

STRATEGY ON MOBILIZING PRIVATE CAPITAL FOR INFRASTRUCTURE

February 9, 2018

1. The Bank's long-term aim is to position itself as a "go-to" institution for providing infrastructure financing solutions in and to client countries. Our vision is that:
 - The Bank will be the champion and leading institution to catalyze private capital for infrastructure investment in the region;
 - The Bank will work to develop emerging market infrastructure as an asset class;
 - The Bank's brand will be recognized and represent a solution-driven culture that promotes innovation and excellence; and
 - The Bank will be known for offering products that are straightforward; designed for the local context; and implemented with flexibility.
2. In the medium-term, the Bank will move towards realizing this vision by pursuing a range of activities, including actively originating the Bank's private sector pipeline, executing high quality transactions, and achieving a distinctive, efficient client experience.
3. Three key activities are sequenced and prioritized to achieve the highest impact on private capital mobilization in terms of the Bank's mandate, within the constraints of the Bank's resource envelope. With time and experience, the Bank's activities will evolve as it takes on increasingly complex operations, in an increasingly challenging operating environment.

Activity 1: AIIB Partners: The Bank is currently engaged in Activity 1, which consists of pursuing and executing transactions based on third party referrals, as well as a few readily investable non-sovereign projects. Activity 1 is important in order to develop the Bank's operations and build up the capacity, track record and experience to ensure it is well-positioned to proceed with Activity 2.

Activity 2: AIIB Leads: Involves the Bank originating, structuring and executing stand-alone deals. These transactions will provide an opportunity to innovate. Origination under this activity will require an experienced, qualified team of officers with good track records, consistently and regularly implementing a client coverage plan. The team will also establish and foster partnerships with financiers like other MDBs, commercial banks, institutional investors and advisors, including lawyers and technical consultants. Transactions under Activity 2 will not be based on referrals from other lenders, they will be the result of direct marketing efforts with project sponsors (owners). Although the Bank

will commence Activity 2 in 2018, it will require two years to ramp up. Successful execution of Activity 2 will establish the Bank as a market leader and ensure the Bank is a trusted partner in creating new ideas, paving the way for Activity 3.

Activity 3: AIIB Creates Markets: Implementation entails opening up new markets and creating deal flow. Activity 3 will be actively pursued in the medium to longer term, we expect from 2021 onwards.

4. To underpin this approach, the Bank will foster an internal culture that rewards innovation and excellence and is driven by a commitment to finding solutions for its clients, rather than just developing products and then finding markets for them. The successful development of this culture will take time and will be crucial to the successful implementation of the Strategy. Implementation will include building a team that specifically covers project sponsors, as well as a team that actively initiates and develops relationships with financiers and advisors.
5. During 2018 the Bank will continue implementation of Activity 1, which consists of pursuing and executing transactions based on third party referrals, as well as a few readily investable non-sovereign projects. Within the Activity 1 phase, the Bank will gain experience, build capacity and establish a track record.
6. During the period 2018-2020, the Bank's focus will be to initiate the implementation of Activity 2 ("Leading Transactions"). This will involve putting in place a strong team of specialists to implement the Strategy including a focus on business development by building and strengthening sustainable deal origination capability and expanding networks of sponsors, partners and advisors. The Bank will identify areas for differentiation that could include financing structures and markets that are currently underserved by other MDBs (for example sub-sovereigns).
7. The Bank will prioritize transactions that:
 - Support the Bank's thematic and sectoral priorities;
 - Support reputable clients with a track record in infrastructure development;
 - Have a strong likelihood of generating repeat mandates and provide business development opportunities;
 - Employ a structure or a product that is innovative and assists in franchise development;
 - Employ structures that can be replicated;
 - Provide an opportunity for the Bank to play a lead role in the financing;
 - Provide the opportunity for the Bank to use multiple products (debt, equity, derivatives); and
 - Are priced and structured in a manner that facilitates syndication to other lenders.

A combination of the above criteria should result in the Bank's economic capital being effectively leveraged to mobilize private capital.

8. A first set of monitoring indicators has been established to measure progress as the Strategy begins to roll-out. These indicators will be deepened and enhanced in line with full Strategy implementation. Beginning in 2018, progress with respect to the monitoring indicators contained in the Table (below) as well as added qualitative indicators, when available, will be reviewed and reported in the Annual Business Plan. The Board of Directors will periodically review and, as appropriate, revise this Strategy. The timing of such reviews will be agreed with the Board of Directors in the context of the Annual Business Plans.

Monitoring indicators

1. Non-Sovereign Backed Financing (NSBF)	
<i>Monitoring Indicator</i>	<i>Indicator Unit</i>
a. Share of NSBF in the portfolio	% of investment portfolio
2. Private Capital Mobilization	
<i>Monitoring Indicator</i>	<i>Indicator Unit</i>
a. Private Direct Mobilization achieved across the Bank's investment portfolio	\$ and % of investment portfolio
b. Private Indirect Mobilization achieved across the Bank's investment portfolio	\$ and % of investment portfolio
3. Status of Activities	
<i>Monitoring Indicator</i>	<i>Indicator Unit</i>
a. Activity 1 investments	# of projects \$ and % of investment portfolio
- o/w deals carry a top tier title for the Bank in the lender group	% of Activity 1 deals
b. Activity 2 investments.	# of projects \$ and % of investment portfolio
c. Activity 3 investments*	# of projects \$ and % of investment portfolio

**Note that Activity 3 investments are not expected to commence in the short term*