

## LIBOR Transition

### What is LIBOR

The London Interbank Offered Rate (LIBOR) is a set of benchmark interest rates that reflect the average rates at which panel banks can borrow wholesale, unsecured funds for set periods in particular currencies.

It is calculated and published daily across a range of currencies (GBP, USD, EUR, JPY and CHF) and maturities (overnight, one week, one month, two months, three months, six months and one year).

Although LIBOR is the most widely used Interbank Offered Rate, there are other IBORs, most notably EURIBOR (Euro Interbank Offered Rate) and TIBOR (Tokyo Interbank Offered Rate). IBOR rates are generally impacted by the same forthcoming changes as LIBOR.

Many banks worldwide use LIBOR as a base rate for a variety of financial products, including:

- Interbank products (e.g. interest swap rates, swaptions, interest rate futures and options etc.)
- Commercial products (e.g. variable rate mortgages, syndicated loans etc.)
- Consumer products (e.g. student loans, residential mortgages etc.)
- Hybrid products (e.g. collateralized debt obligations, accrual notes, callable notes, perpetual notes etc.)

LIBOR also reflects market expectations about movements in interest rates set by central banks and takes into account the liquidity premiums for various money markets instruments, as well as being an indicator of the overall state of the banking system.

### What is changing?

In 2017, the UK regulatory authority – the Financial Conduct Authority (FCA) - announced its intention to stop compelling banks to submit the rates required to calculate LIBOR with effect from 31 December 2021. At that point LIBOR will cease to be an officially recognized benchmark rate.

NBKI's existing and future products and services will be impacted by this change.

### What is expected to replace LIBOR?

Alternative benchmark interest rates have been nominated as replacements for LIBOR. The replacement rates for some key currencies are set out in the table below. Note that these rates are not all calculated in the same way.

Examples of some of the replacement rates include:

Currency	Replacement Rate	Secured/Unsecured
CHF	SARON (Swiss Average Rate Overnight)	Secured general collateral repo rate
EUR	€STR (Euro Short-Term Rate)	Unsecured wholesale rate
GBP	SONIA (Sterling Overnight Index Average)	Unsecured wholesale rate
JPY	TONA (Tokyo Overnight Average Rate)	Unsecured wholesale rate
USD	SOFR (Secured Overnight Financing Rate)	Secured Treasury repo rate

Source: FSB\*

Customers should note that at present there is no certainty that NBKI will be adopting any of these new benchmark rates for some or all of its customers. Other options, such as links to central bank base rates, are also being explored.

### What does LIBOR transition mean for our clients?

The reforms could result in a number of changes, including to facility agreements, operational processes and technology systems.

Depending on the factors listed above, the cessation of an IBOR reference in a loan facility and its replacement by an agreed alternative benchmark interest rate may also impact the amount payable under the facility.

For LIBOR-linked facilities expiring prior to end of 2021, we will, where possible and legally permitted, allow agreements to complete as normal. For all other LIBOR-based facilities, your relationship manager will be in touch to discuss the transition to alternative rates and the amendment of existing agreements.

NBKI is actively monitoring industry developments and will continue to provide more information on the changes, when there is more certainty on the new benchmarks and how they are calculated.

### What actions should our clients be considering?

We encourage our clients to familiarise themselves with the exposure they have to existing LIBOR-based facilities and loan agreements, so that they can better understand the changes that may be made to such arrangements.

Clients may also wish to consider if they require guidance from their professional advisors on the potential ramifications of the changes including from a legal, financial, tax or accountancy perspective.

### Where can I get updates regarding the GBP LIBOR transition?

The UK's Sterling Working Group publishes a monthly newsletter providing key news updates relating to the LIBOR transition in the UK and other markets. A hyperlink of the Feb 2020 newsletter can be found below:

- [The Bank of England - Transition to sterling risk-free rates from LIBOR page](#)

For more general information on SONIA, LIBOR and other IBOR transition, please refer to the following sources:

- Financial Conduct Authority
- Bank of England
- International Swaps and Derivatives Association, Inc.
- Loan Market Association
- Financial Stability Board
- Federal Reserve - Alternative Reference Rates Committee
- European Central Bank

\* <https://www.fsb.org/wp-content/uploads/P040619-1.pdf>