

**Introduction**

We seek to ensure that our clients are aware of the changes that are taking place with reference to the London Inter-Bank Offered Rate ('LIBOR') and other impacted inter-bank-offered rates (together with LIBOR, the 'IBORs'). The changes are limited to the IBORs and may impact you depending on the reference rates used in your contract. This brief explanation is provided for customers of Emirates Islamic Bank PJSC and each of its affiliates (collectively, 'Emirates Islamic') who may have Islamic product or agreement which use IBOR as benchmark rates.

**What is LIBOR?**

The London Interbank Offered Rate (LIBOR) is administered by ICE Benchmark Administration Limited. LIBOR is one of the most commonly used benchmarks for profit rates and is referenced in financial products such as Islamic derivatives, Sukuk, finance, structured products, mortgages and student finances. It often forms the basis on which profit payments under those products are calculated.

Information about LIBOR Currencies and Tenors							
Currencies	USD	GBP	EUR	JPY	CHF		
Tenors	O/N	1W	1M	2M	3M	6M	12M

It is based on submissions from panel banks, which indicate the rate at which they could obtain finance from other banks, resulting in the publication of 35 rates across tenors and currencies every applicable London business day.

Further information about LIBOR is available at: <https://www.theice.com/iba/libor>

**What is IBOR transition or Benchmark Reform?**

In July 2017, Andrew Bailey, Chief Executive of the UK Financial Conduct Authority (FCA) announced that LIBOR rates would only be formally sustained by the FCA through the end of 2021, due to limited market activity around LIBOR benchmarks and the declining contributions of panel banks. The FCA has negotiated with current panel banks for their agreement to continue contributing data towards LIBOR rate generation through the end of 2021, beyond which they will not be obligated to submit their data. This arrangement may result in the last LIBOR rate being published on 31st December 2021. Hence, the drive to transition away from current IBORs to Alternative Reference Rates (ARRs) is what is referred to as IBOR transition.

**Does it only affect LIBORs or other IBORs as well?**

No, this transition does not affect LIBORs only. Other interbank offered rates ("IBORs") are also being reformed so that they are calculated wherever possible by reference to actual transactions. For example, the Euro Overnight Index Average (EONIA) has been using a new calculation methodology from 2 October 2019 before being replaced by €STR from 3 January 2022.

**What are the alternative reference rates (ARRs) that could replace LIBOR?**

Currency	Existing Rate	Alternative Rate	Transaction Type	Status
GBP	GBP LIBOR	SONIA (Sterling Overnight Index Average)	Unsecured	Live
EUR	EURIBOR/EONIA	€STR (Euro Short-Term Rate)	Unsecured	Live
USD	USD LIBOR	SOFR (Secured Overnight Financing Rate)	Secured	Live
JPY	JPY LIBOR	TONAR (Tokyo Overnight Average Rate)	Unsecured	Live
CHF	CHF LIBOR	SARON (Swiss Average Rate Overnight)	Secured	Live

**Where can I find more information on RFRs?**

Currency	Working Group	Working Groups Links
GBP	Bank of England and FCA Working Group	<a href="https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor">https://www.bankofengland.co.uk/markets/transition-to-sterling-risk-free-rates-from-libor</a>
EUR	European Central Bank Working Group	<a href="https://www.ecb.europa.eu/paym/initiatives/interest_rate_benchmarks/WG_euro_risk-free_rates/html/index.en.html">https://www.ecb.europa.eu/paym/initiatives/interest_rate_benchmarks/WG_euro_risk-free_rates/html/index.en.html</a>
USD	Federal Reserve Alternative Reference Rates Committee	<a href="https://www.newyorkfed.org/arrc">https://www.newyorkfed.org/arrc</a>
JPY	Bank of Japan	<a href="https://www.boj.or.jp/en/paym/market/jpy_cmte/index.htm/">https://www.boj.or.jp/en/paym/market/jpy_cmte/index.htm/</a>
CHF	Swiss National Bank Working Group on Swiss Franc Reference Rates	<a href="https://www.snb.ch/en/ifor/finmkt/fnmkt_benchn/id/finmkt_reformrates">https://www.snb.ch/en/ifor/finmkt/fnmkt_benchn/id/finmkt_reformrates</a>

### When LIBORs or other IBORs are unavailable, how will my existing agreements be affected?

In a scenario when IBORs cease to exist then the profit rates and other parameters related to the specific product may be determined based on the fallbacks present (if present) in the corresponding agreements. These fallback arrangements may indicate what the replacement benchmark rates would be and what adjustment spreads may need to be applied to the ARR to appropriately replace the outgoing rates.

### What other impacts should I be wary of pertaining to this transition?

1. Emirates Islamic may have to make technical and operational changes to its products and agreements
2. ARRs may be higher, lower or more volatile than the outgoing IBORs
3. The fallback parameters may dictate the composition of the profit paid/received by you in the ARR environment
4. Emirates Islamic may entail varying strategies for different products. Hence, from your perspective, different products in a portfolio may witness different transitioning conditions
5. Margin calculations, fees and charges may be affected

IBOR transition is an ongoing process that Emirates Islamic is aware of. The above impacts are not exhaustive but are presented to give you an idea of the nature of the impacts that the Bank foresees. Emirates Islamic is assessing impacts and designing risk mitigating strategies as the market develops more clarity around the transition.

For further information on IBOR transition and its impact on Emirates Islamic, please contact your Relationship Manager.