Disclaimer:

The information included within this communication is intended to provide general background about LIBOR transition. The communication, however, is not designed to provide legal, financial, or any other type of advice. By reviewing this communication, you agree that National Bank of Kuwait (and its affiliates, collectively, 'NBK') is not acting as your advisor and is not providing advice or making any recommendation regarding LIBOR transition; it is being understood that any information or explanations pertaining to LIBOR transition provided here shall not be considered advice or a recommendation. Each recipient of this communication will make its own independent decisions regarding LIBOR transition, based upon its own judgement and upon advice from such advisors as it has deemed necessary.
NBK 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 LIBORs 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 LIBORs) or whether any alternative rate will have the same volume or liquidity as the original benchmark rate prior to its discontinuance or unavailability.
NBK does not provide advice, or recommendations on the suitability of your product choice or financing solution, unless it is specifically communicated to you and agreed with you in writing. It is the responsibility of you to assess whether you need to obtain professional independent advice (legal, financial, or otherwise), prior to entering into any agreement or investing in a product referencing the variable rate benchmarks. NBK is not under an obligation to update the information in this explanation and general risk warning.
For NBK International PLC (London) clients, please visit www.nbk.com/london for more information on IBOR Transition in the UK.

1. Background:

1.1 What is LIBOR?

London Interbank Offered Rate (LIBOR) is a benchmark interest rate indicating the expected borrowing cost of an AA rated bank (S&P Rating Grade, or equivalent) in the London interbank market. LIBOR quotations are provided by a panel of 16 banks, and are published for 5 major currencies (USD, GBP, EUR, CHF and JPY) across 7 tenors (Overnight, 1 week, 1 month, 2 months, 3 months, 6 months and 12 months) on a daily basis. (Source: ICE LIBOR)

Since its inception in 1986, LIBOR became the most globally referenced benchmark, commonly used in derivative, fixed income and corporate loan products, as well as in a range of consumer lending instruments such as mortgages and student loans. It is also used as a gauge of market expectation regarding central bank interest rates, liquidity premiums in the money markets and, during periods of stress, as an indicator of the health of the banking system.

1.2 What is LIBOR Transition?

Following a series of issues with LIBOR quotation in a period 2005 – 2012, the G20 commissioned the Financial Stability Board (FSB) in 2013 to review systemically important interest rate benchmarks, especially the robustness and transparency of the quotation process, and representativeness of the benchmarks.

The resulting FSB report, published in July 2014 recommended:

- Strengthening the IBOR benchmarks (including LIBOR) by anchoring them to a greater number of transactions, where possible, and improving the processes and controls around submissions.
- Identifying the Risk-Free Rates (RFRs), also referred to as Alternative Reference Rates (ARR), encouraging development of derivatives market referencing the RFRs, and preparing the market for the migration to the RFR benchmarks in the future.

In 2017, the UK Financial Conduct Authority (FCA) announced that it would no longer be necessary to compel (quotation) banks to submit LIBOR quotes after 31 December 2021 (Source: UK FCA). The series of announcements by other regulator have followed supporting further the process of transitioning IBOR away.

On 5 March 2021, the UK FCA announced the cessation event and non-representativeness dates of the five LIBOR benchmarks (i.e. USD, GBP, CHF, JPY and EUR). The regulatory timelines, transition milestones and cessation / non-representativeness dates will be outlined further in this document. The process of discontinuing the use of LIBOR benchmarks, and market transition from LIBORs to RFRs is referred to as "LIBOR Transition".

2. Alternatives to LIBOR:

2.1 What are the alternatives to LIBOR?

The two major financial regulators, Financial Conduct Authority (FCA) and Federal Reserve Bank of New York (Fed), have set up specific working groups, The Alternative Reference Rates Committee (ARRC) and Working Group on Sterling Risk-Free Reference Rates (UK RFR WG) with an objective of developing the alternative benchmarks to LIBOR and providing the transition directions to the market. Similarly, other regulators have also established working groups with the same mandate.

The respective working groups have developed and recommended the following Risk-Free Rates (RFRs) as alternatives to the corresponding LIBOR benchmarks.

Currency	Existing Rate	Alternative Rate	Description / Basis
GBP	GBP LIBOR	SONIA (Sterling Overnight Index Average)	Unsecured rate that covers overnight wholesale deposit transactions
EUR	EUR LIBOR / EONIA	€STR (Euro Short-Term Rate)	Unsecured rate that captures the overnight wholesale deposit transactions
USD	USD LIBOR	SOFR (Secured Overnight Financing Rate)	Secured rate that covers multiple overnight repurchase market segments
JPY	JPY LIBOR	TONAR (Tokyo Overnight Average Rate)	Unsecured rate that captures overnight call rate market
CHF	CHF LIBOR	SARON (Swiss Average Rate Overnight)	Secured rate based on transactions and quotes posted in the Swiss repurchase market

2.2 What are the RFRs and how do they differ from LIBOR?

LIBOR rates and the respective RFR rates are similar, but still different from the structural and economic perspective. The difference between the two types of benchmarks is one of the focal points of LIBOR Transition, and in particular, the approach and methodologies of quantifying the difference.

LIBOR implicitly consists of 3 components: 1. credit risk-free component, 2. Liquidity and tenor adjustment and 3. Credit risk (related to AA rated borrower). The quotations are based on actual transactions as well as on the subjective/discretionary element arising from the quotation bank's market expectation. The RFRs are overnight rates and based on the actual transactions in the specified underlying overnight market. There is no 'subjective' and/or 'expected' element embedded within the process of quoting the RFRs. Being the overnight rates, the corresponding liquidity and tenor risks are small (e.g. compared to LIBOR 3M or LIBOR 6M). Further, the RFRs are nearly (credit) risk-free, except SOFR, which is based on the secured (collateralized) overnight market and can be practically considered as a risk-free rate.

There is consensus in the market that the two benchmarks are different, and some of the regulators and trade associations have formally introduced the Credit Adjustment Spread (CAS) to be added to RFR rates and compensate for the differential in the 'long run'. At the request from FCA and ARRC, The International Swaps and Derivatives Association (ISDA) has published on the 5th Mar 2021 (along with the cessation announcement) the 5-year median CAS spreads for each of the tenors of the five LIBOR currencies. The published spreads are mandatory for derivatives transactions of the counterparties that adhered to the amended ISDA Protocol Oct 2020.

The FCA, ARRC and many other authorities and associations recommend and support the use of ISDA CAS spreads for the transition of legacy LIBOR referenced transactions with maturities beyond the respective cessation dates.

3. Transition From LIBORs to RFRs and Other Alternatives:

3.1 When will LIBORs be discontinued?

On 5 March 2021, the UK FCA announced future cessation and non-representativeness dates of LIBORs of the 5 major currencies.

Almost all the LIBORs will be discontinued on the 31 December 2021 including the USD LIBOR 1W and 2M tenors. The rest of the USD LIBOR tenors will be discontinued on 30 June 2023.

Currency	Cessation or Non-Representativeness Date	Cessation Tenors	*Non-Representativeness Tenors
GBP	31-Dec-2021	O/N, 1W, 2M, 12M	1M, 3M, 6M
USD	31-Dec-2021	1W, 2M	-
	30-Jun-2023	O/N, 12M	1M, 3M, 6M
JPY	31-Dec-2021	O/N, 1W, 2M, 12M	1M, 3M, 6M
EUR	31-Dec-2021	All 7 LIBOR settings	-
CHF	31-Dec-2021	All 7 LBOR settings	-

* Non-Representativeness means that the rates are published to serve outstanding 'tough legacy' loans only. Market participants are encouraged to use the alternative benchmarks for new deals as soon as possible

3.2 What is the impact of FCA's 5 March 2021 announcement on assets (i.e. loans), liabilities and derivatives?
The LIBOR cessation announcement, referred to in 3.1, will have an impact on the existing and new products and contracts referencing LIBOR:

1. Non-Derivative Products (e.g. Loans, Deposits, Investment Products etc.)
- GBP, CHF, EUR, JPY and 1W and 2M USD LIBOR facilities maturing post 31 December 2021 cannot continue referencing their respective LIBOR settings.
- Hence, contracts will need to be amended before LIBOR cessation date (i.e. 31 Dec 2021) and smooth transition to the alternative rates will need to be facilitated.
- This amendment refers to the existing terms and conditions of the contracts resulting in necessary updates.
- For transactions referencing O/N, 1M, 3M, 6M and 12M USD LIBORs, the amendments of the contracts will need to take place well before 30 June 2023, in order to avoid disruption.

2. Derivatives Products:
- ISDA confirmed that the 5 March 2021 announcement by FCA "constitutes of an index cessation event under the IBOR Fallbacks Supplement and the ISDA 2020 IBOR Fallbacks Protocol for all mentioned LIBOR settings.
- ISDA Protocol is a multilateral contractual amendment mechanism that governs amendments to ISDA documentation among counterparties adhering to the protocol.
- As a result, the fallback spread adjustment published by Bloomberg is fixed as of the date of the announcement for all EUR, GBP, CHF, USD and JPY LIBOR settings.

3.3 What is a Fallback Language?
A fallback clause within a contract refers to the legal provisions that stipulate the mechanism for identifying a replacement rate if the original benchmark is not available. A fallback language consists of (i) a trigger event, (ii) a replacement rate and (iii) a spread adjustment.

3.4 What is the impact of LIBOR Transition on Islamic products?
The structures for use of RFRs for Islamic products are under discussions and development in the market. As of now, there are no specific updates on the transition methodology that will be adopted for Islamic products. However, NBK is monitoring the developments on this front diligently and will provide relevant information in due course.

3.5 How will the transition impact NBK Clients?
For your facilities that reference LIBORs, you must consider the following impacts:

1. Understanding the structural differences between RFRs and LIBORs.
2. Amendments to the calculation of the relevant payments under the product.
3. Practical implications, such as changes to your systems and accounting practices. Please refer to the IFRS - IASB completes response to LIBOR reform with amendments to IFRS Standards - for further details.
4. Mismatch between the reference rate(s) under the product and the reference rate(s) under any linked products – for example, when a loan is hedged using derivative instruments, there may be a mismatch between the conventions published by the respective RFR Working Group and ISDA.
5. Consequential changes to other provisions of the product, including those related to the calculation of the relevant payments under a new reference rate.

The above is not an exhaustive list and there are other likely factors that may be considered. NBK suggests that you obtain appropriate advice pertaining to the impacts of the transition on your facilities.

3.6 What happens to my existing LIBOR referencing financing arrangements? What are the next steps?
Please refer to the tables below for information on the next steps pertaining to the transition of the legacy portfolio currently referencing LIBORs and the new contracts that will reference RFRs from their inception.

	Legacy Contracts (Maturity Date and Next Steps)		
Currency	**Pre-2022**	**Post 2022 – June 2023**	**Post June 2023**
USD: All tenors excluding 1-Week and 2-Months	No action needs to be taken.	The bank will approach you in the coming period to begin the transition process.	No action needs to be taken. Your contracts would have already transitioned from LIBORs to RFRs.
GBP, EUR, JPY, CHF: All tenors USD: 1-Week and 2-Months	The bank will approach you in the coming period to begin the transition process.	No action needs to be taken. Your contracts would have already transitioned from LIBORs to RFRs.	

Currency	New Contracts (Next Steps)
USD, GBP, EUR, JPY, CHF	The Bank is currently working diligently to prepare the environment for the new RFR products starting from 2022. New facilities will be referencing the RFRs from 1 January 2022.

3.7 What should I do to prepare for the transition?

The key steps you should take in order to best prepare yourself for the transition are:

- Check all your contracts and identify those referencing LIBORs
- Check if you have current exposure(s) to LIBOR, and if so, the size of the exposure
- Check the contract terms and contact your legal advisor if necessary
- Contact your Relationship Officer for questions on the transition process

3.8 What is NBK's approach and what steps has NBK taken to manage the transition?

NBK has setup a group-wide project to successfully transition from LIBOR to the RFRs. The initiative will ensure that NBK is ready for the transition on time, in line with regulatory recommendations and market practices; while taking specific care about fair transition and interest of its customers. NBK will individually contact its customers and counterparties to agree on the new commercial terms. NBK's representative will be available to assist you in the process along with subject matter experts.

3.9 I need more information about RFRs and the impact of the transition. Where can I find it?

We encourage you to contact IBOR-Transition-Support@nbk.com for more information on LIBOR transition. Please refer to the links to each of the regulatory authorities and/or trade associations in charge of RFRs development and management of the transition.

Currency	Working Group	Working Groups Links
GBP	SONIA Working Group (BoE)	https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor
EUR	Working Group on Euro Risk-Free Rates (ECB)	https://www.ecb.europa.eu/paym/initiatives/interest_rate_benchmarks/WG_euro_risk-free_rates/html/index.en.html
USD	Alternative Reference Rate Committee (ARRC)	https://www.newyorkfed.org/arrc
JPY	Cross-Industry Committee (BoJ)	https://www.boj.or.jp/en/paym/market/jpy_cmte/index.htm/
CHF	National Working Group (SNB)	https://www.snb.ch/en/ifor/finmkt/fnmkt_benchm/id/finmkt_reformrates

In addition, the industry and trade associations, representing the stakeholders affected by the LIBOR transition, have also published relevant material available on their websites.

Industry Body	Industry Body Links
ISDA: International Swaps and Derivatives Association	https://www.isda.org/category/legal/benchmarks
ICMA: International Capital Market Association	https://www.icmagroup.org/Regulatory-Policy-and-Market-Practice/benchmark-reform/
LMA: Loan Market Association	https://www.lma.eu.com/libor
LSTA: Loan Syndications and Trading Association	https://www.lsta.org
APLMA: Asia Pacific Loan Market Association	https://www.aplma.com
ACT: Association of Corporate Treasurers	https://www.treasurers.org/

4. Glossary

Term	Definition
ACT	Association of Corporate Treasurers
APLMA	Asia Pacific Loan Market Association
ARR	Alternative Reference Rate
ARRC	Alternative Reference Rates Committee
BOE	Bank of England
BOJ	Bank of Japan
€STR	Euro Short-Term Rate
CAS	Credit Adjustment Spread
CHF	Swiss Franc
ECB	European Central Bank
EONIA	Euro Overnight Average Rate
EUR	Euro
EURIBOR	Euro Interbank Offered Rate
FCA	Financial Conduct Authority
GBP	Pound Sterling
IASB	International Accounting Standards Board
IBOR	Inter-bank Offered Rate
ICE	Intercontinental Exchange
ICMA	International Capital Market Association
IFRS	International Financial Reporting Standards
ISDA	International Swaps and Derivatives Association
JPY	Japanese Yen
LIBOR	London Interbank Offered Rate
LMA	Loan Market Association
LSTA	Loan Syndications and Trading Association
RFR	Risk Free Rate
SARON	Swiss Average Rate Overnight
SNB	Swiss National Bank
SOFR	Secured Overnight Financing Rate
SONIA	Sterling Overnight Index Average
TONAR	Tokyo Overnight Average Rate
USD	US Dollar