risks, policy shifts, regulatory changes, market dynamics, and economic transitions influence our decisions. This is an ongoing process, and we are committed to evolving with the challenges and opportunities ahead.

As Chair of the Risk Management and Conflicts Committee, I see firsthand how climate risk informs our discussions at the highest levels of governance. Over the past year, we have engaged deeply with these issues – improving our TCFD reporting, assessing operational risks, understanding the portfolio's climate impact, and rolling out carbon management planning. Climate risk is a recurring focus for our committee, but it doesn't stop there. I work to ensure these discussions are woven into our wider Board deliberations and coordinated with the vital work of other committees, such as the Valuations Committee, which oversees our investment activity.

This is more than governance; it's stewardship. It's about making investments that don't just deliver returns but also create meaningful impact for Scotland's economy and environment. I am proud of the progress we've made and optimistic about the road ahead. Together, we are building a resilient, forward-looking institution that takes its responsibility to heart and is fully committed to supporting Scotland's net zero ambitions.

Jacqueline Redmond
Chair of Risk Management and Conflicts Committee

About the Bank

The Scottish National Investment Bank plc (the "Bank") is a development investment bank, established and funded by Scottish Ministers on behalf of the people of Scotland.

Development banks seek to invest where the private sector is not providing sufficient investment to businesses or projects that support the development of a country's economy.

The Bank has been established to operate commercially, and is operationally independent from government.

What we do

The Bank invests in Scottish business, projects and communities to deliver environmental, social and financial returns for the people of Scotland.

Investments in debt and equity are made on commercial terms based on the needs of individual projects or businesses. The Bank seeks to invest widely and diversely, and approaches every opportunity on an individual basis, so that the financing offered is tailored to the needs of the individual business or project seeking support.

The Bank invests in businesses based in Scotland, projects based in Scotland, or businesses seeking to move to Scotland. Typically, the Bank will invest in businesses and projects seeking more than £1 million in investment support (debt or equity).

All investments must deliver both commercial returns and mission impact returns that support at least one of the Bank's missions.

Our missions

The Bank's missions have been designed to address the long term, persistent challenges facing Scotland. The missions have been set by the Scottish Government.

The Bank's Missions		
Net Zero	**Place**	**Innovation**
Address the climate crisis, through growing a fair and sustainable economy.	Transform communities, making them places where everyone thrives.	Scale up innovation and technology, for a more competitive and productive economy.

Introduction

Climate change is having a huge influence on our planet, economy and financial systems. Scotland's transition to a well-adapted, sustainable, low carbon and net zero economy will be challenging, and it's vital that we fully assess and understand the impacts that climate change is having on our activities and the impact we are having on the climate.

We are committed to increasing resource efficiency and best practice; to be socially sustainable across all our actions.

Our actions have multiple strands, including those outlined in our Carbon Management Plan; the decarbonisation of our operations, where we invest and our business plan. We take a hands-on approach not only with our own operations, but also to support our portfolio companies to embed carbon management and accounting practices. We also aim to support Scotland's transition to a low carbon, net zero economy beyond our own actions, through engagement with the wider public and private sectors and with targeted investments.

We have voluntarily adopted the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). This document represents our second TCFD report highlighting how we continue to align with the recommendations and overarching framework.

We have built on last year's inaugural report, improving scenario analysis utilising existing publicly available assessments and frameworks, adapting them to ensure relevance to the needs of our business and our investment portfolio.

1. About TCFD

The Task Force on Climate-related Financial Disclosure (TCFD) was launched in 2015, delivering recommendations which are designed to promote more informed investment decisions. It aims to enabling stakeholders to better understand the financial system's exposure to climate-related risks through effective climate-related reporting.

In 2023, the TCFD was officially disbanded by the Financial Stability Board (FSB), having fulfilled its mandate. The IFRS Foundation has taken over the monitoring of the progress on companies' climate-related disclosures from the TCFD – however companies can continue to adopt the TCFD recommendations, without a requirement to adopt the IFRS/ISSB Sustainability disclosures.

In the UK, companies who meet the thresholds below are required to produce TCFD-aligned reporting:

- All UK companies that are required to produce a Non-Financial Information Statement. This includes UK companies that have more than 500 employees and are either traded companies, banking companies or insurance companies.
- UK registered companies with securities admitted to the Alternative Investment Market (AIM) with more than 500 employees.
- UK registered companies which are not included in the above categories that have more than 500 employees and a turnover of more than £500 million.
- LLPs which have more than 500 employees and a turnover of more than £500 million.

The Scottish National Investment Bank plc does not fall within the scope of the organisations who are required to report against the framework. However, we have chosen to voluntarily adopt the TCFD recommendations because we feel it is consistent with our purpose and aims to be a transparent organisation that is fully committed to driving a transition to a net zero economy.

"We have chosen to voluntarily adopt the TCFD recommendations because we feel it is consistent with our purpose and aims to be a transparent organisation that is fully committed to driving a transition to a net zero economy."

2. Governance

As Scotland's national development bank, the climate emergency is at the core of our missions. We aim to support Scotland's transition to net zero by integrating climate change solutions and carbon management considerations across both our own operations and our investment portfolio.

Oversight of environmental-related activities, including climate change by both our Board and Executive Committee is instrumental for evaluating and managing the potential risks, opportunities and impacts associated with climate change on our strategic planning and performance.

To deliver on our ambitions in this space, we continually review and aim to improve our governance approach to reflect our maturing portfolio and growing data-sets.

2.1 Our governance approach

We are both a public limited company (PLC) and a Non-Departmental Public Body (NDPB) and follow best practice corporate governance as appropriate to us.

As set out in the Bank's 31 March 2024 Annual Report and Accounts ("2024 Annual Report"), we adopt the Financial Reporting Council (FRC) 2018 UK Corporate Governance Code ("the Code") on a comply or explain basis. Any deviance from the provisions of the Code is explained in the corporate governance statement in the 2024 Annual Report.

As a Non-Departmental Public Body, the Bank is also subject to the Public Finance and Accountability (Scotland) Act 2000 regulations and the Ethical Standard in Public Life etc (Scotland) Act 2000. Our Chief Executive Officer is the Bank's Accountable Officer.

> "We believe that climate action must be considered across all of our functions."

The Board and committees

The primary role of the Board is to direct the affairs of the Bank in a manner that seeks to promote its long-term success. It establishes and promotes the Bank's values and culture ensuring that these are aligned with the Bank's long term strategic objectives and missions. It provides effective leadership, direction, support and guidance to that end by establishing and setting the overall strategic direction and risk appetite for the Bank.

As reported in the 2024 Annual Report, the Board has four board committees that meet a minimum of four times per year to support the Board, by making recommendations on matters following expert review and challenge, namely:

- **Remuneration and Nominations Committee**
- **Risk Management and Conflicts Committee**
- **Audit Committee**
- **Valuations Committee**

2. Governance continued

The Bank's Governance Model

The Board

Delegation of specific risk management roles and responsibilities to the four Board Committees.

Risk Management and Conflicts Committee

Assists the Board in its oversight of the effectiveness and robustness of the risk management systems and processes, including its Risk Management Framework, risk appetite and tolerance, and assessing the adequacy of the non-financial internal controls. Plays a leading responsibility in the oversight of the climate-related strategies, statements, policies and procedures.

Audit Committee

Assists the Board in its oversight of the integrity of the financial statements and any other formal announcements relating to its financial performance; monitoring the adequacy of internal financial controls; and monitoring the independence and performance of the internal audit function and the external auditors.

Remuneration and Nominations Committee

Assists the Board in its oversight of remuneration by overseeing the management of pay and reward practices; and makes recommendations to the Board in relation to the development and implementation of reward policies and practices to support the Bank's long-term strategy and values. Also supports the Board, with the agreement of the Scottish Ministers, Board composition and Board and Executive succession.

Valuations Committee

Assists the Board in its oversight of the investment portfolio and valuations methodology, policies and valuations processes, considering specific valuations of individual investments and the investment portfolio as a whole. Plays a critical role in oversight of the investment process, and in monitoring the financial and non-financial impact of the performance.

Executive Committee

Day-to-day management of risk is delegated to the Executive Committee (and to the CEO as Accountable Officer).

Chief Risk Officer

The Chief Risk Officer and General Counsel has direct access to the Risk Management and Conflicts Committee and Audit Committee for the escalation of risks and issues.

2. Governance continued

2.2 Board oversight of climate-related risks and opportunities

The Board is accountable for effective risk management and, on recommendation from the **Risk Management and Conflicts Committee** ("RMCC"), approves the Bank's risk management framework (including risk appetites). As such, the Board is ultimately accountable, however, it delegates specific responsibility to the RMCC for climate-related matters. More detail of the RMCC's climate-related responsibility and related activities during the year can be found in the RMCC's Report in the 2024 Annual Report.

The Chair of the RMCC is the designated Non-Executive Director with responsibility for climate-related matters. The RMCC are provided with updates on the Bank's climate-related activities on a regular basis. Since the 2023 TCFD report, the RMCC undertook two deep dive sessions on how the Group is managing and reporting on climate change risks and opportunities. This included updates on workstreams relating to the Bank's climate reporting duties under public sector legislation and to support our portfolio businesses in understanding, measuring, and reporting on greenhouse gas emissions and potential risks and opportunities arising from climate change.

The **Valuations Committee** (ValCo) are responsible for oversight of the Bank's valuations methodology, policies and oversight of the investment process.

The **Remuneration and Nominations Committee** (RemCo) meetings are coordinated to support key times in the pay and reward cycle. The RemCo oversees the implementation of the Bank's Pay and Reward Framework. This includes agreeing with the Shareholder any climate-related performance conditions associated with the Long-Term Incentive Plan (LTIP), which recognises staff contributions to the achievement of the Bank's missions, including Net Zero.

2.3 Executive Responsibilities

The Board has ultimate accountability for strategy, financial reporting and risk management and delegates the day to day running of the business to the CEO with the support of the Executive Committee. The management responsibilities relating to climate-related matters are then split as follows.

The Chief Risk Officer and General Counsel is the named owner for the Investment Risk Policy and implements the policy with support of the Investment Risk team. This policy establishes a set of high-level principles to enable the effective identification, assessment, management, monitoring, and reporting of investment risk in line with the Board's agreed risk appetite level.

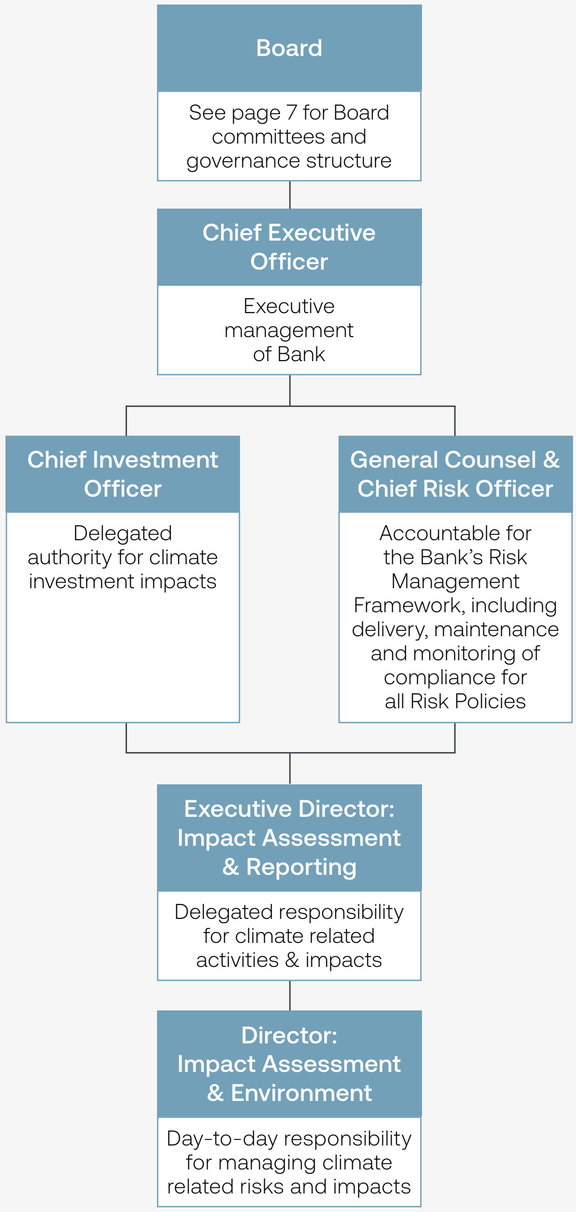
The Chief Risk Officer and General Counsel is the named owner for the a Risk Management Framework under which the Bank's management of risks posed to our day-to-day operations is managed, including any weather-related impacts which may be associated with climate change.

2. Governance continued

The Chief Investment Officer oversees the Bank's Investment teams, which includes the Impact Assessment and Reporting team. The Impact Assessment and Reporting team carry out environmental related activities, including climate change, with respect to our business operations and investments. Responsibility for co-ordinating climate-related activities falls to the Director of Environment, Impact, Assessment & Reporting, who leads on climate risk and opportunities associated with our investments, and the collation of climate-related data for both our operational activities and our portfolio. Activities include:

- Co-ordinating the deliverables within the Carbon Management Plan (CMP);
- Provision of annual corporate carbon performance updates to both the Board and Executive Committee;
- Submission of annual Public Bodies Climate Change Duties Reports;
- Publication of carbon performance within the Bank's annual accounts;
- Delivery of TCFD disclosures;
- Collaboration and shared learning on CMP delivery with other public bodies via the public sector Environmental Managers Forum;
- Prepare the Bank's climate risk assessments in relation to investments;
- Delivery of behavioural change campaigns, and climate change related seminars and activities;
- Engagement with partners, stakeholders, and expert bodies on climate change and carbon emission best practice.

The Bank's Management Climate Governance Structure



Through our investment and risk channels, we have integrated climate risk and opportunities into our investment strategy, risk management systems and our Carbon Management Plan.

3. Strategy

As Scotland's development bank, we consider it our duty to support economic growth across Scotland, by investing in businesses and projects that are seeking to address three grand challenges facing Scotland:

- The climate emergency
- Place-based opportunity
- Innovation deficit and demographic change.

At a strategic level, we are a mission-led impact investor, with those missions driving everything we do, designed to tackle these grand challenges:

Net Zero

Address the climate crisis, through growing a fair and sustainable economy.

Place

Transform communities, making them places where everyone thrives.

Innovation

Scale up innovation and technology, for a more competitive and productive economy.

This is reflected throughout our operations, strategic priorities, and investment processes - with our missions at their core. We have embedded environmental, social, and governance (ESG) into our Business Plan and active investment strategy - considering financially material ESG risks and opportunities. This includes those which arise from the transition to a lower carbon, net zero economy.

Through our investments, we aim to ensure that this low-carbon transition is fair and just. Although our net zero mission is primarily aimed at addressing the climate emergency, we view climate related risks and opportunities evenly across all of missions as each in isolation will not be enough to deliver our ambitions and support the overall transition.

3. Strategy continued

3.1 Climate-related risks and opportunities

Climate change and global efforts to address it present both ‘physical’ and ‘transitional’ risks, as well as opportunities for our business and our portfolio. While climate change is a global issue, our operations and investments are Scottish focused, and we are primarily concerned with how those climate-related risks and opportunities impact within our region of the UK.

Physical risks are primarily due to weather-related impacts because of changing weather patterns caused by the changing climate. Transitional risks can come from things like emerging policies and legislation, technologies, or consumer experiences and behaviours.

3.2 How we identify climate-related risks, opportunities, and their potential impact

For our investments, we assess climate-related risks and opportunities using an in-house pre-investment climate risk assessment for each individual potential investee.

The risks and opportunities are categorised into four separate areas for assessment:

- **Boundary:** The identification of a company’s carbon footprint boundary and the sources which we would expect them to report on, allowing the measurement of their emissions.
- **Physical risk:** The impact climate change will have on our physical environment due to global warming and changing weather patterns.
- **Transition risks:** Stems from the acceleration of the transition to a net zero, low-carbon economy. Transition risks include a change in policy or regulatory intervention, emerging markets or shifts in demand and behaviours, which may have an impact on our portfolio companies now or in the future.
- **Opportunity:** Potential climate-related opportunities which may emerge, either as a direct result of our investment in a company, because of the change in weather patterns, or the changes in our economy.

There is further detail on how we measure climate risk on page 21.

Operational risks related to climate change are managed through our Risk Management Framework which has been designed to support our overall business strategy.

3.3 Climate-related scenarios

Scotland’s net zero targets are part of global efforts to limit global warming to 1.5°C. Using science-based evidence, we can project the types of changes we may see in the future; however, the reality is that future is uncertain.

While the goal is to limit global warming to 1.5°C, the UK Climate Change Committee’s advice is to prepare and adapt now to a global temperature rise of 2°C and assess the risks up to 4°C. Using climate-related scenario analysis, we can assess the overall resilience of our strategy, operations, and investments to the potential risks to posed by a changing climate.

Our exposure to climate-related risk is influenced by several external factors, including government policy, which businesses we invest in, and the time horizons of exposure.

How much change we see in the future is dependent on how successful we are in reducing greenhouse gas emissions globally, not just in Scotland. Assessing the potential influence these physical risks may have on our operations and portfolio is a complex task.

The latest UK Climate Projections (UKCP18), produced by the Met Office Hadley Centre, provide a range of climate scenarios and climate outcomes, based on a set of four pathways for greenhouse gas emissions: a **low emissions scenario** - Representative Concentration Pathway (RCP) 2.6; **two medium emissions scenarios** RCPs 4.5 and 6.0; and a **high emissions scenario** RCP8.5.

While Scotland has set a legally binding target to reach net zero levels by 2045 and the UK has significantly reduced its greenhouse gas emissions, current global emissions trajectory remains closer to the medium-high emission scenario*.

*Adaptation Scotland: Climate Projections Scotland Summary

3. Strategy continued

Operational Climate Related Risk sits within our Environmental, Social & Governance (ESG) Risk (more detail can be found on page 20). Opportunities related to our net zero mission are primarily captured within our investment strategy.

To further understand the impact climate change could have on our operations and investments we have undertaken a desktop exercise, reviewing assessments and projects to consider the impact that different emissions scenarios would have on Scotland. This has allowed us to develop a high-level overview for the implications this may have on our operations and investments (both opportunities and risks) in the short, medium, and longer term.

Uncertainties to climate scenario analysis

Whilst undertaking climate scenario analysis is a useful tool when trying to understand the impact climate change may have on your business, it is a theoretical concept. Although each scenario illustrates a different level of potential impacts under both the low and high emissions scenario there are limitations and uncertainties associated with the assessment. While the analysis itself is based on the on the latest climate science (UKCP18, etc.), they do not necessarily represent the changes we are likely to see, or the most positive or severe potential outcomes for a given narrative.

3.4 Physical risk

The TCFD framework distinguishes two types of physical climate risks:

- **Acute** - physical risks arise from changes in event-driven hazards, such as an increased severity of cyclones, hurricanes, or floods.
- **Chronic** - physical risks refer to longer-term, incremental shifts in climate patterns, such as changing annual average rainfall or temperature.

Acute physical risks

Across Scotland, we are already witnessing significant changes in our weather systems, with increased rainfall, and even periods of drought.

Our coastline is also changing, with sea level rise contributing to coastal erosion. Extreme weather events are also becoming more common, with more intense storm events.

UKCP18 has identified that due to greenhouse gas emissions which have already emitted globally, our climate will continue to change in the coming years, with the impacts of climate change intensifying. The diagram below provides high level overview of the changes which we are likely to witness across Scotland.

The diagram below provides high level overview of the changes which we are likely to witness across Scotland.

Projected changes to Scotland's weather systems

- Average temperatures will increase across all seasons
- Typical summers will be warmer and drier
- Typical winters will be milder and wetter
- Intense, heavy rainfall events will increase in both winter and summer
- Sea levels will rise
- Reduced frost and snowfall
- Weather will remain variable and may become more variable

3. Strategy continued

As a result of these projected changes in our weather patterns, the key acute physical risks to our operations and investments are related to increased rainfall resulting in flooding, coastal change, and erosion, which could result in damage to infrastructure and buildings.

Chronic physical risks

As noted, Chronic physical risks refer to longer-term shifts in climate patterns.

The table below is based on UKCP18's probabilistic projections, representing a central estimate of 30-year average change in each variable from a 1981-2000 baseline. Using these scenarios, we can assess the potential changes which may occur in the future, in both a low and high emissions scenario:

- **Low emissions scenario (RPC 2.6):** Increased and rapid reductions in greenhouse gas emissions globally.
- **High emissions scenario (RPC 6.0):** Outline more extreme changes that are projected if greenhouse gas emissions continue to increase and emission reduction targets are missed.

UKCP18's probabilistic projections

	2050s RCP2.6 50th percentile	2050s RCP6.0 50th percentile	2080s RCP2.6 50th percentile	2080s RCP6.0 50th percentile
Annual Temperature	+1.1˚C	+1.0˚C	+1.1˚C	+2.0˚C
Summer Rainfall	-7%	-6%	-12%	-16%
Winter Rainfall	+7%	+7%	+7%	+13%

Using these scenarios, the Climate Change Committee have identified the following risks to Scotland because of these changes:

- **Temperature**

Annual temperatures in Scotland are expected to rise by approximately 1.1°C by the 2050s and between 1.1 and 2.0°C by the 2080s from a 1981-2000 baseline, based on the methodology set out above and depending on global efforts to reduce greenhouse gas emissions between now and then.

Risks associated with rising temperatures, such as more extreme heatwave events causing impacts on people's health and wellbeing, are become more prevalent as a result, with their magnitude depending on the degree of change that is experienced.

- **Rainfall**

There is a difference in expected rainfall trends in future in Scotland, depending on the season. In winter, rainfall is expected to increase by approximately 7% by the 2050s and by 7% to 13% by the 2080s from a 1981-2000 baseline, depending on global efforts to reduce greenhouse gas emissions.

This is projected to lead to an increase in the likelihood of flooding of infrastructure, businesses, and homes. Conversely, summer rainfall is expected to decrease by approximately 7% by the 2050s and by 12% to 16% by the 2080s. Periods of water scarcity are projected to become more prevalent under these scenarios, leading to implications in agriculture and industry, for example.

- **Weather extremes**

The frequency and intensity of extreme temperature and rainfall events is also likely to increase in future, with the extent of change depending on global efforts to reduce greenhouse gas emissions. By 2100 many areas could see daily temperatures exceed 30°C more often.

As well as winters becoming wetter overall, the intensity of rainfall is also projected to increase by as much as 25%. The same analysis for summer shows that, despite overall summer drying with wet days projected to become less frequent, when it does rain, the rainfall will be more intense.

3. Strategy continued

3.5 Transitional risk

Scotland's overarching aim to decarbonise and transition to a low carbon, net zero society is critical for long-term climate stability and to prevent catastrophic climate change.

The transition away from fossil fuels and other greenhouse gas-emitting activities drives transition risks for businesses, which are risks which can arise from the actions being taken to mitigate emissions.

The types of transition risks which may result from our investments are captured in the table below:

Policy and legal risks	Technology risks	Market risks	Reputational risk
Climate policies in Scotland are currently in a state of flux, with interim targets being replaced with 5-year carbon budgets and a new climate change plan expected to publish in the coming year. Risks associated with changing policies could result in carbon pricing or new regulations to restrict activities for high emitting sectors. This may result in assets being retired early or even written off. It could also increase operating or project costs or result in legal liability costs should companies fail to comply with emerging legislation.	The development of innovative technology to support a net zero low-carbon economy, could potentially reduce revenue for existing companies, leading to a change in the competitive landscape by establishing margin pressure or making exiting products obsolete.	Economic and social changes drive market risks and may impact supply and demand. Changing consumer preferences around the use of fossil fuels or shifting preferences for lower carbon alternatives can reduce demand, increase production costs and lead to the repricing of assets.	Refers to the impact of negative public perceptions of high emissions sectors such as fossil fuels. Negative perceptions can lead to reduced revenue, difficulty accessing capital, and rising labour costs. As an impact investor, we have an additional reputational risk associated with our investments themselves, should they not achieve the desired or projected impact, or failing to achieve mission alignment.

3. Strategy continued

3.6 Short-, medium- and long-term investment climate risks

Short-term risks and opportunities (2024-2030)

In the coming years, climate-related risks for our investments are more likely to be transitional than physical.

While we are already seeing weather related impacts because of a changing climate, it is unlikely to significantly impact our business over this time.

With climate change remaining a topical subject, both politically and to the public - policy, technology and markets are more likely to have an impact during this time.

In both a low and high emissions scenario, there may be significant opportunities for our current and future investees to directly drive the decarbonisation of the economy, particularly with net zero key to the delivery of our missions - however, in a high emissions scenario it is likely to be more volatile across different sectors.

As a development bank we a well placed to support businesses seeking to support the overall decarbonisation in both a low and high emissions scenario. This is a key focus of our investment strategy, which sets out that we are seeking to invest in opportunities that deliver positive impacts supporting the delivery of the Bank's missions. This includes businesses or projects seeking capital investment to support the transition to net zero. However, a key transitional risk for us as a business is our highly carbon intensive investments. As climate policies for Scotland evolve and develop, we may see additional regulations emerge to support wider decarbonisation, which could potentially restrict our ability to invest in high emitting sectors. Infrastructure and supply chains are key to deliver net zero, however, the potential emergence of carbon pricing or tax could limit our investments in these areas.

In a high emission scenario, the risks and opportunities described above are less likely to increase over the short term.

Medium-term risks and opportunities (2030-2040)

Over the medium-term, the risks we see should start to differ between a low and high emissions scenario.

In a low emissions scenario, we should continue to see significant opportunities aligned to our missions, with climate solutions playing a key role in global decarbonisation.

In a high emissions scenario, climate policies, legislation and regulation are likely to tighten, and present complexities for businesses. We may also see the weather-related impact becoming more widespread, which could lead to portfolio losses or fewer investment opportunities presenting themselves.

Long-term risks and opportunities (2040 - 2045)

It is difficult to fully assess the risks and opportunities of our investments over a longer term, due to the uncertainties involved. However, in a high emissions scenario it is anticipated that physical climate impacts become the main climate-related risk to investments. In this scenario, the impacts on people, infrastructure and economic activity could affect most holdings across our portfolio in one way or another.

Failure to achieve net zero in a high emissions scenario may also result in abrupt policy or legislative changes.

It's possible that the change in weather related impacts may create opportunities around investment in climate resilience and adaptation, with an increased requirement for products and services in these areas.

In a low emissions scenario, risks remain to the investments we have made, as not all new technologies or companies established as part of the transition to net zero will be viable. Market leaders will emerge, and others will fall away. Scotland's strengths in old and new energy, technology and finance, alongside its natural assets, means there is potential to seize opportunities from the transition, but also significant risk if it fails.

3. Strategy continued

3.7 Incorporating climate change into our processes

We believe that the consideration of climate change across both our operations and our portfolio is vitally important to align with our missions. With this in mind, we have sought to implement a range of climate change-related risks and opportunities as part of our investment processes and overarching strategy.

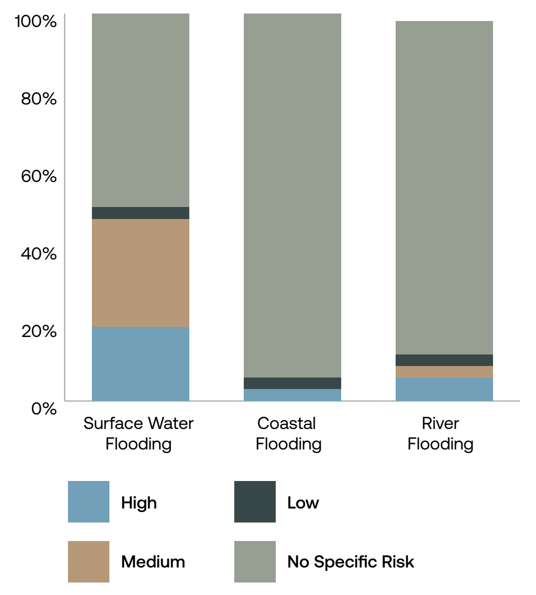
As noted, we believe that flooding poses the greatest physical risk to Scotland, and we use modelling scenarios derived from the Scottish Environmental Protection Agency's (SEPA) "Flood maps" to understand the current and future likelihood of Surface Water, Rivers, and Coastal flooding for the companies which we are seeking to invest. The likelihood of flooding is split into the following categories;

- **High likelihood:** A flood event is likely, on average in the defined area once in every ten years (1:10). Or a 10% chance of happening in any one year.
- **Medium likelihood:** A flood event is likely, in the defined area on average once in every two hundred years (1:200). Or a 0.5% chance of happening in any one year.
- **Low likelihood:** A flood event is likely, in the defined area on average once in every thousand years (1:1000). Or a 0.1% chance of happening in any one year.*

Applying these modelling scenarios to our portfolio at time of publication, we have concluded the following:

Portfolio flood risk

	High	Medium	Low	No Specific Risk
Surface Water Flooding	19%	28%	3%	50%
Coastal Flooding	3%	0%	3%	94%
River Flooding	6%	3%	6%	86%



*SEPA - Flood Maps

3. Strategy continued

Using the future flood map element which assesses the likelihood of future occurrences up until the 2080s, risks remain at the same level as used for the scenario planning above, i.e. these are predicted to be the maximum upper limit.

Our investment strategy states that the Bank is a mission-led impact investor, and we have a focus on ensuring that we not only deliver a commercial return on its investments, but that its investments will deliver positive social, environmental, and economic impacts that support the delivery of the Bank's missions. This includes addressing other aspects of the climate emergency.

While our net zero mission is at the core of what we do and where we seek to invest, we believe that consideration must be given to all characteristics of climate change, including classifying and highlighting areas of climate risk and opportunities for our current or future portfolio companies. This includes identifying the need for companies to respond to changes in physical impacts to our environment, regulatory and technological transitions, and evolving consumer preferences. It is worth noting, that are investment strategy, in support of our missions, is actively seeking to enable an accelerated transition to a low carbon, net zero economy.

Although we have expanded our approach over the last year, we view this as a phased approach to assessing climate risk; and we expect to further develop our capabilities for evaluating climate change risk and exposure at a portfolio level, as we mature.

We continue to work with our investee companies to define their Scope 1 and Scope 2 emissions and have introduced a requirement for all new portfolio companies to develop a carbon management plan or net zero strategy within 12 months of investment or 12 months from operations.

As many of our portfolio are small, early-stage companies, even this early work has added value and identified opportunities for them to better understand, manage and reduce emissions. We believe that over time, our work with companies to embed carbon management practices will add value to them directly, and as part of our wider contribution to our net zero mission.

"Supporting Scotland's transition to net zero is central to the Bank's purpose and strategy. Our net zero mission statement, "to address the climate crisis through growing a fair and sustainable economy" reflects the economic opportunity for Scotland through backing successful companies who can help us live more sustainably and prosper from the transition to renewable energy. We must also be acutely aware of the financial and economic risks that result from the changing climate. We factor both risks and opportunities into our investment strategy, and especially our approach to active origination and knowing where the Bank's investment can have the greatest positive impact."

Mark Munro
Chief Investment Officer

4. Risk management

The Bank's strategic approach to climate risk is intrinsically linked to both our regular risk management processes and the Bank's overall strategy.

4.1 Risk strategy

The Bank's approach to risk management supports and complements the business strategy. Through its Risk Management Framework (RMF), the Bank aims to deliver the following strategic risk objectives:

- Clear articulation of the level of risk the Bank is willing to take in pursuit of its objectives and missions;
- Risk management activities are proportionate to the nature, scale and complexity of the Bank;
- A positive and proactive risk management culture exists at the Bank – where each employee understands their personal responsibilities and leads by example in delivering these;
- Risk is considered in every investment decision and all strategic decisions;
- There is a culture of compliance where regulatory requirements are followed in spirit and in letter;
- Operational risk events and failures of internal controls are seen as a source of risk intelligence and an opportunity to learn and improve;
- The principles of risk management applied to the Bank are extended to the wider enterprise, including outsourcers.

4. Risk management continued

4.2 Risk classification

The Bank classifies its risk universe into risk types. This supports the clear allocation of ownership of risk, the documentation of root causes and impacts, the design of mitigation strategies and provides structure to risk reporting to interested stakeholders.

These risk types may not always be mutually exclusive.

The main tool of risk classification is the Bank's risk taxonomy. The taxonomy seeks to define (at a high level) the main types of risk that the Bank is exposed to. Seven "Level 1" risk types have been identified, as shown below:

Risk	Risk Appetite Statement
Mission Risk	The Bank has a low appetite for failing to deliver the expected mission impact ambitions.
Investment Risk	As a development Bank, the Bank will seek out underinvested risk which by its nature will be high risk. The Bank therefore has a high appetite for investment risk. There is a low appetite for losses due to inadequate controls over the investment process or inadequate portfolio management.
Financial Risk	The Bank accepts the funding risk associated with relying solely on the Scottish Government for its funding. The Bank has a low risk appetite for not having the ability to recycle capital, recognising it is the ambition of both the Bank and Scottish Government for the Bank to be a perpetual institution. The Bank has a low appetite for inaccurate and untimely financial reporting.
Operational Risk	The Bank has a low appetite for operational risk.
Environmental, Social and Governance Risk	The Bank has a low appetite for risks arising from a failure to establish, maintain and develop frameworks for the management of ESG risk, including a low appetite for compliance errors and breaches.
Culture Risk	The Bank has a low appetite for any behaviour that goes against the Bank's values.
Stakeholder Risk	The Bank has a low appetite for reputational risk due to actions by its staff, partners, third parties or invested companies or from failing to proactively manage reputation.

4. Risk management continued

4.3 Integration of climate risk into our risk management system

Climate risk is considered across all aspects of our business and throughout our risk management system, however, we feel that it's important to also specifically call it out within our risk management system.

"Climate related risk" falls under the Bank's Level 1 Environmental, Social & Governance risk. It has been sub-classified into "Level 2" risk, as this is the level at which the risk management methodology (ownership, analysis, mitigation, reporting, etc) is applied.

Details of the Bank's risk taxonomy, including both the Level 1 and Level 2 risks, is shown below.

Mission Risk	**Investment Risk**	**Financial Risk**	**Operational Risk**	**Environmental, Social & Governance (ESG) Risk**	**Culture Risk**	**Stakeholder Risk**
Mission Alignment	Equity Investment Risk	Financial Management	Technology and Cyber Risk	Corporate Governance	People Risk	Shareholder Engagement
Mission Reporting	Debt Investment Risk	Financial Reporting	Business Continuity	Regulatory and Legal Compliance	Equality, Diversity, and Inclusion	Media, Marketing and Communications
	Portfolio Risk	Funding Risk	Outsourcing and Third-Party Risk	Financial Crime		
	Ethical Investment Risk	Tax Risk	Employment Practice and Workplace Safety	Climate Related Risk		
	Model Risk		Information and Data Governance			
	Subsidy Control		Execution Delivery and Process Management			

Key

Level 1 Risk Type
Level 2 Risk Type

4. Risk management continued

4.4 How we measure investment climate risk

As noted earlier, we measure climate risk across four categories; the table below provides an overview of our Climate Risk Assessment template. The assessment is undertaken as part of our investment decision making process, prior to a company becoming one of our investees. If we believe that there is an area of concern highlighted through this assessment, we will engage during the due diligence process to ensure that we can reach an acceptable level of comfort in terms of its mitigation or management.

Our Climate Risk Assessment template

Category	Applicable to Opportunity	Risk Description	Risk/Opportunity (Low/Medium/High)
Boundary and climate impact – Consideration of the emissions associated with the investments as defined by the GHG (Greenhouse Gas) Protocol ◆ Direct and indirect emissions originating from sources that are owned or controlled by the Company ◆ Other indirect emissions that are a consequence of the Company's activities but occur at sources owned or controlled by another entity			
Boundary			
Scope 1			
Scope 2			
Scope 3 (Selected)			
Climate risk and opportunity			
Transition risks The regulatory and market risks associated with commitments to a net zero economy that will be evident over the life of the investment, and which could create **adverse** risks to investment performance and returns (i.e. stranded assets, increased operating costs, tech innovation by others that reduces product utility/market share).			
Policy and legal			
Technology			
Market			
Reputation			
Physical risks The risk that short term (acute) or longer term (chronic/systematic) impacts of climate change will have a material effect on the operations, growth and success of an investment. Typically assumed to be weather related (drought, storm, heat), these risks may be more complicated (and sector specific) and need to be viewed through the lens of global supply chains in many instances.			
Acute			
Chronic			
Opportunities Whether the investment offers potential opportunities to drive energy/resource efficiency, products, or services etc. that support the transition to a lower carbon economy. Typically, the Bank's investments should proactively seek out these opportunities			**Opportunity?**
Resource efficiency			
Energy source			
Product and services			
Markets			
Climate			

4. Risk management continued

Aligned to the physical risks we identify using the SEPA flood maps, we use the third UK Climate Change Risk Assessment (CCRA3) - Summary of the risks and opportunities in Scotland – to highlight any key risks which may be relevant to the companies we are potentially investing in. More information on the risks and opportunities can be found here - CCRA-Evidence-Report-Scotland-Summary-Final-1.pdf (ukclimaterisk.org).

Where relevant e.g. large-scale infrastructure, an independent Environmental Impact Assessment (EIA) is undertaken on behalf of companies seeking investment. These assessments are factored into our own climate risk assessment.

The greenhouse gas emissions reporting boundaries are established as part of the climate risk management process. Where we feel that there is a high degree of climate risk, we will engage with companies to understand the mitigating measure they are putting in place to limit these risks.

Our impact investment process is designed to work with investees to add value through identifying risks and opportunities that align with our impact ambitions, as well as helping those companies to develop practices that will add value for them in their next stage of growth.

5. Metrics and targets

5.1 Our approach

Since 2021, we have been calculating the greenhouse gas emissions of operational activities. As detailed in our Carbon Management Plan (CMP), we have chosen the financial year 2022/23 (FY22/23) as our baseline year for operational emissions.

Our portfolio emissions are calculated for the calendar year, with 2022 being the first assessment of these sources. 2022 formed our baseline year for portfolio emissions. However, while we hope to carefully manage and reduce our operational emissions our expectation for portfolio emissions is that as we continue to invest, this emissions profile will continue to grow. Therefore, while we will compare emissions year on year, these emissions sources will need to be re-baselined annually.

To ensure a consistent approach to reporting our direct and indirect emissions, we use the methodology outlined in the Greenhouse Gas Protocol. We apply an operational control consolidation approach, meaning we report on emissions which we directly control. By applying this methodology, we have split our operational emissions and our portfolio emissions into two separate profiles.

In relation to climate risk, as noted on page 15, we have used UKCP18 to understand the climate related risks from both a high and low emissions scenario, and used SEPA's flood maps to understand the risk flooding poses to both our operations and investments.

5.2 Operational footprint

Our operational emissions include Scope 1, and 2 greenhouse gas emissions related to gas and electricity consumption and selected Scope 3 emissions which are the most appropriate and applicable to our business: Business & Commute travel; Waste; Water; Homeworking; and Business accommodation (Hotels).

Achieving net zero operations is a key priority for us, aligned with our missions and purpose. Our goal is for our operations to be net zero by 2030, aiming to reduce as much as we can between now and the turn of the decade. However, within our CMP we have set a minimum reduction target of 5% against our 2022/23 baseline. Further detail can be found in ours Pathway to Net Zero: Carbon Management Plan.

We have outlined our approach to assessing the climate-related risk for our operations and investments within both the strategy and the risk management sections of this report.

Our total operational emissions for FY23/24 increased by 5.3% when compared to our FY22/23 baseline, from 58.66 tCO_2e to 61.78 tCO_2e.

This aligns with the predicted increase in our emissions profile noted within our CMP, as a result of the continued growth of the business and our expanded reporting boundary, evident in areas such as our business travel and accommodation.

Other variations can be attributed to a change in methodology for both homeworking and commute travel, while an alteration in emissions factor for electricity has seen this source increase.

5. Metrics and targets continued

Since 2021, we have been calculating the greenhouse gas emissions of operational activities. As detailed in our Carbon Management Plan (CMP), we have chosen FY22/23 as our baseline year for operational emissions.

Operational Carbon Footprint

Source	Emissions Scope[1]	Metric	2022/23[2]	2023/24	Performance Indicator	
Gas	Scope 1	tCO_2e	6.49	6.65	2.46%	▲
Electricity	Scope 2[3]	tCO_2e	10.98	12.45	13.34%	▲
Water	Scope 3	tCO_2e	0.18	0.17	-6.81%	▼
Waste	Scope 3	tCO_2e	0.22	0.05	-76.04%	▼
Business Travel	Scope 3	tCO_2e	8.54	12.99	52.13%	▲
Hotel	Scope 3	tCO_2e	1.12	3.08	175.07%	▲
Commute Travel	Scope 3	tCO_2e	23.63	11.32	-52.08%	▼
Home Working	Scope 3	tCO_2e	7.50	15.07	100.95%	▲
Total Emissions		**tCO_2e**	**58.66[4]**	**61.78**	**5.31%**	▲

1. Emissions Scopes have been classified using the GHG Protocol Corporate Standard.
2. Operational carbon footprint baseline.
3. Includes Scope 3 - Electricity transmission and distribution.
4. 2022/23 Operational Baseline Emissions

Our operational carbon footprint has been calculated using the UK Government GHG Conversion Factors for Company Reporting - developed and published by the Department for Energy Security & Net Zero and the Department for Environment, Food & Rural Affairs, applying the relevant emission factor to the sources identified through our operational control approach.

We remain committed to our target of a 5% reduction in our operational emissions against our 2022/23 baseline.

5. Metrics and targets continued

5.3 Investment emissions

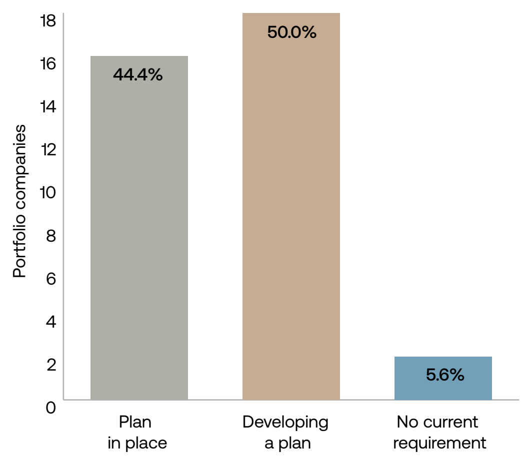
At a portfolio level, we aim to be transparent about the emissions the companies we invest in generate, as these form the largest source of emissions linked to the Bank.

We are committed to supporting Scotland's transition to a low carbon, net zero economy by 2045, and this is why we have committed to ensuring that all new investees develop a carbon management plan or net zero strategy, appropriate for their business (post April 2023). Where current investees (pre-April 2023) don't have a carbon management plan or net zero strategy, we'll work with them to put one in place.

We feel that this approach is appropriate to support the transition in a manner which is ambitious, but realistic. It encourages companies we invest in, most of whom are SME businesses, to embed good carbon management and accounting practices throughout their operations, without placing overly burdensome targets on them.

At time of drafting, 50% of our portfolio companies have commenced work on the developing their carbon management or net zero plans, with 44.4% having fully developed a plan that is now in place. The remaining 5.6% currently have no requirement placed on them as their investment was pre-April 2023. However, we remain engaged with them and are seeking opportunities to encourage them to embed these practices in their business where possible.

Carbon Management Plans/ Net Zero Commitment Progress in portfolio companies



While we encourage the development of plans and strategies, we require all of our portfolio companies to report their emissions to the Bank via their impact reporting requirements. To date, 100% of our portfolio companies are reporting their Scope 1 and Scope 2 emissions sources. We work closely with our investees where necessary to aid them with these calculations, and ensure that it aligns with our own methodology for measuring financed emissions.

5. Metrics and targets continued

Through the engagement and requirements we place on investee companies, we believe that our financial activity is aligned to a below 2-degree scenario, particularly as we see some investees mature in their reporting and measurement, setting ambitious net zero targets of their own.

As noted in our CMP, we have aligned our methodology to the Greenhouse Gas protocol, using a consolidation approach to monitor our operational performance and category 15 “Investments” to measure and manage our climate-related risks and opportunities.

Our portfolio emissions are categorised as Scope 3 emissions, and to calculate our proportional share of these emissions we use the methodology outlined within category 15 of the GHG protocol.

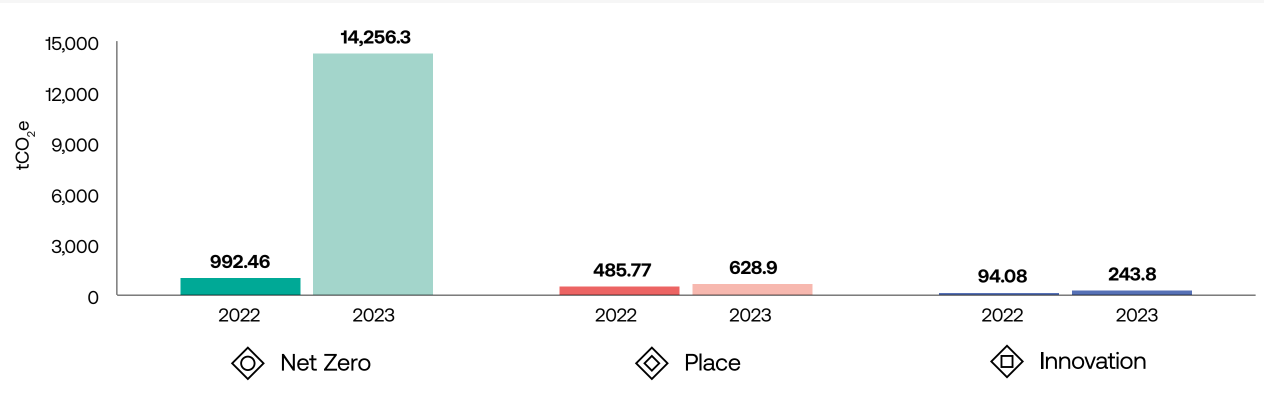
At the end of calendar year 2023, the Bank’s total Scope 3 Investment emissions were 15,129 tCO_2e. Our proportional share of these emissions was calculated as 1,652 tCO_2e. This is equivalent to 3.94 tCO_2e per £1 million invested since launch*. The table below provides details of emissions from our portfolio by their primary mission alignment, with the graph showing our proportional share of emissions in relation to each mission.

The increase in emissions across our three missions and in particular our Net Zero mission are as a result of our growing portfolio and companies maturing in their own right. As a development Bank, the majority of businesses we support at the start of their aim to help businesses grow

Emissions by Primary Mission 2023

Source	Scope 1	Scope 2	Total	Metric
Net Zero	13,645.9	610.4	14,256.3	tCO_2e
Place	477.4	151.5	628.9	tCO_2e
Innovation	56.4	187.4	243.8	tCO_2e
Total Scope 1 and 2 Emissions	**14,179.7**	**949.3**	**15,129.0**	tCO_2e
Total Scope 3 Investment Emissions			**15,129.0**	tCO_2e

tCO_2e of Scope 1 and Scope 2 emissions by mission



5. Metrics and targets continued

5.4 Net zero mission metrics

Our net zero mission has been developed in response to the climate emergency, and aims to rebalance Scotland's economy towards sustainable industries, services, and technologies, which will support Scotland to become a low carbon net zero nation by 2045.

It is essential that this low-carbon transition is fair and just – both the challenges and the opportunities need to be distributed equitably. To find the investments that can deliver the greatest impact, we use four objectives:

1 **Mission Objective 1:**
Catalysing investment in businesses and projects connected to Scotland to move towards a net zero economy.

2 **Mission Objective 2:**
Investing to increase Scottish based expertise in technology, services and industries that support decarbonisation, mitigation, and climate change amelioration activity.

3 **Mission Objective 3:**
Growing the circular economy within Scotland by 2045.

4 **Mission Objective 4:**
Supporting Scotland's transition to net zero.

To measure our progress towards these mission objectives, we have a series of key performance indicators (KPIs) for each of our three missions. This approach allows us to aggregate data from across our portfolio to manage and report our collective investment impact against each mission objective. The list below, taken from the Bank's annual Impact Report, provides an overview of our net zero mission performance related to these KPIs during the year for 2023.

5. Metrics and targets continued

1

Mission Objective 1: Catalysing investment in businesses and projects connected to Scotland to move towards a net zero economy.

- Percentage of our investment portfolio where the primary mission identified is net zero:

  43% of new investments in 2023.
  42% of total investments since launch.
- **48%** of our total investment portfolio contributes to the shift to a net zero economy.
- Amount invested by the Bank supporting businesses and projects contributing to the shift to a net zero economy:

  £50.6 million in 2023.
  £277.8 million since launch.
- Third party capital associated with Bank investment supporting businesses and projects contributing to the shift to a net zero economy:

  £75.8 million in 2023.
  £554.5 million since launch.
- **305** just transition jobs supported directly through Bank investment as self-reported by portfolio companies.
- **1,255** jobs supported[13] by net zero investment during 2023.

2

Mission Objective 2: Investing to increase Scottish based expertise in technology, services and industries that support decarbonisation, mitigation, and climate change amelioration activity.

- **38.7%** of our investment portfolio contributes to accelerating decarbonisation.
- **3.2%** of our investment portfolio contributes to mitigating climate change through capturing GHGs (natural / technological processes) from the atmosphere.
- **48.4%** of our investment portfolio contributes to ameliorating the effects of climate change.
- By the end of 2023, **693** Electric Vehicle (EV) charging points had been installed in total, spanning **9** Scottish Local Authority Areas and **3** London boroughs.

  523 EV charging points were installed in 2023.

3

Mission Objective 3: Growing the circular economy within Scotland by 2045.

- In 2023 **6.5%** of our investment portfolio contributed to the circular economy*.

3

Mission Objective 4: Supporting Scotland's transition to net zero.

We seek to invest in high growth companies – many of whom are likely to increase their carbon footprint as they grow. While our investments are chosen to enable a transition in Scotland's wider economy, our growth trajectory means it is likely that the aggregate emissions of our own investment portfolio will continue to increase. This is based on a reflection that, as a development bank, our investment is often in either heavy industries to enable a just transition through their changing role in the supply chain or developing technologies, or in companies who are scaling up their operations and outputs with the Bank's investment acting as a catalyst for growth.

*In 2022 the Bank made a £9 million investment to fund the development of Circularity Scotland Limited (CSL), which was the operator of Scotland's Deposit Return Scheme. CSL are now in administration. CSL have not been included in this calculation.

5. Metrics and targets continued

5.5 Ambitions

Within our CMP, we have committed to transparent disclosure of the management and measurement of emissions associated with both our operations and our portfolio.

As with this report, we will continue to enhance the scope of our disclosures as we mature. This includes reviewing the data we collect on an annual basis and considering new or emerging tools and metrics, to ensure that our approach does not remain static.

We have committed to reduce our operational emissions by **5% by 2028/29** against our 2022/23 baseline. We have also committed to a target of net zero operations. As a publicly funded institution in Scotland, we are required to publish a date by which our operations (Scope 1 and 2) will be net zero. The target date we have set ourselves to deliver net zero operations is 2030.

As highlighted throughout this report - carbon management plans and net zero strategies form an important element of the management and measurement of our portfolio emissions. The Bank is fully committed to enabling and supporting a just transition to net zero across all areas of its strategy, governance, management and wider influence.

During the last year, we have also introduced some new metrics in relation to our missions.

Across our missions, we have set clear Ambitions for the Bank which we aim to achieve by 2030. These ambitions have been designed to enhance our investment decisions and ensure that we are able to meet the mission objectives by 2040 and 2045.

"We have committed to reduce our operational emissions by **5% by 2028/29** against our 2022/23 baseline."

5. Metrics and targets continued

2030 Mission Ambitions

Ambition	Mission	Investment	Impact
Net Zero	"Address the climate crisis, through growing a fair and sustainable economy"	By 2030, the Bank will have invested £800 million - £1 billion in high potential Net Zero businesses and projects.	By 2030, the Bank's investments will have helped to avoid, reduce or remove 185,000 – 225,000 tCO_2e from the Earth's atmosphere.
Place	"Transform communities, making them places where everyone thrives"	By 2030, the Bank will have invested £400 million - £500 million in improving Scotland's places and communities.	By 2030, the Bank's investments will have positively impacted the lives of 350,000 – 430,000 people through regeneration, high-quality housing, and connectivity (both digital and physical).
Innovation	"Scale up innovation and technology, for a more competitive and productive economy"	By 2030, the Bank will have invested £400 million - £500 million in innovative, productive businesses.	By 2030, the Bank's investments in innovative industries will have contributed towards the creation and safeguarding of 6,300 – 7,700 jobs.

These Ambitions have been derived from data and insights received to date from our portfolio and represent a long-term expression of our positive impact aims. However, they are also subject to real-world volatilities, including companies' commercial performance, changes to the construction and profile of our portfolio, and external or market factors beyond our control.

As noted above, it's the Banks ambition to "Address the climate crisis, through growing a fair and sustainable economy". We aim to do this by investing £800 million - £1 billion in high potential net zero businesses and projects by 2030 and our investments will have helped to avoid, reduce or remove 185,000 – 225,000 tCO_2e from the Earth's atmosphere.

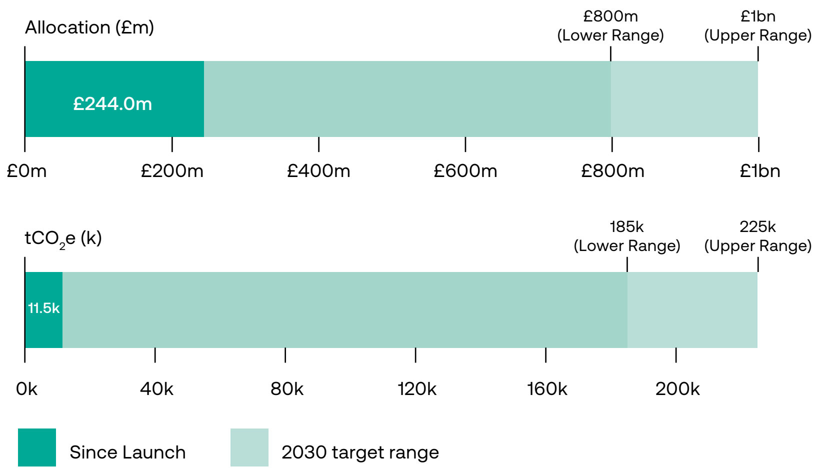
5. Metrics and targets continued

Net Zero

By 2030, the Bank will have invested £800 million - £1 billion in high potential Net Zero businesses and projects.

By 2030, the Bank's investments will have helped to avoid, reduce or remove 185,000 – 225,000 tCO_2e from the Earth's atmosphere.

Actual performance to date and 2030 target range



Actual performance to date is calculated based on the proportional share attributable to the Bank's investment. For equity investments this is calculated as the Bank's percentage shareholding in the investee company. For fund investments this is calculated based on our investment in relation to the total fund size. For project finance and debt investments this is calculated based on our investment in relation to the total costs associated with the investee's activities.

At the end of 2023, we had invested £244 million towards our allocation ambition, with 11.5 tCO^2e having been avoided, reduced or removed across our investments. Our actual performance to date is calculated based on the proportional share attributable to the Bank's investment. These calculations are set out below:

- For equity investments this is calculated as the Bank's percentage shareholding in the investee company.
- For fund investments this is calculated based on our investment in relation to the total fund size.
- For project finance and debt investments this is calculated based on our investment in relation to the total costs associated with the investee's activities.

6. Reflections of the year

Over the course of the last reporting period, we have continued to make good strides in relation to our net zero mission, and sustainability more broadly. As a relatively young organisation, it is important that we continue to learn and grow as we mature. This evolution is evident through the potential impact of the investments we have made, the engagement we have had across our portfolio and beyond, and finally through the expansion of this second TCFD report. The inclusion in the report of more climate scenario analysis, and additional metrics, demonstrates our progress.

Fostering good relationships with our portfolio companies is vital to delivering our missions and ambitions. Collaborating with our portfolio on their potential impact, the broad subject of Environment, Social, Governance (ESG) and, providing support and advice on good carbon management and accounting practices, show that our influence goes far beyond a commercial return. It also provides comfort that our investees are prepared for Scotland's transition to net zero as they grow and scale.

As we enter a new reporting cycle, we will continue to explore new methods, with a view to building out our environmental analysis and risk assessments further. We will continue to invest in Scotland's transition to net zero and manage our impact across all our missions to benefit the people, natural environment and economy of Scotland.

Craig Love,
Director Impact Assessment & Environment

The
Scottish
National
Investment
Bank

Scottish National
Investment Bank plc
Waverley Gate,
2-4 Waterloo Place,
Edinburgh,
United Kingdom
EH1 3EG

www.thebank.scot
enquiries@thebank.scot

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