LIBOR *transition*

BACB

We have prepared this booklet to ensure that you have everything you need to begin preparing for the IBOR transition and understand the consequences this may have for you, and on the products that we provide you with...

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THE LIBOR TRANSITION:

The transition away from ***London interbank offered rates (LIBORs)*** *is underway and expected to be completed by year-end 2021, with changes beginning to take place now.*

Since most legacy financial contracts include reference to LIBOR, this could have far reaching impacts for our clients.

COMMODITY FINANCE

REAL ESTATE FINANCE

TRADE FINANCE

TREASURY

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LIBOR TRANSITION KEY QUESTIONS...

What is the London Inter Bank Offered Rate (LIBOR) and why the transition to alternative Risk Free Rates (RFRs)?

LIBOR provides an indication of the average rate at which each LIBOR panel bank can borrow unsecured funds in the London interbank market for a given period, in a given currency. The average is published and used by the financial markets. LIBOR is currently published across five currencies (Sterling, US Dollar, Euro, Swiss Franc and Japanese Yen) and across seven maturities (ranging from overnight to 12 months).

The integrity of LIBOR was called into question during the height of the financial crisis when several leading banks contributing to the rate were accused of manipulating submissions which undermined the determination of LIBOR. In 2017, the FCA announced that it will no longer require panel banks to submit LIBOR quotations from the end of 2021. Accordingly, the FCA and other regulators are encouraging market participants use alternative "risk-free" rates (RFRs).

What is BACB doing about LIBOR transition?

BACB has established its own LIBOR working group, comprised of key stakeholders from across the Bank with oversight and supervision from a designated SMR who has overall regulatory responsibility for the Bank's transition from LIBOR.

The working group has been actively monitoring regulatory announcements, guidance and market updates and is in discussion with external law firms and specialist advisers.

BACB is also participating in industry-wide forums and consultations. Inline with the guidance and timeframe set by the FCA, BACB has been focused on the transition of it's GBP-Libor linked lending, in particular the Bank's real estate business.

What does this mean for me as a client of BACB?

BACB is looking to work with all of its clients to ensure that the client fully understands the impact of affected contracts, products and services.

Once a market consensus RFR is established, BACB intends to communicate and agree with affected clients how this may impact their existing and future products.

For products linked to LIBOR with a maturity date beyond 2021, the Bank will be in touch with those clients directly to agree appropriate amendments to their product terms.

Where can I get more information if I have further questions?

The LIBOR Transition booklet and our website contain further information, you can also e-mail specific questions to libor@bacb.co.uk.

More details of the changes can also be found on the websites of the Bank of England and Financial Conduct Authority.

Your relationship manager is also on hand to provide guidance and discuss the impact on your BACB offered services.

WHAT ARE IBORS?

IBORs are widely-accepted benchmark interest rates that underpin the cost of short-term, wholesale lending from one bank to another. They reflect the rate at which panel banks expect that they could borrow.

IBORs do not, therefore, reflect actual borrowing costs in the interbank market. An integral aspect of the financial system for many decades, IBORs are referenced in financial contracts underpinning a vast range of products – from bonds to over-the-counter derivatives, securitised products and futures contracts, and even mortgages and consumer credit cards.

The world's most used benchmark rate is the **London Interbank Offered Rate (LIBOR).** Regulated by the FCA, the benchmark rate underpins the contracts of assets estimated to be worth over US$350 trillion.

IBORS
are widely-accepted benchmark interest rates

WHY ARE IBORS BEING DISCONTINUED?

Despite being a pervasive feature of the financial system for many years, the use of IBORs is coming to an end. There have been concerns mounting that the underlying markets that IBORs measure are no longer liquid enough to represent a reliable benchmark rate. In 2014, the Financial Stability Board (FSB) provided recommendations to improve the underlying processes that determine how IBORs are set. **The conclusion was that – despite efforts to reform IBORs – market concerns that IBORs lacked reliability and integrity had not been fully addressed.**

In parallel, regulators and working groups across many jurisdictions have coordinated to establish alternative benchmark rates to IBORs. The result is **risk-free reference rates (RFRs).** Recognising the FSB's recommendations, these rates are designed to address the shortfalls of IBORs and limit the influence of panel banks' expert judgement in rate-setting. RFR's therefore are not open to manipulation.

In 2017, the UK Financial Conduct Authority (FCA) announced that, by year-end 2021, it will no longer compel nor persuade banks under its jurisdiction to make LIBOR submissions. Following the FCA's statement, regulators in other countries, including the US, followed suit.

As such, FCA's statement created what is now referred to as "the IBOR transition"

– with working groups and regulators in multiple jurisdictions have begun implementing RFR transition strategies, with some RFRs already in use.

RFRs
risk free rates

HOW WILL THE ALTERNATIVE BENCHMARK RATES WORK?

RFRs will be fundamentally different to IBORs in the way they are set. IBORs are forward-looking: in essence, the interest rate for various tenor lengths (e.g. from overnight up to six month and even one year) **is set at the beginning of the borrowing period** – hence why submissions and judgment from panel banks were relied upon. To factor in any uncertainties, IBORs incorporate the perceived credit risk of the panel banks, which can make the rate more susceptible to volatility. But since the rate is fixed at the beginning of the term, the borrower has full visibility of the interest due at the end of the loan term, which can have advantages for forecasting.

By contrast, RFRs are calculated retrospectively. Rather than defined by term length, RFRs track overnight lending – published at the end of the overnight borrowing period and calculated using real-life transaction data. As a result, judgments about anticipated or future events by panel banks are not necessary.

Though an RFR is expected to be less volatile than a term rate and are generally considered almost entirely risk-free, the exact rate is only known at the term's maturity.

IBORS
are forward-looking

RFR's
are calculated retrospectively

HOW MIGHT THE REFORMS IMPACT BACB CLIENTS?

Since IBORs (such as LIBOR) have been firmly entrenched in the financial system for many decades and used as the reference rate in financial contracts, the impact of the transition could have far-reaching effects that our clients should consider.

Taking action now will ensure that businesses are well prepared for an IBOR-free future.

Importantly, the distinctly different ways that IBORs and RFRs are calculated create myriad considerations.

First: When a new benchmark rate is applied, the value of a product (such as a derivative, loan or bond) may change. Of course, a change in balance-sheet values could have wider ramifications for your business to consider – which may therefore require professional guidance.

Second: Since the rates will shift from forward-looking, term rates to backward-looking rates that are unknown at the term's outset, IT systems and hedging arrangemets will most likely need to be altered to accommodate this change.

For clients with longer-term financing: It will be necessary to identify and understand the impact of legacy contracts (those that mature from 2022 onwards).
While this will more likely apply to our clients' agreements with other banking partners, it will apply to our real estate finance clients (please see the following page). We advise clients to create an inventory of these contracts. In some instances, it may be necessary to agree revised contractual language and even credit terms.

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WHAT IS THE IMPACT ON THE REAL ESTATE FINANCE PRODUCTS AND HOW WILL IT BE COMMUNICATED?

Ensuring that you & your business is prepared for the transition away from LIBOR

Effect on products

Any impact on your Real Estate Finance loan quarterly repayments will be discussed with your relationship manager.

The approach recommended by the regulators is to minimise any impact on customers as far possible.

Please note that regulators have consistently stated the transition does not present an opportunity for Banks to profit from the transition.

Given the move to RFRs there will be a change to the mechanics of the interest calculation, including potentially the notice which the customer will receive on how much interest will be due for each interest period. The Bank will be in contact to discuss these changes.

Outreach & changes to documentation

BACB is tracking industry recommendations, the recommendations of the GBP RFR Working Group and monitoring the work, consultations and drafts published by the Loan Market Association.

In conjunction with an external legal advisor, the Bank will prepare appropriate amendment documentation for existing facilities, incorporating an alternative reference rate.

The Bank will share this with the customer well in advance of it coming into effect, and provide a summary of the changes and how they will impact the customer and the mechanics of their loan product with the Bank.

We will be looking to reach out and agree changes to your product between now and Q1 2021 as we transition to an alternative reference rate.

If you have any questions please do not hesitate to contact your Relationship Manager

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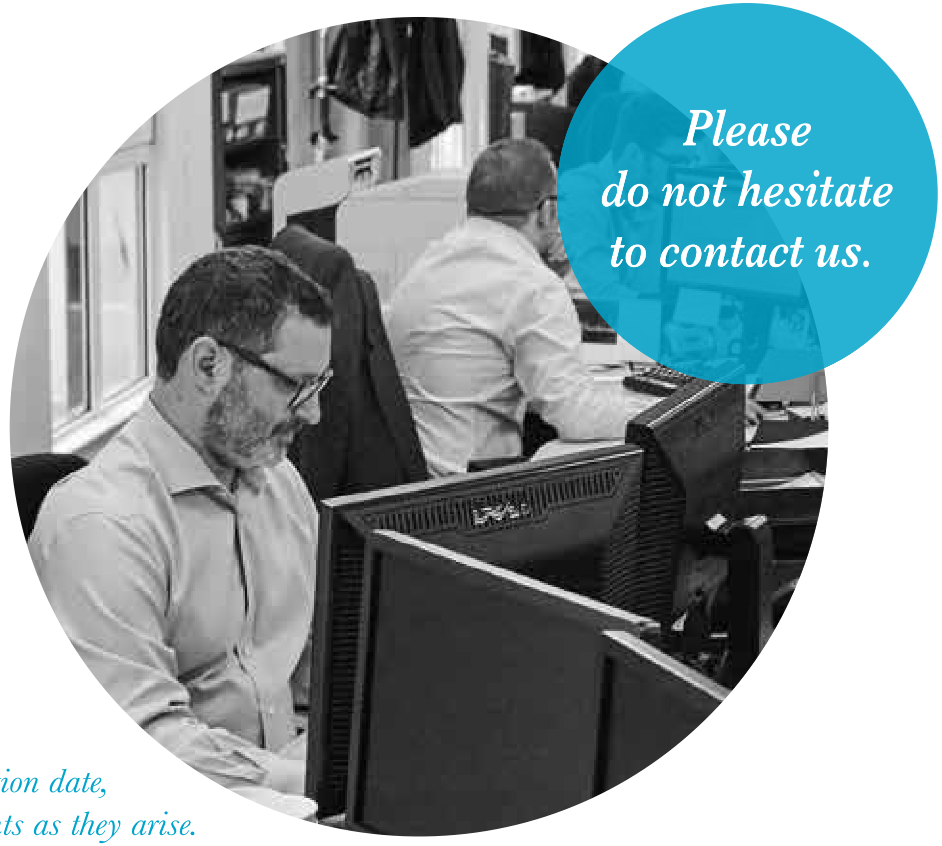
WHAT SHOULD BACB CLIENTS BE DOING AHEAD OF THE LIBOR TRANSITION?

The transition to RFRs still carries some uncertainties ahead of year-end 2021, making preparation key. **We recommend that our clients assess their IBOR exposures from legal, financial risk, accounting, tax, and technological perspectives. Establishing a dedicated, cross-divisional working group can help in detecting where IBORs are applied across your business, as well as the potential hurdles the transition may create.** The group can also be integral to ensuring the transition is as smooth as possible.

We at BACB are here to ensure that our clients fully understand the impacts of affected contracts, products and services with us. As such, we view this briefing document as only the start of the conversation. Your relationship manager is on hand to discuss the impact on your BACB-offered services and to determine the right course for your business.



Please do not hesitate to contact us. Ahead of year-end 2021 transition date, we will provide timely updates to our clients on the latest developments as they arise.

THE ROADMAP FOR IBOR TRANSITION

2014

Financial Stability Board (FSB) makes recommendations to reform IBORs

2015

The Working Group on Sterling Risk Free Reference Rates (RFR Working Group) is formed

2017

JULY The RFR Working Group selects SONIA (Sterling overnight indexed average rate) as its preferred alternative reference interest rate for sterling transactions.

FCA announces that banks will no longer compel banks to submit inputs to calculate LIBOR after 31/12/2021

2018

The Bank of England implements reforms to SONIA

Coordinated statements by US and UK regulators confirm that LIBOR discontinuation "is a certainty"

Banks submit LIBOR transition plans to FCA and PRA (Prudential Regulation Authority)

2019

The RFR Working Group sets up task forces on term SONIA reference rates, accounting treatment and regulatory dependencies.

Publication of €STR (Euro short-term rate) commences

2020

Q1 COVID-19 delays regulatory deadlines

Q2 June 2020: RFR Working Group targets issuance of sterling LIBOR-based products maturing beyond 2021 to cease

Q3 September 2020: ARRC (Alternative reference rates committee) to establish RFP processes to facilitate the eventual publication of forward-looking term SOFR rates (Secured overnight financing rate) and the recommended spread adjustment for transition of legacy contracts

2021

Q1 RFR Working Group targets significant reduction in the stock of LIBOR-referencing contracts

Q2 ARRC will seek to recommend a forward-looking SOFR term reference rate

Q3 No new LIBOR business loans, floating-rate securitizations (with the exception of CLOs), or derivative trades that increase LIBOR risk

Q4 END OF 2021: The FCA plans to stop compelling banks to LIBOR submissions after year-end 2021 – at which point the future of LIBOR is no longer guaranteed. EONIA is no longer compliant (Euro overnight index average)

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