# General LIBOR Transition Risk Disclosure

CBI seeks to ensure that our customers, who use underlying benchmark interest rates as part of their financial contracts, are aware of the global changes taking place by the end of 2021 with reference to London Interbank Offered Rates (LIBOR) and other related Interbank Offered Rates (IBORs).

Such changes are limited to the IBORs and may impact your assets or liabilities within CBI, depending upon the reference rates used in your financial contracts with the Bank. These changes will impact not just CBI, but all bank customers across the UAE.

This explanation and risk disclosure is for information purposes only and is subject to change. CBI does not provide any legal or regulatory advice in this document. Customers should conduct necessary analysis on the potential impact of IBOR transition in 2021 on their businesses, through their independent professional advisors.

## What are benchmark interest rates?

Generally, a benchmark interest rate is a published reference interest rate against which payments, accruals or other applicable rates, related to a financial contract, are calculated.

CBI's use of relevant IBOR depends upon the individual customer's specific contract terms and conditions, as well as the nature of the product. For example, a floating rate loan contract may use an underlying IBOR (e.g. LIBOR) as a reference benchmark rate, in addition to the credit spread, for calculating the total applicable interest rate that is payable by the borrower. For complex financial contracts like interest rate swaps, these benchmark rates can be used to calculate payments for exchange at each settlement date.

| Currencies | USD, GBP, EUR, CHF, JPY | | | | | |
|---|---|---|---|---|---|---|
| Tenor | Overnight | 1W | 1M | 3M | 6M | 12M |

## What is LIBOR?

The London Interbank Offer Rate (LIBOR) is administered by the ICE Benchmark Administration. It is the most commonly used benchmark for interest rates and is based on submissions from panel banks, resulting in the publication of 35 rates across tenors and currencies, for each UK business day.

## What is changing and when will the changes become effective?

The UK Financial Conduct Authority (FCA), which regulates LIBOR, will no longer compel banks to submit rates for the calculation of LIBOR after 31 December 2021. The US Federal Reserve and other regulators have also taken alternative measures to transition markets away from IBORs, within set timelines. As a result, the continuation of LIBOR and other IBORs on their current basis is not guaranteed after 31 December 2021. The journey to transition away from current LIBORs or IBORs to Alternative Reference Rates (ARRs) is referred to as IBOR transition.

These reforms may result in:

(i) changes to the rules or methodologies used in calculating benchmark rates,
(ii) restrictions on the use of benchmark rates,
(iii) discontinuance of benchmark rates.

Even if certain benchmark rates continue to be published, changes to their methodology, or restrictions on use, means that they will no longer be reflective of the underlying market and economic reality that the benchmark rate was originally intended to measure, therefore it has become an inaccurate measure for the creation of products or for drawing up customer agreements.

CBI is not currently aware of any forthcoming changes to the Emirates Interbank Offered Rate (AED EIBOR), administered by the Central Bank of the United Arab Emirates. The Central Bank of the United Arab Emirates may also issue guidance related to this benchmark rate in due course.

### Benchmark fallback arrangements, including alternative rates:

If benchmark rates such as IBORs are no longer being published, interest rates and other provisions which reference the benchmark rates will be determined using fallback arrangements (if any) set out in the relevant financial contract. The fallback arrangements depend upon terms set out in the relevant financial contract, between the client and CBI. Such arrangements may allow the affected benchmark to be replaced by market-accepted alternative rates. Additionally, an adjustment spread may be applied to the alternative rate, to produce an industry-accepted replacement rate for the original benchmark. CBI may also opt to make other technical, administrative or operational changes to products or agreements, to reflect the adoption and implementation of an alternative rate including changes to the timing and frequency of determining rates and making interest payments.

### The potential impact on agreements between you and CBI

The operation of the alternative rate and any adjustment spread can result in products or financial agreements performing differently than if the original benchmark rate had continued to apply. This could result in you paying or receiving higher or lower rates of interest, discrepancies with regards to related tax or hedge accounting issues and mismatches with other transactions that you may have entered into, e.g. interest rate swaps.

Customers should be aware of these changes and continue to review the potential impact and risks of any future changes to benchmark rates, when entering into any agreements with CBI. These risks are dependent upon the product and may include but are not limited to:

- Fallback arrangements under the relevant agreement(s) becoming operative, which may change the rate used to calculate amounts that you pay or amounts that might be paid to you.

- Any technical and/or operational changes that CBI makes to its products and/or agreements.

- New rate methodologies, that may or may not dictate the composition of the interest paid/received by you in the ARR environment, e.g. ARRs may be higher, lower or more volatile than the outgoing IBORs.

- Varying product strategies applied by CBI. For example, from a customer's perspective, different products in a portfolio may witness different transitioning conditions.

- Margin calculations, fees and charges.

- Amendments to the calculation of amounts payable, which may change the rate of interest that you pay or amounts that might be paid to you.

- Practical implications, such as changes to systems and accounting practices.

- A mismatch between products that, by virtue of transition to an alternative rate, cease to be linked to the same underlying benchmark rate. This could, for example, affect hedging agreements associated with a facility.

As the above list is non-exhaustive, it is incumbent upon the customer to consider other factors as well, without reliance upon CBI. We recommend that you keep up to date with the latest developments in relation to the changes and the potential alternative benchmark rates that may be relevant to you. For further information on IBOR transition and its impact on your portfolio, please contact your Relationship Manager.

### Further information

For further information in relation to the transition away from LIBOR, including anticipated timeframes, please refer to the table below for details of the relevant LIBOR transition working group:

| LIBOR | Relevant Transition Working Group | Website |
|---|---|---|
| Sterling LIBOR | Bank of England and FCA working group | www.bankofengland.co.uk |
| US Dollar LIBOR | Federal Reserve Alternative Reference Rates Committee | www.newyorkfed.org |
| EURIBOR and EONIA | European Central Bank working group | www.ecb.europa.eu |
| JPY LIBOR and JPY TIBOR | Bank of Japan cross-industry committee on Japanese yen interest rate benchmarks | www.boj.or.jp |
| CHF LIBOR | Swiss National Bank working group on Swiss franc reference rates | www.snb.ch |

Disclaimer

*CBI does not accept any responsibility for, and shall not have any liability with respect to the administration, submission or any other matter related to benchmark rates such as IBORs or any alternative rate including, without limitation, whether the composition or characteristics of any alternative rate will be similar to, or produce the same value or economic equivalence as, the original benchmark rates (including IBORs) or whether any alternative rate will have the same volume or liquidity as the original benchmark rate prior to its discontinuance or unavailability. Except where CBI has explicitly agreed to the customer in writing, CBI does not provide advice, or recommendations on the suitability of your product choice or financing solution. The customer should consider if they need to obtain professional independent advice (legal or financial), prior to entering into any contract or investing in a product which references a benchmark rate such as an IBOR or an alternate. CBI does not owe you any duties, nor does it have any liability to you in relation to its management of the transition from IBOR benchmark rates to alternative rates. CBI is not under any obligation to update the information in this explanation and risk warning.*