Methodology

To qualify transactions as "development finance," the J.P. Morgan Development Finance Institution (JPM DFI) will employ a methodology based on IFC's Anticipated Impact Measurement & Monitoring (AIMM) framework, to perform an ex-ante assessment of J.P. Morgan's Corporate and Investment Banking (CIB) transactions. This methodology, summarized in ***Figure-1***, follows a 5-step process to vet and designate transactions as 'DFI qualified' with a development intensity of Low, Moderate, High or Very High. It also maps qualified transactions to the United Nations Sustainable Development Goals (SDGs). The assessment methodology can also be utilized for ex-post impact monitoring and evaluation.

Figure 1 – JPM DFI Methodology

1. Exclusions Filter

The JPM DFI methodology begins with all CIB-eligible transactions, which indicates conformity with J.P. Morgan's existing rigorous risk frameworks, including those related to credit, market, environmental and social, reputation and regulatory risk requirements and customer onboarding processes (e.g., KYC).

The methodology then excludes sectors and activities that are commonly excluded by other leading development finance institutions (e.g., IFC, EBRD). ***List-1*** below summarizes the transactions that will be excluded from qualification by the JPM DFI.

List 1 – JPM DFI Exclusions List: The JPM DFI will not provide any financial service to:

- **Weapons and munitions:** Entities that produce or procure weapons and munitions
- **Modern slavery and child labor:** Entities where there is evidence of modern slavery, such as forced labor and human trafficking, or child labor
- **Illegal wildlife trafficking:** Entities where there is evidence of illegal wildlife trafficking
- **Illegal logging:** Entities where there is evidence of harvesting, transporting, processing or selling timber in violation of national laws
- **Uncontrolled fire:** Entities where there is evidence of uncontrolled and/or illegal use of fire in their forestry, plantation or extractive operations
- **Tobacco:** Entities that produce or trade tobacco or tobacco products
- **Drift net fishing:** Entities that employ drift net fishing in the marine environment using nets in excess of 2.5 km
- **Development in World Heritage Sites:** Development within UNESCO World Heritage Sites unless there is prior consensus from both the host government authorities and UNESCO
- **Private Prison Operators:** Private sector entities engaged in the management and operation of correctional institutions under government contract
- **Prescription Opioid Manufacturers and Distributors (majority business):** Pharmaceutical companies engaged in the research, development, manufacturing, wholesalers, distribution and marketing of opioids as a majority portion of their business
- **Coal mining, including mountaintop mining**
- **Coal fired power plants**

Note: The exclusions list above is solely used for qualifying transactions as development finance. The sectors and clients served by JP Morgan Chase & Co. will continue to be governed by its firm-wide risk frameworks.

2. Counterparty Filter

The primary scope of the JPM DFI is to channel financing and strategic advisory to promote economic development in emerging markets. Therefore, the counterparty in the transaction must either be:

i. A private enterprise in a World Bank-eligible borrowing country (these include emerging economies under the IDA, Blend, and IBRD lending groups)
ii. A state-owned enterprise in a World Bank-eligible borrowing country
iii. A sovereign in a World Bank-eligible borrowing country
iv. A multi-lateral development bank or any other development finance institution with the mandate to invest in World Bank-eligible borrowing countries
v. A corporate or investor from a developed country whose investment is in a World Bank-eligible borrowing country
vi. Other client, investor or partner whereby the transaction is determined to have a positive development impact in a World Bank-eligible borrowing country

3. Product Filter

JPM's Corporate & Investment Bank has a more diverse range of products than traditional development finance institutions. ***Table-1*** below describes which products are in or out of scope of the JPM DFI based on the principle of either facilitating new financing or assisting clients in risk management that would have a development impact.

Table 1 – CIB products in-scope of the JPM DFI

Product Category	Products Included	Products Excluded
Corporate Finance	Equity Underwriting, Debt Underwriting, M&A Advisory, Credit Extension (Syndicated & Bilateral Loans)	Buybacks, Tender Offers, Rollovers
Markets Transactions	Securitized Products, Corporate Derivatives (Foreign Exchange, Rates, Commodities); Fixed-Income Financing	Derivatives for investment purposes; Market-making trades; Cash/Spot transactions; Prime services; Global clearing
Wholesale Payments	Trade Loans, Export Letters of Credit, Standby Letters of Credit	Payables, Receivables, FX Transaction Services, Commercial Card, Payment Tech
Security Services	None	Agency Securities Lending, Collateral Management, Commercial Paper, Depository Receipts, Custody & Fund Services

4. Development Intensity Assessment

Once a transaction has passed the first 3 filters, the JPM DFI will employ a methodology, based on IFC's Anticipated Impact Measurement & Monitoring (AIMM) framework, to perform an ex-ante assessment of the development intensity with an objective assessment of the **Development Gap** and a subjective assessment of the **Investment Contribution.**

The process of this assessment will vary based on whether the client (or investee) is a commercial, sovereign, or DFI entity. The process will also depend on whether the use of proceeds is project-based, or if the financing will be used for refinancing debt and/or general budgetary purposes. ***Figure-2*** below details the process that will be followed under each situation.

Figure 2 – Development Intensity Assessment by Entity Type

Is the entity a commercial enterprise, sovereign or MDB / other development finance institution?

Entity

Commercial Enterprise

Have the use of proceeds of the transaction been specified?

Proceeds

Yes Specified	**No** Unspecified

Assign a score of Low, Moderate, High or Very High for the Development Gap and Investment Contribution dimensions

	Yes – Specified	No – Unspecified
Development Gap	■ Determine sector of intended use of proceeds ■ Obtain available AIMM sector indicator(s)[1] ■ For each indicator, compare country's statistic to that of other developing countries (see ***Figure* – *3** for details*)	■ Determine commercial enterprise's primary sector(s) of operations ■ Obtain available AIMM sector indicator(s)[1] ■ For each indicator, compare country's statistic to that of other developing countries (see ***Figure* – *3** for details*)
Investment Contribution	■ Assess extent to which the transaction has impact towards addressing the sector gap(s) ■ Consider the impact on cross-cutting criteria[2] ■ Assess contribution towards market development[3] ■ Consider whether JPM played active role in structuring & advising the deal & the innovative nature of the product	■ Assess commercial enterprise's contribution to addressing sector gap(s) and cross-cutting criteria, leveraging best practices (e.g., UNEP FI) and/or other DFI/investor assessments where relevant[4] ■ Assume proceeds will be employed to continue recent operational practices & ongoing investments ■ Consider whether JPM played active role in structuring & advising the deal & the innovative nature of the product

1 If AIMM sector indicators are not yet available for a sector, select relevant World Bank World Development Indicator(s) to determine sector gap

2 Cross-cutting criteria are transaction aspects that will be considered regardless of sector, including the impact on climate sustainability, gender equality, job creation, corporate / institutional governance, and denominating debt in local currency

3 Market development through: (i) demonstration & replication effects, (ii) promotion of competition, (iii) improving standards, and (iv) building skills and capacity that open the market to new opportunities

4 For example, in situations where the JPM DFI is operating alongside other DFIs and/or Impact Investors

Is the entity a commercial enterprise, sovereign or MDB / other development finance institution?

Entity

Sovereign

Have the use of proceeds of the transaction been specified?

Proceeds

	Yes Specified	**No** Unspecified

Assign a score of Low, Moderate, High or Very High for the Development Gap and Investment Contribution dimensions

	Specified	Unspecified
Development Gap	Same as a Commercial Enterprise with specified use of proceeds	Assess the country's development gap as determined by its Human Development Index
Investment Contribution	Same as a Commercial Enterprise with specified use of proceeds	■ If the country has a reform-based borrowing program in good standing with a multilateral institution[1], assume proceeds will co-finance the program ■ Assess whether the product is innovative and/or develops the local market

1 For example, an IMF program or a policy-based loan

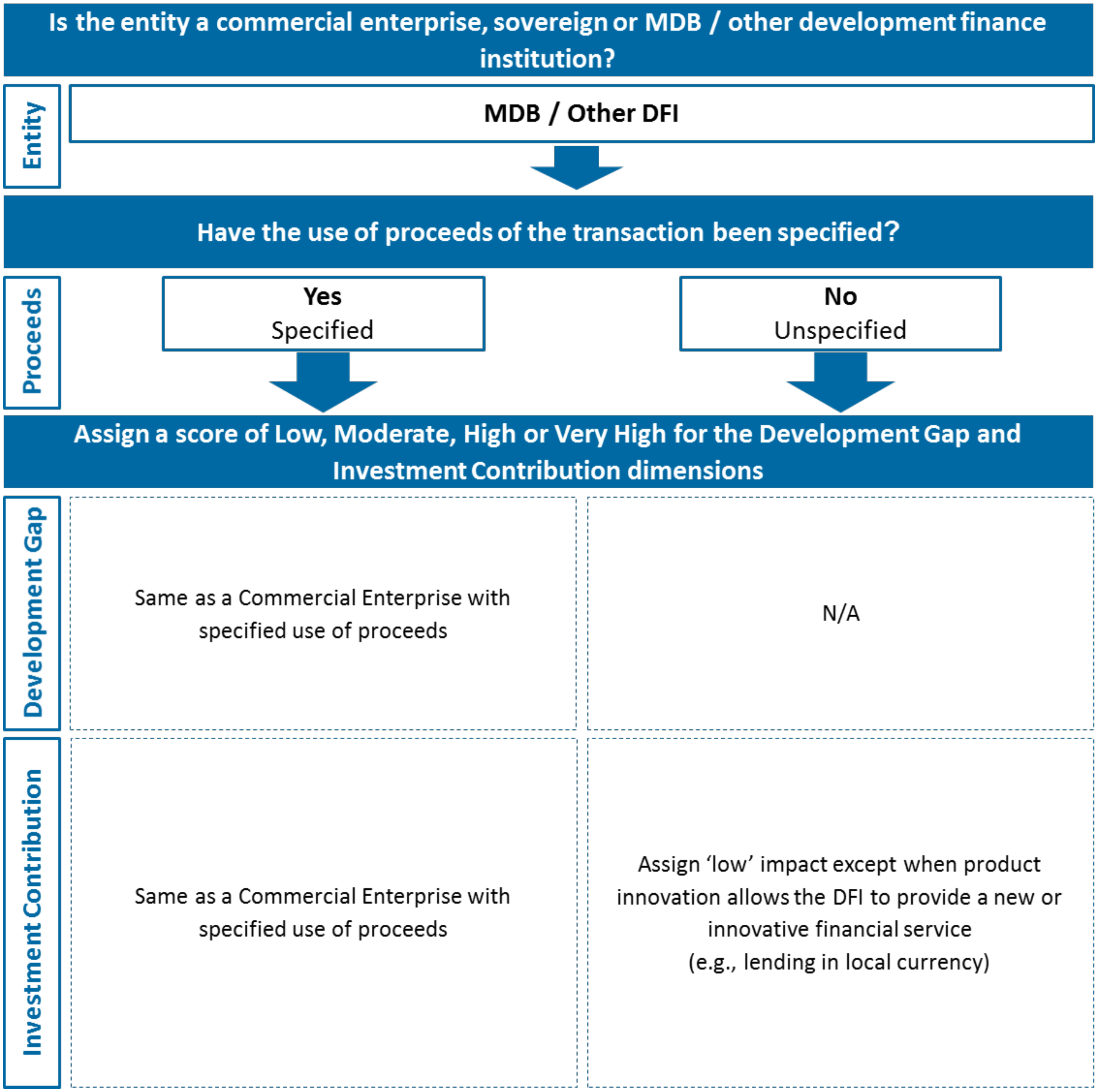

Is the entity a commercial enterprise, sovereign or MDB / other development finance institution?
Entity
MDB / Other DFI
Have the use of proceeds of the transaction been specified?
Proceeds
Yes
Specified
No
Unspecified
Assign a score of Low, Moderate, High or Very High for the Development Gap and Investment Contribution dimensions
Development Gap
Same as a Commercial Enterprise with specified use of proceeds
N/A
Investment Contribution
Same as a Commercial Enterprise with specified use of proceeds
Assign 'low' impact except when product innovation allows the DFI to provide a new or innovative financial service
(e.g., lending in local currency)

Figure 3 – Sector Gap Assessment Using AIMM Sector Indicators

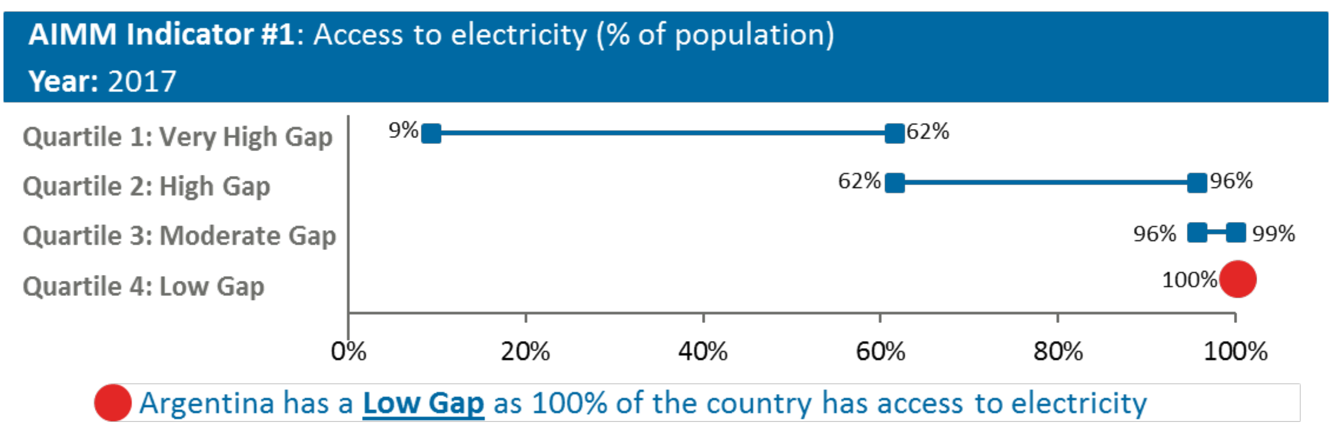
The process below explains how the AIMM sector indicators are used to determine the development gap. For illustration purposes, let us assume the JPM DFI is financing an electricity producer in Argentina. The JPM DFI would follow the 6 steps below to assign a development gap of **Low**, **Moderate**, **High**, or **Very High** for the transaction.

Step 1: Given that the counterparty is an electricity producer, the JPM DFI will consult the available sector indicators that are deemed to be pertinent per the Power framework of the AIMM Sector Frameworks; namely access to electricity, time required to obtain a permanent electricity connection, and quality of electricity provision (e.g., frequency of outages).

Step 2: Obtain the most recent country data point for the AIMM sector indicator from a credible data source (e.g., ● Argentina = 100% of the population has access to electricity in 2017 according to the World Bank's World Development Indicators).

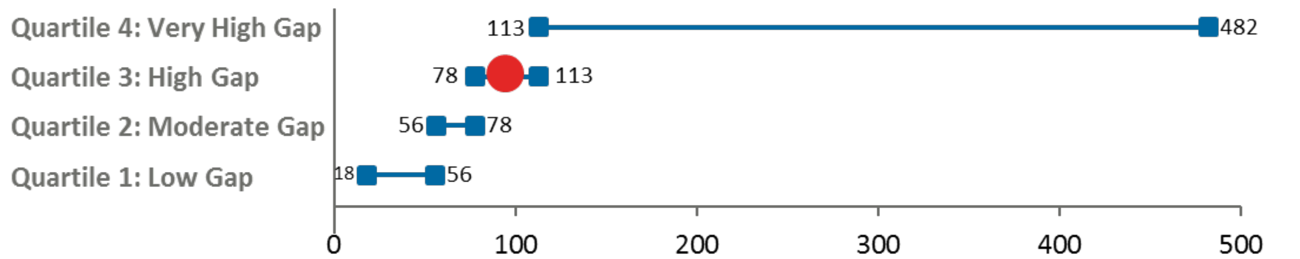
Step 3: Obtain the same statistic for all other World Bank eligible borrowing countries.

Step 4: Identify the quartile in which the country's data point falls along the distribution for all available World Bank eligible borrowing countries. This position will determine the score assigned for the sector gap (Low = 1, Moderate = 2, High = 3, Very High = 4).



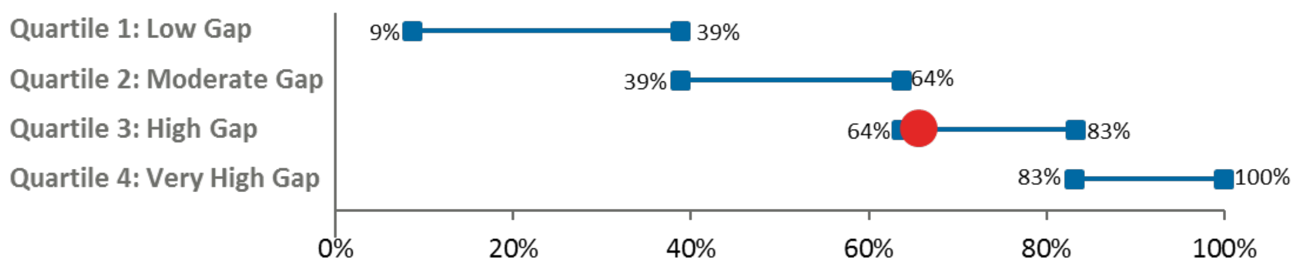
Step 5: If more than one AIMM sector indicator is available from a credible data source, repeat steps 1 – 3.

AIMM Indicator #2: Time required to obtain a permanent electricity connection (days)
Year: 2017



Argentina has a **High Gap** as it takes 92 days to obtain an electricity connection

AIMM Indicator #3: Firms experiencing electrical outages (% of firms annually)
Year: 2017 (Argentina)[1]



Argentina has a **High Gap** as 65% of firms experience electrical outages annually

Step 6: Average the score from each indicator, which determines the final score for the Development Gap.

AIMM Sector Indicators	Power Sector – Argentina
Access to electricity (% of population)	Low Gap (1)
Time required to obtain a permanent electricity connection (days)	High Gap (3)
Firms experiencing electrical outages (% of firms annually)	High Gap (3)
Average Score	**Moderate Gap (average = 2.3)**

1 For certain indicators, every country does not report data for each year or at all. In such situations, the most recent available data is used for reporting countries.

The intersection of the values assigned to the Development Gap and Investment Contribution will provide the overall Development Intensity Score, as demonstrated in ***Figure-4.*** Any transaction with an overall development score between "very high" and "low" will qualify as a JPM DFI eligible transaction.

Figure 4 – Overall Development Score Matrix

		Sector Gap			
		Low	Moderate	High	Very High
Investment Contribution	Very High	High	High	Very High	Very High
	High	Moderate	High	High	Very High
	Moderate	Moderate	Moderate	High	High
	Low	Low	Moderate	Moderate	Moderate
	None	None	None	None	None

5. Mapping to SDGs

At the final stage, an assessment will be made to map the transaction to the SDGs (including their underlying targets and indicators) that are impacted by the transaction. This will be done by mapping how the transaction aligns with SDGs that are sector specific (e.g., infrastructure, agriculture, health, education, etc.), or cross-cutting (e.g., job creation and economic growth, climate action, gender equality, etc.).

Ex-Post Monitoring & Evaluation

J.P. Morgan's CIB is primarily an intermediary in banking and capital markets. Like other intermediaries, JPM's business model is to originate and structure financial instruments for distribution/syndication to the ultimate investors/lenders to such assets. As such, the ultimate lender or investor would be responsible for the ex-post monitoring and evaluation of the asset. If they wish to verify whether the anticipated development impact has been realized, they may use the JPM DFI ex-ante framework for this purpose.

The JPM DFI will also perform ex-post monitoring on assets that it retains on its own balance sheet on a selective basis in order to refine its ex-ante development assessment methodology.

Reporting and Maintenance

The JPM DFI will publish regular reports that include a summary of the JPM DFI's activities, with aggregated information on the volume, product types, economic sectors, and geographies in which its transactions have occurred. The JPM DFI will publish its methodology, including any revisions that may be made over time.

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