

Project Finance Through Capital-Protected Issuance

Information for project sponsors

This document sets out how International Finance Bank LTD finances undertakings through the issuance of capital-protected instruments, what a project must satisfy to qualify, and where the limits of the structure lie. It is addressed to companies and project sponsors seeking to raise capital in institutional size.

It is a general description. It contains no offer, no commitment to finance and no investment advice. The technical basis of calculation is set out in the separate annex.

1. The Principle

A conventional project bond asks the investor to carry the project risk. If the undertaking fails, his capital is affected. That is where most financing requests in institutional size come to rest: the party able to subscribe is not permitted to take that risk.

This structure separates the two. The investor's capital is secured by a distinct pool of covering assets whose cash flows replicate the obligations owed to him. The undertaking receives a portion of the issue proceeds and generates the return above the level of capital protection.

The investor's capital risk is not the risk of the undertaking.

For the sponsor this is the material difference from a conventional bond. He is not measured against the credit standing required to support a multi-billion redemption, but against the viability of an undertaking into which a fraction of that sum is invested.

2. Five Layers

The issue proceeds are divided into five economically separate layers. No single amount serves two purposes. All figures refer to an illustrative issue of EUR 5.0 billion over ten years.

$$N = \text{liability matching assets} + \text{credit reserve} + \text{project capital} + \text{project loss reserve} + \text{return enhancement} + \text{costs}$$

Layer	Purpose	Held as
Liability matching assets	Replicate investor payments	Matched instruments
Credit reserve	Absorb a default in the pool	Overcollateralisation
Project capital	Fund the undertaking	Project investment
Project loss reserve	Absorb project loss	Liquidity
Return enhancement	Additional return	Risk assets



No single amount serves two purposes. Schematic, not to scale; the size of each layer is fixed only at pricing.

The separation of the two reserves is deliberate and is the point most often elided in structures of this kind. A reserve held against a default in the covering pool is not available to absorb a loss in the undertaking. The same euro cannot secure two different risks.

The size of each layer is not a fixed property of the product. It follows from the interest rate curve at the time the covering assets are acquired and from the credit reserve the pool requires. The higher the achievable yield, the less capital the matching layer absorbs and the more is available elsewhere. A falling curve moves the allocation against the reserves.

For that reason the distribution rate and the layering are fixed only after the covering assets have been priced. A split promised in advance would place the interest rate risk between subscription and acquisition on the structure itself. On an issue of EUR 5 billion, fifty basis points of curve movement correspond to roughly EUR 190 million.

3. How the Protection Is Constructed

Capital protection does not rest on an expectation of return. It rests on matched cash flows. For every date on which the investor is entitled to a payment, an asset within the covering pool must produce a contractually owed inflow of at least the same amount.

Inflow on each date $\geq$ Obligation on that date

Coverage is measured date by date, not in aggregate. A surplus in year ten does not cure a shortfall in year three.

This is the difference between capital protection and the intention of capital protection. A structure that depends on reinvesting interim receipts for years at an assumed rate depends on that assumption. Matching removes that dependency.

What the matching costs today follows from the curve. For orientation: a listed zero-coupon German government bond maturing in May 2036 was quoted at 72.04 with a yield of 3.45 per cent on 10 September 2026. At that level, a redemption of EUR 5 billion in ten years costs approximately EUR 3.56 billion, and ten annual distributions of EUR 100 million a further EUR 0.83 billion. Together approximately EUR 4.40 billion, before any credit reserve, and therefore more than the budget available.

The highest-rated sovereign curve is consequently not available for the covering pool. The pool requires assets yielding a spread above it. That spread compensates for expected credit loss, credit risk premium, liquidity and other market risks. It is not free additional return; it is payment for risk relative to the sovereign reference curve, and it is disclosed to the investor.

4. Market Levels

For orientation, yield levels on EUR instruments of major European bank issuers. The ten-year EUR mid-swap stood at 3.55 per cent on 11 September 2026.

Ranking	Spread	Yield	Basis
Senior preferred	ca. MS + 50 to 70	4.05 to 4.25 %	derived
Senior non-preferred	MS + 100 to 108	4.55 to 4.63 %	observed
Tier 2	MS + 130 to 215	4.8 to 5.6 %	observed
AT1	coupon	ca. 5.6 %	observed

Observed levels are taken from EUR benchmark issues during 2026: senior non-preferred at MS+100 and MS+108 over ten years; Tier 2 at MS+130 (EUR 1.25 bn, 10NC5, coupon 4.231 %, issue price 100), MS+175 (EUR 500 m, 10.25NC5.25), approximately MS+195 as initial guidance, and MS+215 (EUR 750 m, 10.5NC5.5, coupon 4.875 %). One AT1 issue priced at a coupon of 5.625 %. Derived levels rest on the customary relationships within the liability cascade. Market data move daily and are re-established for each specific structure.

A note on form: EUR Tier 2 is predominantly issued as 10NC5, callable after five years with a subsequent coupon reset. For a covering pool with a ten-year obligation that form is suitable only once reinvestment risk has been addressed expressly. The higher yield is therefore not freely available.

5. The Return Engine: The Undertaking

The project layer receives EUR 500 million in the illustration. Its contribution over ten years, assuming full reinvestment:



Worked examples, not expectations. Assumes full reinvestment over ten years.
The investor's capital is not exposed to this result.

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Internal rate of return	Value after 10 years	Contribution
5 %	814 m	314 m
8 %	1,079 m	579 m
10 %	1,297 m	797 m
12 %	1,553 m	1,053 m
15 %	2,023 m	1,523 m

Worked examples, not expectations. They show where the leverage sits: an undertaking returning twelve per cent produces a contribution above one billion on a commitment of 500 million, without exposing the investor's capital.

From this follows the relevant order of magnitude for a sponsor. A capital requirement of around EUR 500 million can be addressed through an issue of EUR 5 billion. The relation does not scale down indefinitely. Arranger, legal counsel, auditor comfort, rating, listing and paying agency are largely fixed costs, and they render structures below a certain size uneconomic.

6. The Two Reserves

The credit reserve protects the investor's capital against a default within the covering pool. The project loss reserve absorbs loss within the undertaking. They are sized, held and reported separately.

An illustration of why the credit reserve matters. A covering pool of EUR 4 billion diversified across eight issuers carries exposure of 500 million to each. A single default recovering forty per cent produces a loss of 300 million, or 7.5 per cent of the pool. Contractual coverage of 1.03 leaves a buffer of three per cent. One default would breach it.

The credit reserve is therefore not an optional refinement. It is the amount that determines whether the structure survives a single credit event, and it is quantified as the number of defaults the pool withstands before a scheduled payment goes uncovered. The assumptions behind that number are stated in the annex.

The project loss reserve is reported against the capital committed to the undertaking. At a reserve of 300 million against project capital of 500 million, sixty per cent of that capital is covered. The return enhancement portfolio is not counted towards either reserve; it is itself a risk position and cannot serve as a buffer at the same time.

7. Order of Payments

Cash flows are applied in a fixed order, set out contractually. Every euro is applied once.

1. Preservation of capital protection
2. Taxes, paying agency, custody, audit, hedging
3. Current distribution to the investor
4. Replenishment of the credit reserve
5. Replenishment of the project loss reserve
6. Additional return to the investor
7. Residual surplus

Costs and taxes rank ahead of the distribution. The distribution is a target within this order, and is documented as a minimum distribution only where its coverage is demonstrated for every payment date.

8. What the Sponsor Submits

Application of Cash Flows

CLEAR PRIORITIES. DISCIPLINED ALLOCATION. SUSTAINABLE RETURNS.

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Fixed contractually. Every euro is applied once. Costs and taxes rank ahead of the distribution; the distribution is a target within this order and is documented as a minimum only where its coverage is demonstrated for every payment date.

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A review begins with a complete submission. Incomplete submissions cannot be processed.

The undertaking

- Description of the undertaking, its stage of development and its operating history
- Audited financial statements for the last three years, where the applicant is an established company
- Financial projections, with the assumptions on which they rest stated explicitly
- Contracts, concessions, licences, permits and offtake agreements on which the revenue depends
- Independent technical, feasibility or valuation reports

The applicant

- Corporate documents for every entity in the ownership chain, with the beneficial owners identified
- Identification and evidence of authority for the persons who will sign
- Evidence of the sponsor's own contribution and of its source
- Existing indebtedness, encumbrances and litigation

The security

- Title documents, valuations and evidence of insurance

- Location of each asset and any consent required to grant security over it

9. Limits and Risks

The following are features of the structure, not exceptions to it. They are disclosed in the investor documentation and should be known to the sponsor.

Asset-backed capital protection, not a guarantee

Protection rests on contractually owed payments from debtors and therefore on their credit standing across the life of the instrument. For bank debt instruments, resolution powers apply in addition. Unless a legally enforceable guarantee from a guarantor of appropriate standing is in place, the correct description is asset-backed capital protection and not a capital guarantee.

What matching does and does not remove

Matched cash flows eliminate reinvestment risk and, where assets are held to the matched payment dates, immunise the contractual liability against intervening movements in interest rates. They do not eliminate credit risk, liquidity risk or interim market-value volatility.

A default breaks the match

A default does not merely reduce the amount received. It removes the remaining scheduled payments of that issuer and replaces them with a recovery amount of uncertain size, received at an uncertain time. The structure then has to reinvest or replace, at prevailing market levels, in circumstances in which those levels are typically unfavourable. The credit reserve is sized with this in mind.

Nominal protection is not real protection

Redemption is nominal. A distribution of two per cent is a fixed rate of two per cent, not the rate of inflation. Real preservation of capital over ten years at two per cent inflation would require redemption of approximately EUR 6.1 billion rather than 5.0 billion, and correspondingly larger covering assets.

Protection applies at maturity

Before maturity, valuation is at market. A ten-year instrument may trade well below its redemption amount in the interim, particularly if rates rise. An early exit is at market price.

Return above the protected level is not secured

It depends on the undertaking. If the undertaking fails, capital remains covered and the additional return falls away.

Capacity and execution

A theoretical allocation is not the same as executable market capacity. An amount outstanding in a given line says nothing about what is available at the quoted price. A transaction of this size requires pre-trade liquidity analysis, issuer diversification, block availability and, where necessary, primary issuance or private placement. Quoted secondary market yields cannot be extrapolated to the required volume without analysis of market impact.

10. Process

1. Initial discussion. Amount, purpose, source of repayment, intended investor base. No documentation required.
2. Structural review. Complete submission and a written assessment of financing readiness. The review fee is borne by the sponsor, sits outside the issue structure, is not credited against anything, and does not constitute an offer of finance. Structuring costs are separate and considerably higher.
3. Structuring. Selection and pricing of the covering assets; determination of the credit reserve, layering, distribution, order of payments and issuing vehicle.
4. Documentation. Prospectus, terms and conditions, trust and agency agreements, security documents, legal opinions.
5. Admission and placement.
6. Ongoing monitoring. Coverage ratios, reserves, reporting across the life of the instrument.

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Technical Annex

Basis of calculation for the capital-protected issuance structure

This annex supplements the information document for project sponsors. It is addressed to investors, their advisers and to internal structuring. All market data are given with their observation date.

1. Notation

N issue size · T term in years · D annual distribution · P project capital

L_t obligation in year t · A_t contractually owed inflow in year t

z_t zero-coupon rate for term t · DF_t discount factor · CP_0 capital required for liability matching

CR credit reserve · PR project loss reserve · RE return enhancement

2. Capital Equation

$$N = CP_0 + CR + P + PR + RE + costs$$

$$CR \cap PR \cap RE = \emptyset$$

The three reserves are disjoint by construction. The same amount cannot absorb a default within the covering pool, a loss within the undertaking and generate additional return. Earlier presentations of this structure as a three-way split conflated the first two, and the consequence is quantified in section 6.

3. Liability Side

For an issue of 5,000 million, a term of ten years and a distribution of 100 million annually:

$$L_1 = \dots = L_9 = 100 \quad L_{10} = 5,100$$

4. Coverage Condition

What governs is the match on each date, not an aggregate return:

$$CCR_t = A_t/L_t \geq 1 \quad \text{for all } t = 1 \dots T$$

$$CPCR_min = \min \text{ over } t \text{ of } (A_t/L_t) \geq 1$$

The binding figure is the minimum, not the sum. An aggregate ratio permits a surplus in one year to appear to offset a shortfall in another, which it cannot do.

The capital required today follows from the zero-coupon curve:

$$CP_0 = \sum (t = 1 \dots 9) 100 \cdot DF_t + 5,100 \cdot DF_{10}$$

$$DF_t = 1/(1 + z_t)^t$$

The inputs are therefore the rates z_1 through z_{10} together with costs, taxes and any credit or liquidity spreads. A single yield used as a discount rate assumes a flat curve and is admissible only as an approximation.

Why not through an aggregate return

An internal rate of return is the rate at which the present value of a cash flow series is zero. It assumes nothing about reinvestment. The error arises only where it is used to demonstrate coverage.

Illustration. An instrument at par with a coupon of 4.55 per cent and a nominal of 4,000 million produces an inflow of 182 million annually, of which 100 million is distributed and 82 million retained. Redemption is 4,000 million against an obligation of 5,000 million. The difference must arise from the retained amounts.

$$FV = 82 \cdot \sum (k = 0 \dots 9)(1 + r_{reinv})^k$$

At a reinvestment rate of 4.55 per cent that produces approximately 1,010 million and the structure balances. At three per cent it produces approximately 940 million; 70 million is missing from capital, not from return. Demonstrating coverage therefore requires cash flow matching.

5. Equivalent Flat Yield

As a reference figure, not as a model input, the threshold can be expressed as a single yield. For the liability series above against a matching budget of 4,000 million and no credit reserve:

$$4,000 = \sum (t = 1 \dots 9) 100 / (1 + r)^t + 5,100 / (1 + r)^{10}$$

$$r = 4.5315 \% \text{ p. a., net}$$

Discount rate	Present value of obligations	Coverage against 4,000
4.39 %	4,049.3 m	- 49.3 m
4.50 %	4,010.9 m	- 10.9 m
4.5315 %	4,000.0 m	0
4.55 %	3,993.6 m	+ 6.4 m

The threshold is net. Taxes, paying agency, custody, audit and hedging are deducted first. It excludes the credit reserve, which is treated in the following section.

6. Cost of the Credit Reserve

Introducing a credit reserve reduces the budget available for liability matching and therefore the distribution that can be covered. The effect is material and is set out here rather than left implicit.

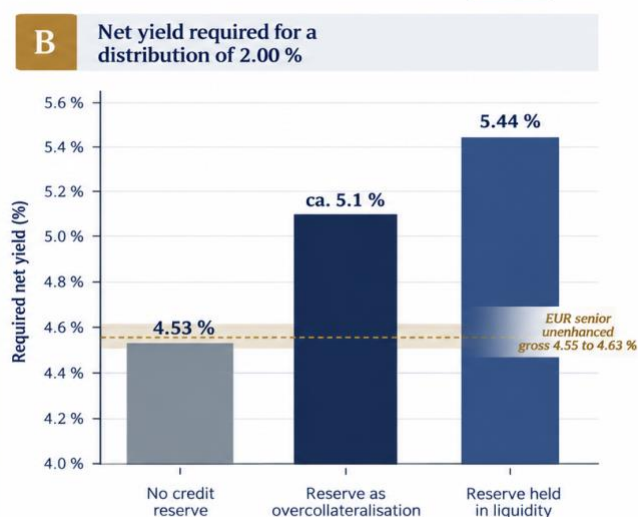
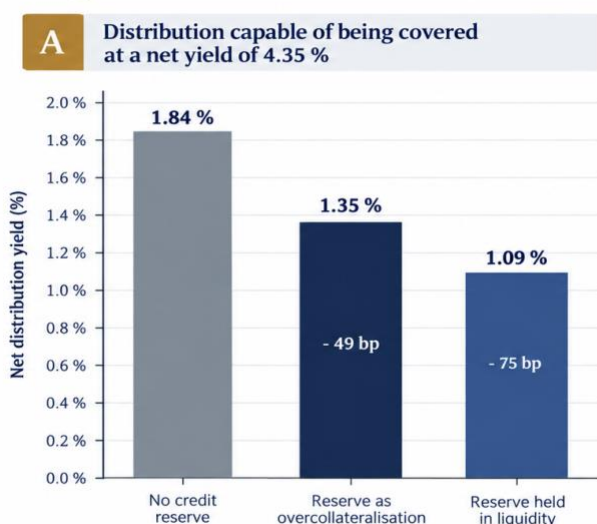
At a net yield of 4.35 per cent, an issue of 5,000 million and project capital of 500 million, the maximum distribution capable of being covered is as follows.

Configuration	Credit reserve	Distribution	Cost
No credit reserve	0	1.84 %	—
Reserve held in liquidity	300 m	1.09 %	75 bp
Reserve as overcollateralisation	300 m	1.35 %	49 bp

Read in the other direction: sustaining a distribution of 2.00 per cent requires a net yield of 4.53 per cent without a credit reserve, approximately 5.11 per cent with the reserve held as overcollateralisation, and approximately 5.44 per cent with the reserve held in liquidity. The last of these lies above the gross yield of EUR senior non-preferred instruments.

Impact of Credit Reserve on Distribution Yields

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Issue EUR 5,000 m, project capital EUR 500 m, credit reserve EUR 300 m. Axis in panel B starts at 4.0 %.
Worked examples, not a forecast.

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Why overcollateralisation is preferable

The capital committed is the same in both cases. The difference is in the cash flows. Additional nominal of 300 million at a coupon of 4.35 per cent produces approximately 13 million annually, with a present value over ten years of approximately 104 million, which enters the waterfall and contributes to the distribution. The effective cost of the reserve is therefore approximately 200 million rather than 300 million.

The project loss reserve is treated differently. It must be available at short notice and is therefore held in liquidity, at the corresponding cost.

On the equivalent-flat-yield illustration, reducing the distribution from 2.0 to 1.5 per cent releases approximately 315 million of structural capacity. That is of the same order as the 300 million loss produced by one exposure of 500 million recovering at forty per cent. Whether the amount preserves every scheduled payment must be demonstrated under the term-specific default and recovery stress described in section 8.

7. Allocation as an Output

$$PR = N - CP_0 - CR - P - RE - costs$$

Sensitivity of the matching requirement at a distribution of two per cent, before any credit reserve:

Net yield	Matching requirement	Share of issue	Remaining
3.45 %	4,395.5 m	87.9 %	604.5 m
4.00 %	4,188.9 m	83.8 %	811.1 m
4.35 %	4,063.4 m	81.3 %	936.6 m
4.5315 %	4,000.0 m	80.0 %	1,000.0 m
5.00 %	3,841.7 m	76.8 %	1,158.3 m

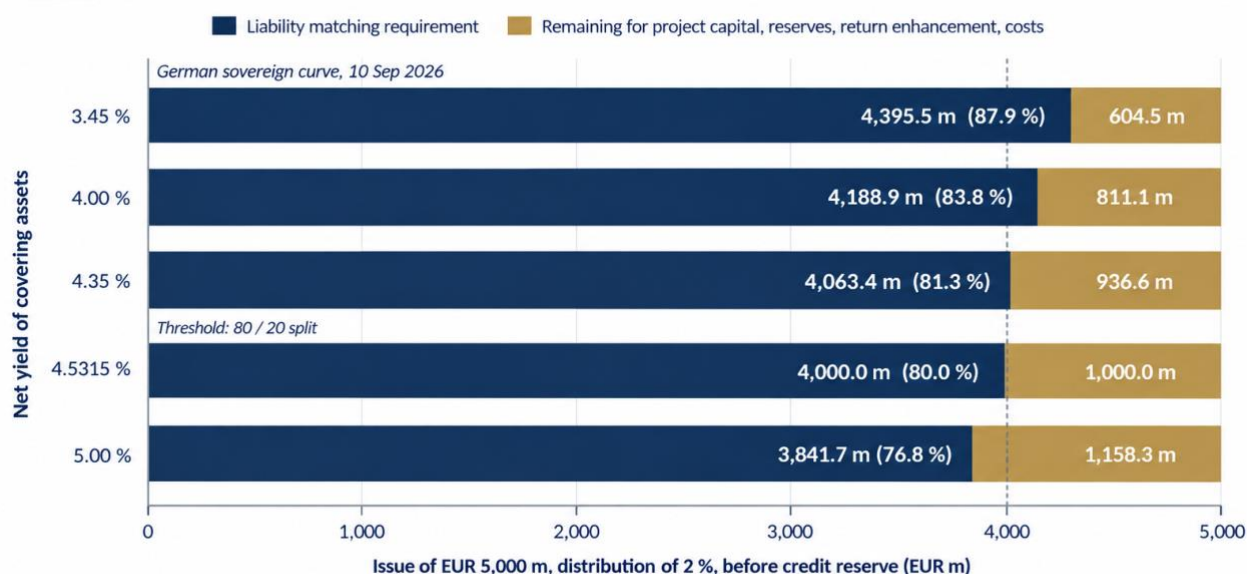
The remaining amount funds project capital, both reserves, return enhancement and costs. An allocation of 80 per cent to matching is the special case at a net yield of 4.5315 per cent and no credit reserve. It is not a property of the structure.

From this follows the order in which terms are fixed. Curve, project capital, credit reserve and project loss reserve are set; the remaining amount determines the matching portfolio; from that follows the maximum distribution capable of being covered. Distribution and reserves cannot both be fixed at the same time.

Asset Coverage at Different Net Yields

LIABILITY MATCHING AND REMAINING VALUE

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The split is an output of the curve, not a property of the structure. Fifty basis points of curve movement shift roughly EUR 190 m.

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Interest rate risk exists between subscription and acquisition of the covering assets. On an issue of EUR 5 billion, fifty basis points of curve movement correspond to approximately 190 million of matching

requirement. The distribution is therefore carried in the term sheet as a target with a range and set at pricing, or the curve is hedged for the intervening period, in which case the cost enters the threshold.

8. Credit Stress

A default is modelled as an event with a time, not as a haircut spread across the original payment profile.

τ_i = default time of issuer i

payments of issuer i cease after τ_i

recovery R_i received at $\tau_i + \delta$, δ = recovery lag

Two consequences follow, and the second is the one usually omitted. The pool suffers a credit loss, and the match itself is broken. The recovery amount arrives as a single payment at a time not chosen by the structure and must then be reinvested or replaced to meet the remaining obligations. Reinvestment risk, which matching was constructed to remove, returns precisely in the circumstances in which market levels are least favourable.

Stressed coverage

$$CCR_t(stress) = \Sigma \text{ over } i \text{ of } A_t(stressed) / L_t$$

$$NDC = \max \{ n : \min \text{ over } t \text{ of } CCR_t(n \text{ defaults}) \geq 1 \}$$

The number of defaults to coverage breach is the reported figure. Expected loss, being PD times LGD times exposure, is a mean and is not the relevant measure for a protected structure: protection does not fail on average, it fails in the tail.

Worked stress

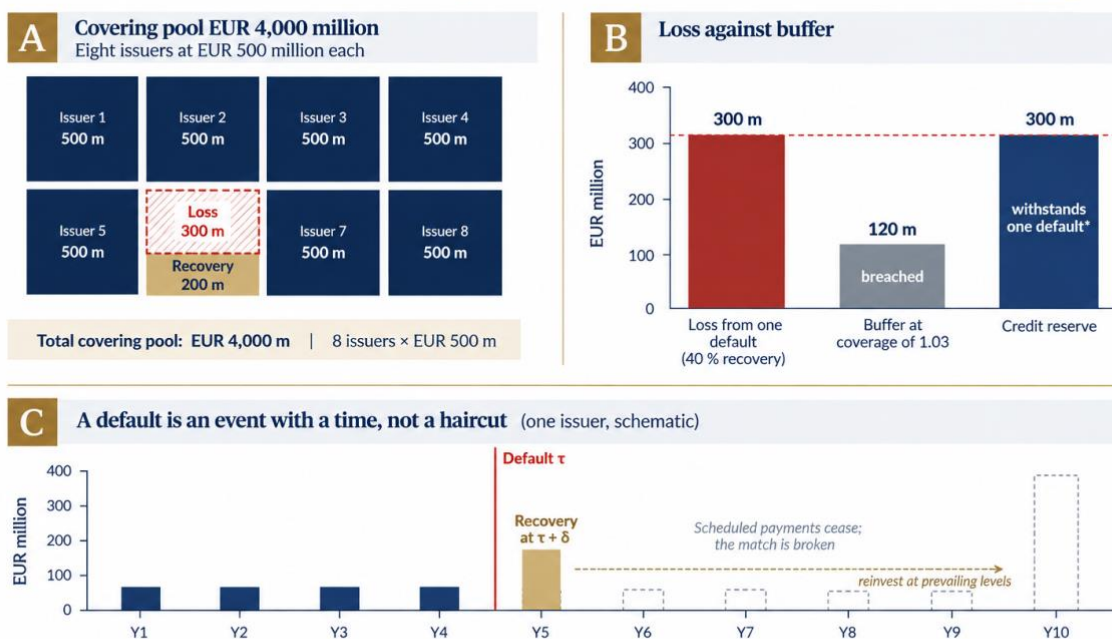
A matching pool of 4,000 million diversified across eight issuers carries exposure of 500 million each. A single default recovering forty per cent produces a loss of 300 million, being 7.5 per cent of the pool.

Under these stated assumptions, and with the credit reserve at 300 million, the pool withstands one issuer default without a shortfall on any scheduled payment. The result depends on the assumptions stated, and in particular on the timing of the default, which instrument defaults, the remaining cash flows of that instrument, the timing and amount of recovery, and the replacement cost at that time. It is a quantified stress case, not a general property.

Default correlation across the pool is not captured by a single-default case. A correlated stress across two or more issuers is modelled separately and reported through the same figure.

Illustration of Loss, Recovery and Credit Protection

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* Under the stated assumptions: the result depends on default timing, the defaulting instrument, its remaining cash flows, recovery amount and timing, and replacement cost. Correlated defaults are modelled separately.

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9. Market Data, 10 and 11 September 2026

Input	Level	Date
EUR mid-swap, 2 years	3.42 %	11.09.2026
EUR mid-swap, 5 years	3.46 %	11.09.2026
EUR mid-swap, 10 years	3.55 %	11.09.2026
German government bond 2036	3.45 %	10.09.2026
Zero-coupon German bond, May 2036	72.04 / 3.45 %	10.09.2026
USD SOFR swap, 10 years	4.58 %	11.09.2026

Sovereign curve

At 3.45 per cent, redemption of 5,000 million in ten years costs 3,561.8 million and the ten distributions cost 833.8 million. Together 4,395.5 million, or 87.91 per cent of the issue, before any credit reserve. The highest-rated sovereign curve does not presently reach the threshold.

The listed zero-coupon government bond nonetheless demonstrates that the redemption leg can be replicated in the market without reinvestment risk. The constraint is price, not availability.

Bank curve

Observed EUR benchmark issues during 2026: senior non-preferred over ten years at MS+100 and MS+108. Tier 2 at MS+130 (EUR 1.25 bn, 10NC5, coupon 4.231 %, issue price 100), MS+175 (EUR 500 m, 10.25NC5.25), approximately MS+195 as initial guidance, and MS+215 (EUR 750 m, 10.5NC5.5, coupon 4.875 %). One AT1 issue priced at a coupon of 5.625 per cent.

Tier 2 is predominantly issued as 10NC5. Yield to call refers to five years, not ten. For a covering pool with a ten-year obligation the form is unsuitable unless reinvestment risk is addressed.

Foreign currency

A nominal yield advantage on a foreign curve is not a usable advantage where the liability is denominated in euro. The forward exchange rate embeds the interest rate differential; what remains after hedging is substantially the difference in swap spreads against the respective sovereign curve, in the order of some tens of basis points. Cross-currency basis, collateralisation and execution costs apply in addition. An unhedged foreign currency position within the covering pool defeats the capital protection.

10. Capacity and Execution

The allocation is a calculation. Acquiring the assets is not.

- Amount outstanding is not capacity. The zero-coupon government line referred to above has approximately EUR 27.25 billion outstanding; a principal leg of several billion would represent a material share of a single line. The relevant measures are free float and executable depth, not the amount issued.
- Quoted secondary market prices are not executable quotations in institutional size. Extrapolating a quoted yield to the required volume without analysis of market impact understates the cost.
- Bank benchmark issues are materially smaller than sovereign lines. Diversification across issuers, which the credit reserve analysis requires in any event, follows from capacity as well as from credit.
- An instrument tailored to the liability series in this size is not a secondary market position. It arises as a new issue or private placement, customarily within an issuance programme and at the investor's inquiry.
- There is no comparably deep and standardised strip market for bank debt instruments. Principal and coupon claims on German government bonds can be separated and traded individually; a complete match using bank instruments is achievable through staggered maturities or a new issue with a matching payment profile.
- A mixed pool of sovereign and bank components sits between rows of the sensitivity table. The amount follows from the mix and is calculated for each structure.

11. Ratios Reported

Ratio	Definition	Requirement
CPCR_min	min of A_t/L_t	≥ 1
CPCR_market	market value / PV of obligations	≥ 1
NDC	defaults to coverage breach	≥ 1 , disclosed
PLCR	project loss reserve / project capital	disclosed

The return enhancement portfolio is excluded from both reserve ratios.

12. Model Hierarchy

1. Zero-coupon curve and spreads at the valuation date
2. Matching of the liability series on each date
3. Credit stress and the number of defaults to coverage breach
4. From this, the credit reserve required
5. Project capital and project loss reserve as given inputs
6. From this, the distribution capable of being covered
7. Capacity and execution analysis before commitment

Market data are taken from publicly available sources at the dates stated. Levels marked as derived are estimates based on the customary relationships within the liability cascade. Public price indications are not executable quotations for institutional size. For any specific structure, curve, spreads and prices are to be established at the valuation date from a single consistent source. Stress results are conditional on the assumptions stated with them.

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