External Review Services

Climate Transition Bonds & Loans

Methodology

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1. Background & Purpose

This document outlines the key elements of the methodology applied by ISS-Corporate ("ICS") to assess climate transition finance frameworks and related transactions. The methodology applies to labelled transition bonds and transition loans and is designed to evaluate alignment with the relevant transition market principles and guidelines as well as the transition quality of the nominated eligibility criteria or project categories.

ICS's climate transition finance reviews are structured around three analytical components. First, ICS assesses whether the issuer's or borrower's framework is aligned with the relevant climate transition standard. Second, ICS assesses the transition quality of the nominated activities. Third, ICS provides an overview of the issuer's or borrower's sustainability strategy, drawing on the key sustainability objectives and priorities defined by the issuer or borrower, including their transition strategy. Where transition categories are assessed alongside green and/or social categories, the transition methodology is applied in combination with the broader use of proceeds methodology, introducing additional assessments for transition contribution.

2. Regulatory Framework

ICS's methodology incorporates the requirements and guidance set out in the following market standards and guidance documents, as applicable to the transaction type under review:

- Climate Transition Bond Guidelines (CTBG), as administered by the International Capital Market Association ("ICMA") (dated November 2025).
- Climate Transition Finance Handbook, as administered by ICMA (dated November 2025).
- Guide to Transition Loans (GTL), as administered by the Loan Market Association ("LMA"), the Asia Pacific Loan Market Association ("APLMA") and the Loan Syndications and Trading Association ("LSTA") (dated October 2025).

The methodology also draws on credible national, regional or market-based taxonomies, including the EU Taxonomy and other local taxonomies where relevant, as well as recognised sectoral decarbonisation pathways and performance benchmarks. Transition activities are assessed either against applicable taxonomy technical screening criteria or, where direct taxonomy alignment is not available, against recognised sectoral decarbonisation pathways. In the latter case, ICS also applies additional activity-level tests set out in this transition methodology, including evidence of greenhouse gas emissions reductions beyond business-as-usual, assessment of the availability of lower-carbon alternatives, and analysis of carbon lock-in risk.

3. Information Quality and Sources

External reviews are conducted on the basis of information provided by issuers or borrowers, together with publicly available disclosures, scientific studies and reports. Issuers or borrowers are expected to provide both public disclosures and all relevant non-public internal documentation. At a minimum, the assessment requires a transition framework, or an equivalent written description of the relevant criteria, alongside a formalised transition strategy and any current sustainability-related disclosures. Depending on the nature of the proposed categories, ICS may additionally request third-party project-level evidence, references to relevant taxonomies, pathway documentation, third-party studies evidencing greenhouse gas emissions reductions, due diligence materials, and corporate policies relevant to environmental and social risk management. Activities may be assessed against recognised sectoral decarbonisation pathways. In this case, ICS also applies additional activity-level tests, including evidence of emissions reductions beyond business-as-usual, assessment of lower-carbon alternatives, and analysis of carbon lock-in risk.

Where information is incomplete, not evidenced in writing or insufficiently specific, ICS reflects such limitations transparently in the review outcome. This is especially relevant where an issuer or borrower proposes categories that depend on technical thresholds, safeguards, phase-out commitments or other evidence needed to establish a credible contribution to transition.

4. Climate Transition Finance Reviews

ICS provides climate transition finance reviews that assess

» the alignment of the framework with the relevant climate transition standard;
» the transition quality of the nominated categories or activities; and
» an overview of the issuer's or borrower's sustainability strategy, drawing on the key sustainability objectives and priorities defined by the issuer or borrower, including, where relevant, transition strategy elements.

The review is structured in three parts.

Part 1 comprises a binary assessment of whether the issuer's or borrower's framework, in terms of its formal elements and procedures, is adequate to support the climate transition and aligned with relevant climate transition standards. The assessment covers strategy, allocation of use of proceeds, project evaluation and selection, management of proceeds, and reporting, resulting in a conclusion of either aligned or not aligned.

Part 2 assesses the quality and credibility of the transition of activities eligible under the framework, focusing on whether the proposed categories support the climate transition strategy and contribute to decarbonisation.

Part 3 provides contextual analysis of the issuer's or borrower's sustainability strategy, its key sustainability objectives, priorities, and, where relevant, transition strategy elements. This section is provided for information purposes only and does not affect the conclusions in Parts 1 and 2.

The final assessment is expressed on a three-tier scale:

» Aligned indicates that the framework is considered, on the basis of the available evidence, to support a credible contribution to climate transition.
» Aligning indicates that the framework presents credible elements of enabling climate transition, but further specificity, supporting evidence, thresholds, safeguards, or transition-related commitments are required to fully support a credible contribution to climate transition.

» Not aligned indicates that available evidence is insufficient to support a conclusion of credible contribution to climate transition.

Table 1: Granular signals

Section	Dimension	Granular signal
Part 1	Framework-level alignment with transition standards	Aligned | Not aligned
Part 2	Activity-level transition assessment	Aligned - all activities are assessed with a green tick | Aligning - at least one activity is assessed with a Dash and no activity is assessed with a red circle | Not aligned - at least one activity is assessed with a red circle
Part 3	Overview of the issuer's or borrower's sustainability and transition strategy	Qualitative commentary

4.1. Part 1: Alignment with Climate Transition Finance Guidance

Part 1 assesses whether the issuer's or borrower's framework is aligned with the relevant climate transition guidance at the framework level, resulting in a conclusion of either Aligned or Not aligned. Although the composition of the assessment differs in certain respects between transition bonds and transition loans, the analytical approach remains broadly comparable across both transaction types. For transition bonds, the assessment is conducted within the established use of proceeds framework, including the four core components, together with an assessment of the presence of a credible climate transition context at the framework level. For transition loans, greater emphasis is placed on the borrower's transition strategy, or on other relevant indicators of transition credibility, and on the consistency of the selected projects with that strategy.

Part 1 is assessed as aligned only where the issuer or borrower meets all mandatory ("must have") criteria set out in the applicable transition assessment grid. For transition loans only, a comply-or-explain mechanism may be applied to safeguard-related criteria solely where this treatment is explicitly permitted by the relevant guidance.

4.1.1 Framework-Level Transition Strategy

For transition loans, and more generally where the credibility of the financing depends on the issuer's or borrower's wider transition pathway, ICS assesses whether the framework is supported by a credible company-level transition strategy. This may be evidenced through a transition plan or a documented planning process, covering strategy, implementation, metrics and targets, and governance, or through a robust set of indicators demonstrating alignment with recognised transition frameworks and science-based decarbonisation pathways.

ICS expects the transition strategy to identify the principal decarbonisation levers, include quantitative short- and long-term greenhouse gas targets where relevant, and provide mechanisms for monitoring, reviewing and updating progress. For financial institutions, relevant evidence may include coverage of financed emissions, the methodology used to measure them, and top management endorsement and oversight of transition actions.

4.1.2 Use of Proceeds

For the use of proceeds component, ICS assesses whether the eligible categories are credible climate transition categories and whether they support the issuer's or borrower's overarching transition strategy. Where all proceeds are allocated to climate transition projects, only the transition-specific use of proceeds requirements may be applicable. Where a meaningful portion of the proceeds is allocated to climate transition projects alongside green or social categories, both the transition standard and the relevant green or social use of proceeds principles may apply in parallel.

For transition bonds, the use of proceeds assessment considers whether the categories are aligned with recognised taxonomies and/or sectoral decarbonisation pathways, whether they achieve material greenhouse gas emissions reductions beyond business-as-usual, whether technological or economic barriers prevent the immediate adoption of lower-carbon alternatives, whether carbon lock-in risks are assessed and appropriately mitigated, and whether any additional safeguards applicable to fossil fuel-related activities are in place.

4.1.3. Process for Project Evaluation and Selection

ICS assesses how the eligibility criteria are applied in selecting disbursements and expenditures under the framework. The review considers whether the issuer or borrower has a clearly documented and consistently applied internal process to determine that selected activities align with recognised taxonomies and/or sectoral decarbonisation pathways, whether lower-carbon alternatives have been assessed where relevant, and whether carbon lock-in risks have been screened. ICS also examines the environmental and social risk mitigation measures associated with the nominated activities, including just transition considerations, where relevant.

For transition loans in particular, ICS expects the project evaluation and selection process to demonstrate the relevance of the selected projects to the borrower's transition plan. The review may also consider whether the borrower has committed to reviewing and updating eligibility criteria over time to reflect evolving low-carbon alternatives, regulatory developments and transition objectives.

4.1.4. Management of Proceeds

ICS assesses whether the framework includes processes designed to prevent contamination of proceeds, whether proceeds are appropriately segregated or tracked, and whether any temporary investments are managed in accordance with relevant market guidance. Consistent with standard use of proceeds reviews, the issuer or borrower is expected to disclose how net proceeds are tracked, whether proceeds are managed at transaction level or portfolio level, and how any temporary unallocated proceeds are managed.

Where relevant, ICS may also note the use of external verification or other control processes for proceeds management as a market practice that enhances transparency and credibility.

4.1.5. Reporting

ICS assesses whether the issuer or borrower has established adequate processes for monitoring and reporting both the allocation of proceeds and the transition impacts of the financed projects. The review considers the expected reporting frequency, the level of disclosure, and the categories of transition-related information expected to be disclosed, including allocated amounts, project lists, transition impact details and, where relevant, information on safeguards, phase-out measures or pathway alignment.

Depending on the transaction type and the applicable market guidance, reports may be made publicly available or provided only to participating lenders. Where feasible, market practice includes disclosure of allocated amounts, an exhaustive list of transition projects and associated impact information.

4.2. Part 2: Transition Quality of Eligible Activities

Part 2 of the External Review assesses the transition quality of the nominated activities. For each category of activities, ICS evaluates whether it contributes to climate mitigation and/or adaptation and whether it is consistent with the issuer’s or borrower’s transition strategy. This part is intended to determine whether the nominated activity can credibly be considered a climate transition activity.

4.2.1. Activity-Level Assessment Logic

Each nominated activity is assessed using a structured decision logic. At the highest level, ICS considers whether the activity is consistent with the issuer’s or borrower’s transition strategy. ICS then assesses whether the activity is fully aligned with the applicable taxonomy technical screening criteria for climate mitigation or adaptation, including relevant Do No Significant Harm (DNSH) considerations.

Where full taxonomy alignment is not demonstrated, the activity must nevertheless be consistent with recognised sectoral decarbonisation pathways. ICS then assesses (i) evidence of greenhouse gas emissions reductions beyond business-as-usual and (ii) whether any material adverse impacts on environmental, social or just transition objectives are adequately identified, monitored and mitigated through appropriate measures and controls. Where relevant to the methodological pathway applied, ICS also considers the availability of lower-carbon alternatives and exposure to carbon lock-in risk, noting that the relevance and weighting of these additional criteria depend on the nature of the activity and the pathway category (including pathway-to-zero and no-pathway-to-zero solutions).

In particular, for pathway-to-zero and no-pathway-to-zero solutions, the assessment places primary emphasis on demonstrated emissions reductions and on the effective management of risks of harm to environmental, social or just transition objectives.

4.2.2. Activity-level signals

ICS applies a three-signal scale for the activity-level assessment.

- A green tick is assigned where the activity supports the issuer's or borrower's climate transition strategy and leads to substantial and quantifiable greenhouse gas emissions avoidance, reduction or removal.
- A dash is assigned where the activity does not fully correspond to recognised sectoral decarbonisation pathways or taxonomies, but can nevertheless credibly be regarded as a transition activity on the basis of a strict combination of additional criteria. These may include: (i) evidence of greenhouse gas emissions reductions beyond business-as-usual; (ii) no unmitigated risk of material adverse impacts on other environmental, social or just transition objectives; (iii) the absence, at present, of commercially accessible lower-carbon alternatives; and (iv) no carbon lock-in risk, or a clear, time-bound sunset date or equivalent safeguard. This category may, for example, include interim solutions, pathway-to-zero solutions and, where appropriate, no-pathway-to-zero solutions, as well as other comparable cases.
- A red circle is assigned where the activity is inconsistent with a credible transition to net zero.

For activities materially related to fossil fuel infrastructure or fossil-fuel-based activities, additional safeguards apply beyond the main assessment pathway. ICS expects at least two such safeguards to be met. These may include activity- or asset-level transition plans, phase-out or decommissioning commitments within a defined timeframe, annual reporting against forward-looking milestones supported by external verification, flanking investments to enable future lower-carbon alternatives, limits on fossil fuel capacity expansion or lifetime extension, restriction of eligibility to existing assets, or a commitment to implement further abatement measures, such as carbon capture, utilisation and storage, where relevant.

Table 2: Activity-level signals and Part 2 assessment outcomes

Activity-level signal	Description	Implication
Green tick ✓	Activity meets all relevant transition assessment criteria.	An *Aligned* conclusion under Part 2 is reached only where all retained activities are assessed as meeting all relevant criteria in full.
Dash –	Activity supports the climate transition but does not yet meet all relevant criteria in full. The External Review Report explains the basis for this assessment and identifies the criteria that are not yet fully met.	Supports an A*ligning* Part 2 conclusion where no retained activity is assessed with a red circle.
Red circle ○	Activity does not meet the relevant criteria or lacks required safeguards. The report explains the basis for the negative conclusion.	Leads to an overall *Not Aligned* conclusion if the activity is retained in the framework.

The final activity-level conclusion is based on the aggregated results of the assessments for all nominated activities. Where all activities are assessed as meeting the applicable transition contribution and safeguard criteria (green tick), the transition quality of the nominated activities is assessed as Aligned. Where at least one activity does not yet meet all relevant criteria in full (dash), provided that no activity is assessed as failing to meet the criteria (red circle), the transition quality of the nominated activities is assessed as Aligning. Where any retained activity is assessed as failing to meet the applicable transition contribution or safeguard criteria (red circle), the transition quality of the nominated activities is assessed as Not aligned.

Table 3: Scenarios linking activity-level signals to Part 2 assessment outcome

Scenario	Activity-level signals	Part 2 - Assessment outcome
1	✓ ✓ ✓ ✓ ✓ ✓	Aligned
2	– ✓ ✓ ✓ ✓ ✓	Aligning
3	○ ✓ ✓ ✓ ✓ ✓	Not Aligned

4.2.3. Environmental and Social Risk Management in the Selection Process

In parallel with the transition contribution analysis, ICS reviews the quality of sustainability risk management in the selection process of the eligible projects at the framework level. For this purpose, ICS identifies the sustainability topics most relevant to the nominated categories or activities and evaluates the issuer's or borrower's policies, due diligence processes, internal governance and, where relevant, applicable national regulation. The assessment is designed to promote transparency while ensuring that information requests remain proportionate to the nature and scale of the financed activities.

For corporate issuers or borrowers, the assessment may cover topics such as sustainability governance, biodiversity and conservation management, environmental impacts, community engagement, labour standards, health and safety, supply chain social risks and environmental risks, waste and water management, user safety, responsible procurement of materials and energy efficiency. For financial institutions, the assessment may cover topics including ESG governance, biodiversity, community engagement, circular economy and waste management, labour standards, health and safety, product and user safety, inclusion, quality management, ethics, water management, and the exclusion of sectors or activities with significant adverse environmental or social impacts.

4.3. Part 3: Sustainability and Transition Strategy

Part 3 provides a qualitative overview of the issuer's or borrower's sustainability and transition strategy, drawing on the key sustainability objectives and priorities defined by the issuer or borrower, including, where relevant, transition strategy elements. This section is included for contextual purposes and does not affect the conclusions in Parts 1 and 2.

ICS reviews the issuer's or borrower's sustainability and transition strategy, including climate goals and targets, action plans, governance arrangements, monitoring mechanisms and, where relevant, the coverage of financed emissions and transition targets for financial institutions. The review is qualitative and based on the financing framework, issuer or borrower public disclosures and any additional written information provided during the mandate.

Annex 1. Applicable Standards and Analytical Sources

The assessment may draw on the following categories of standards, sources, and analytical references, as relevant to the scope of the review:

- Climate Transition Bond Guidelines and Climate Transition Finance Handbook, as administered by ICMA.
- Guide to Transition Loans, as administered by LMA, APLMA and LSTA.
- The issuer's or borrower's transition framework, transition strategy, sustainability disclosures and relevant internal policies.
- Credible taxonomies and technical screening criteria, including the EU Taxonomy and, where relevant, national or regional taxonomies.
- Recognised sectoral decarbonisation pathways and performance benchmarks, such as IEA scenarios, Mission Possible Partnership pathways or other credible sector references.
- Applicable national laws and regulations, environmental and social standards, and third-party project-level evidence where relevant to the nominated categories or activities.
- Other relevant scientific, technical and market sources, as appropriate.

Annex 2. Alignment and Sustainability Assessment Signals

ICS uses the following assessment signals when concluding on framework-level alignment, activity-level transition quality, and the overall outcome of the climate transition finance review.

Table 4

Assessment area	Signals	Interpretation
Framework-level alignment (Part 1)	Aligned | Not aligned	Used to conclude on alignment of the framework with the applicable framework-level transition standard, based on an assessment against the required ("must-have") criteria set out in the relevant assessment grid.
Activity-level transition assessment (Part 2)	Aligned - all nominated activities are assessed as meeting all applicable transition contribution and safeguard criteria (green tick) Aligning - at least one nominated activity does not yet meet all applicable criteria in full (dash), provided that no activity is assessed as failing to meet the criteria (red circle) Not aligned - at least one nominated activity is assessed as failing to meet the applicable transition contribution or safeguard criteria (red circle)	Used to assess each nominated activity against the applicable transition contribution criteria and safeguard requirements.
Sustainability and transition strategy (Part 3)	Qualitative commentary only	Used to provide contextual analysis, drawing primarily on the issuer's or borrower's sustainability and transition disclosures, without affecting the conclusions reached under Parts 1 and 2.

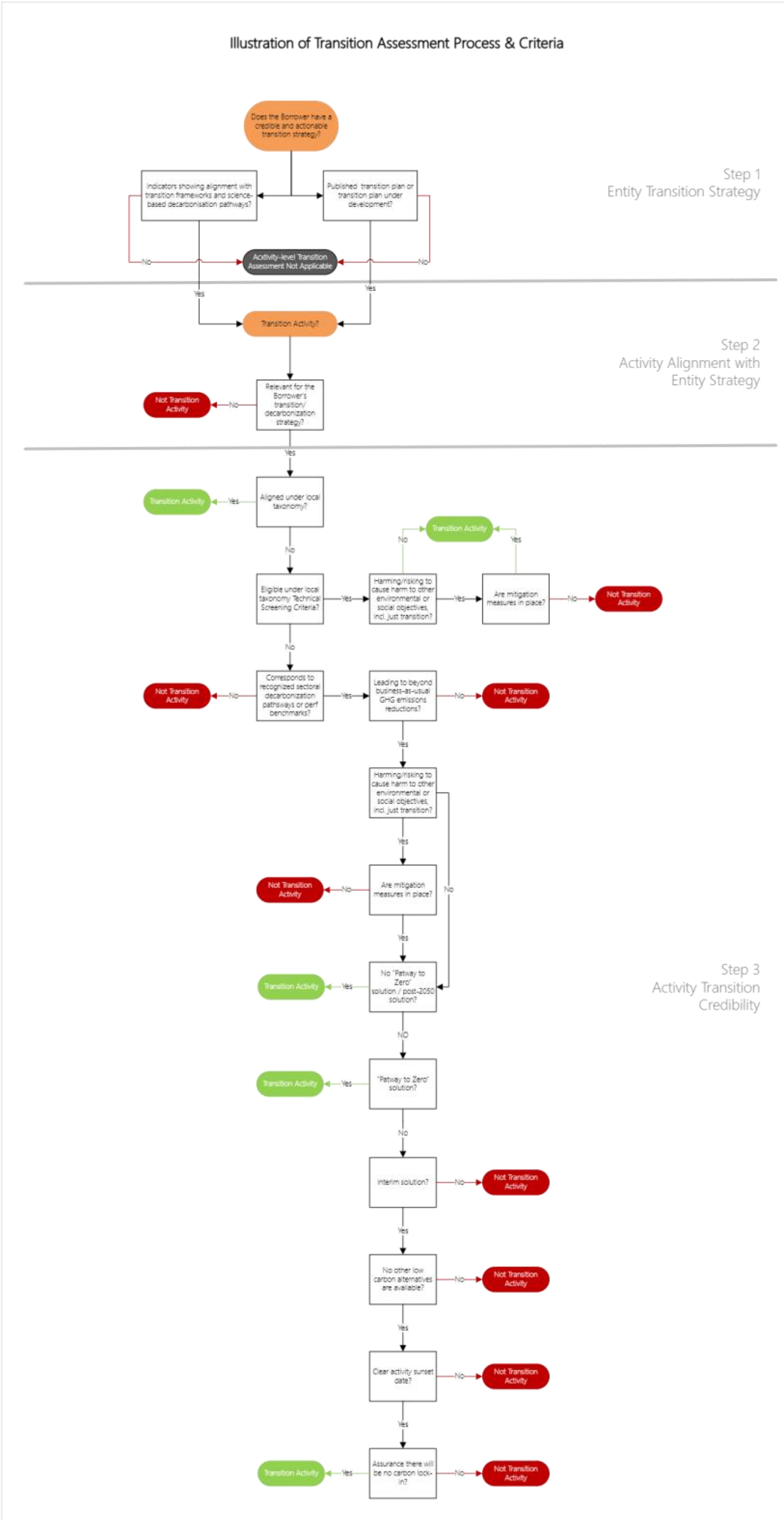
Annex 3. Quality Management and Review Process

ICS conducts climate transition finance reviews based on written information provided by the issuer or borrower, supplemented by public disclosures. The review process may include requests for clarification, additional supporting documents and written confirmations where the financing framework, transition strategy or category-level information lacks sufficient detail to support the assessment.

The issuer or borrower remains responsible for the completeness and accuracy of the information made available for review. ICS performs its assessment independently and in accordance with its internal quality management procedures, including review and sign-off processes designed to promote methodological consistency, transparency and the appropriate documentation of assessment limitations.

Where relevant, the review may draw on internal subject matter expertise and proprietary research sources to support the assessment of taxonomies alignment, transition pathway consistency, emissions reduction claims, carbon lock-in risks, and the contextual analysis of the issuer's or borrower's sustainability and transition strategy. ICS conducts its reviews in accordance with its Code of Ethics and related internal policies designed to ensure integrity, transparency, professional competence, objectivity and the effective management of conflicts of interest.

Annex 4. Illustration of Process and Criteria



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