

Mashreq Bank

LIBOR Transition Overview

December, 2021

**Disclaimer:* The information in this document is not intended in any way, and should not be interpreted, as Mashreq Bank providing advice to you. Mashreq Bank cannot advise you about LIBOR Transition and cannot provide you with any advice or recommendations. You must seek your own independent accounting, legal, regulatory, systems, tax or other advice about the impact of LIBOR Transition on your business.*

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Glossary

| Terminology | Description |
|----------------|--|
| €STR | the euro short-term rate provided by the European Central Bank (ECB), as administrator of the benchmark, (or any successor administrator) |
| ARR | Alternative Reference Rates |
| Benchmark rate | Reference rates (LIBOR and ARR) |
| CAS | Credit Adjustment Spread |
| LIBOR | London Interbank Offered Rate |
| SARON | the Swiss Average Rate Overnight rate provided by SIX Financial Information AG (SIX), as administrator of the benchmark or any successor administrator |
| SOFR | the daily Secured Overnight Financing Rate provided by the Federal Reserve Bank of New York, as administrator of the benchmark (or any successor administrator) |
| SONIA | the daily Sterling Overnight Index Average rate as provided by the administrator, or any successor administrator, of the benchmark to and published by authorized distributors |
| TONA | the Tokyo Overnight Average rate provided by the Bank of Japan, as administrator of the benchmark, or any successor administrator |

Introduction

LIBOR transition is a constantly evolving topic, and this means that new information becomes available on a regular basis. In such a dynamic scenario you should make sure to keep yourself up to date and informed on LIBOR Transition issues.

To assist you, Mashreq Bank has prepared this Document, which includes important information related to the LIBOR Transition.

Objectives of this Document

The purpose of this document is to provide to Clients of Mashreq Bank factual information about LIBOR Transition to make them aware of the options and solutions available to them and to help them to make informed decisions about those solutions when they are available.

This document provides a high-level information about:

- LIBOR and the LIBOR Transition
- Industry and regulatory developments & transition timelines
- Mashreq's approach to LIBOR Transition
- Links for own research

The "Frequently Asked Questions" document is a supplement to this document and provides further details on various aspects of the LIBOR Transition.

IBOR Transition | Overview

Definition of IBOR

Interbank Offered Rates (IBORs) are benchmark/reference rates, commonly used in the financial markets globally.

These rates are quoted on a daily basis by different banks and represent the unsecured borrowing/lending rates between banks.

The most frequently referenced rates used are:

- London Interbank Offered Rate (LIBOR)
- Euro Inter-Bank Offered Rate (EURIBOR).

Future of IBOR

In July 2017, the UK Financial Conduct Authority (FCA) reported that LIBOR will be phased out as the interest rate index used in calculating floating or adjustable rates for loans, bonds, derivatives and other financial contracts by the end of 2021 and that GBP LIBOR should be replaced by the Sterling Overnight Index Average (SONIA).

In the US, the Alternative Reference Rates Committee (ARRC) announced in June 2017 that the USD LIBOR will also be phased out and replaced by the Secured Overnight Funding Rate (SOFR).

IBOR Transition

Several reasons have led to a loss of confidence in IBOR (and in LIBOR specifically) and became the catalyst to market transition away from LIBOR.

LIBOR is largely based on ‘expert judgement’ rather than on actual transactions due to the decrease in transactions volumes in unsecured interbank markets.

“The absence of active underlying markets raises a serious question about the sustainability of the LIBOR benchmarks that are based upon these markets.

Panel banks have expressed discomfort about providing submissions “based on judgements with little actual borrowing activity against which to validate their judgements.”¹

Implications

There are wide-ranging impacts on banks and other market participants resulting from LIBOR Transition, ranging from operational, financial, and legal risks.

A change in benchmark will in many cases result in the need for contractual modifications, technical aspects of arrangements including, an adjustment of the fixed spread reflecting the pricing differential of old and new rates, fallback rates specification and other.

IBOR Transition | Introducing LIBOR

LIBOR is arguably the most important benchmark used in global financial markets. LIBOR underpins financial contracts globally with the number of transactions that reference LIBOR being significantly greater than the underlying transaction volume used to calculate LIBOR.

The main characteristics of LIBOR are described below:

| Definition | Explanation |
|----------------------------|--|
| What is LIBOR? | Stands for the London Interbank Offered Rate |
| When is the rate known? | An interest rate on a fixed term maturity, set now and paid at the end of the term |
| Who administers it? | ICE Benchmark Administration (IBA) |
| How is LIBOR determined | Determined by submission of up to 16 panel banks |
| What are LIBOR Currencies? | Five currencies: USD, EUR, GBP, CHF, JPY |
| What are LIBOR tenors? | Seven Tenors: Overnight, one week and one, two, three, six and 12 months |

¹ [The future of LIBOR | FCA](#)

| | |
|-------------------------|---|
| Where is LIBOR used? | derivative and cash products by many market participants, including banks, hedge funds and asset managers |
| What is LIBOR used for? | for interest computation, hedging, discounting and valuation |

What is LIBOR used for?

LIBOR is a series of benchmark interest rates and has been called the world's most important benchmark rate. It is a globally recognized base rate for pricing loans, debt, and derivatives.

Professional financial markets use LIBOR as the base rate for financial products (both cash and derivatives).

The most common example of products, referencing LIBOR include:

| Derivatives | Cash products |
|--------------------|---------------------------|
| ✓ IR Futures | ✓ Credit cards |
| ✓ IR Options | ✓ Residential Real Estate |
| ✓ IRS and variants | ✓ Other personal lending |
| ✓ FRA | ✓ Commercial and Industry |
| ✓ SWAPTIONS | ✓ Real estate |
| ✓ Interest Rate | ✓ Financial Institutions |
| | ✓ Government Agencies |
| | ✓ Cash and due from Banks |
| | ✓ Deposits with Banks |

LIBOR-based products are used by a large number of institutions, organisations and individuals worldwide (Investment Banks, Hedge Funds, Corporations, Commercial and Retail Banks, Asset Managers, Insurers and others).

Retail banks often use LIBOR as the base rate when setting the interest rates for loans, savings accounts and mortgages.

LIBOR Transition | Replacement for LIBOR

The below table outlines the ARRs that have been selected as the replacement rates for the respective five currency LIBORs:

| Currency | ARR | Administrator | Working Group Name and website link |
|----------|---|--|--|
| USD | Secured Overnight Financing Rate (SOFR) | Federal Reserve Bank of New York (FRBNY) | Alternative Reference Rates Committee (ARRC) |

| | | | |
|-----|--|-----------------------------|---|
| CHF | Swiss Average Rate Overnight (SARON) | SIX Swiss Exchange | The National Working Group on Swiss Franc Reference Rates (NWG) |
| GBP | Sterling Overnight Index Average (SONIA) | Bank of England (BoE) | Working Group on Sterling Risk-Free Reference Rates Bank of England |
| EUR | Euro Short-Term Rate (€STR) | European Central Bank (ECB) | Working Group on Risk-Free Reference Rates for the Euro Area |
| JPY | Tokyo Overnight Average Rate (TONA) | Bank of Japan (BoJ) | Cross-Industry Committee on Japanese Yen Interest Rate Benchmarks |

Impact of LIBOR Transition

LIBOR is a widely used reference rate, and its cessation will have implications for a variety of issues, including product valuation and repayment of past-due products utilizing LIBOR as a benchmark, as well as future products and offerings that you intend to examine. Additionally, certain hedging arrangements must be considered. Accounting implications and the application of IASB relief provisions are likewise to be considered.

LIBOR Transition | Existing transactions

Existing LIBOR-based contracts may require a transition from the current LIBOR reference to the new ARR reference, depending on the currency, maturity and tenor of the contract. The below table outlines the approach for LIBOR Transition based on the currency and maturity and LIBOR tenor of existing contracts:

| Currency | Tenor | Maturity | Action |
|----------|------------|-------------------------------|--|
| EUR | All tenors | Before or on 31 December 2021 | No action required |
| EUR | All tenors | After 31 December 2021 | Amend LIBOR reference to €STR reference |
| CHF | All tenors | Before or on 31 December 2021 | No action required |
| CHF | All tenors | After 31 December 2021 | Amend LIBOR reference to SARON reference |
| GBP | All tenors | Before or on 31 December 2021 | No action required |

| | | | |
|-----|---------------------|-------------------------------|--|
| GBP | All tenors | After 31 December 2021 | Amend LIBOR reference to SONIA reference |
| JPY | All tenors | Before or on 31 December 2021 | No action required |
| JPY | All tenors | After 31 December 2021 | Amend LIBOR reference to TONA reference |
| USD | 1W, 2M | Before or on 31 December 2021 | No action required |
| USD | 1W, 2M | After 31 December 2021 | Amend LIBOR reference to SOFR reference |
| USD | ON, 1M, 3M, 6M, 12M | Before or on 30 June 2023 | No action required |
| USD | ON, 1M, 3M, 6M, 12M | After 30 June 2023 | Amend LIBOR reference to SOFR reference |

LIBOR Transition | Mashreq Bank LIBOR Transition Program

Mashreq Bank is responsibly undertaking an enterprise-wide LIBOR Transition approach to assess and manage potential impacts associated with LIBOR Transition across all aspects, specifically Mashreq Bank is:

- updating product pricing based on the new reference rates
- changing systems and operational procedures to onboard new products
- revising legal contracts
- working to increase awareness of the new rates

Mashreq Bank is determined to treat customers fairly by following recommendations, provided by the official Working Groups to achieve a smooth transition away from LIBOR.

Accordingly, Mashreq Bank is adjusting the pricing to reduce or eliminate, to the extent reasonable, any transfer of economic value from one party to another as a result of the application of that replacement Benchmark Rate. To achieve this goal:

- Mashreq Bank may apply different pricing methods to different product types and thus impacted clients may see different strategies for different products.
- Mashreq Bank may use different conventions for payment notice for different product types and thus, impacted clients may have different notice of payment periods of the interest amount due for different products.

- Mashreq Bank may use different interest calculation approaches and thus, impacted clients may see different interest calculation methods for different products.

Mashreq Bank is working to bring awareness of the potential impact of LIBOR Transition among its clients. As the first step of the Program, Mashreq Bank has introduced this document and a “Frequently Asked Questions” document, which include further details related to the LIBOR Transition. It is recommended that clients review these documents and seek independent advice about the impact of LIBOR Transition on their business.

Useful Links

Below links provide a list of sources for own research:

| Guidance and Information | Location |
|--------------------------|---|
| SOFR | Replacement to USD LIBOR SOFR Guide |
| SONIA | Replacement to GBP LIBOR SONIA |
| TONA | Replacement to JPY LIBOR TONA |
| SARON | Replacement to CHF LIBOR SARON |
| €STR | Replacement to EUR LIBOR €STR |