第一銀行
First Bank

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FREQUENTLY ASKED QUESTIONS

1. What is LIBOR and Why is LIBOR going away?

LIBOR is an interest rate benchmark at which major global banks lend to one another in the international interbank market for short-term loans. For decades, LIBOR has been a key benchmark for setting the interest rates charged on a wide range of financial products.

LIBOR is calculated on each London business day. On each day, the LIBOR member panel banks submit to the IBA the interest rates they would pay if they had to borrow money from another bank on the interbank lending market in London. Once all submissions are received, they are ranked in a descending order and then the highest and lowest twenty-five percent (25%) of the submissions are excluded in order to allow for the exclusion of outliers from the final calculation. LIBOR is calculated in five (5) currencies: GBP Sterling, the Swiss Franc, the Euro, Japanese Yen and the US Dollar. In addition to LIBOR, other Interbank Offered Rates ("**IBOR**s"), such as Euro Interbank Offered Rate ("**Euribor**"), Tokyo Interbank Offered Rate ("**TIBOR**"), Singapore Interbank Offered Rate ("**SIBOR**"), serve interest rate benchmarks in the relevant currencies for financial products ranging from loans, bonds, mortgages to derivatives.

Over the past decades IBOR has grown in its significance and has been used not only as benchmarks in financial contracts but also often as the basis for valuations. Despite its growing importance, following the 2008 global financial crisis, structural shifts in the way major global banks fund their operations have led to declining transaction volume in the markets that underpin LIBOR, making LIBOR heavily reliant on "expert judgement" from the panel banks submitting their estimates that determine LIBOR. In 2013, the G20 asked the FSB to undertake a fundamental review of major interest rate benchmarks and such review led to the recognition that even after reforms that strengthened the underlying processes, certain risks relating to robustness and reliability of LIBOR could not be fully mitigated. In 2017, Andrew Bailey, the Chief Executive of the United Kingdom's FCA, which oversees LIBOR, announced that the FCA would no longer persuade or compel member panel banks to make LIBOR submissions after 2021 and that market participants should expect LIBOR to be subsequently discontinued, or at least to no longer be deemed representative.

2. What is the timeline for the LIBOR transition?

As illustrated below, on March 5, 2021, the FCA announced the future cessation or loss of representativeness of LIBOR following the IBA's publication of its consultation results.

LIBOR	Tenors	The date of future cessation or loss of representativeness
CHF LIBOR	all seven (7) tenors (i.e., overnight, one-week, one-month, two-month, three-month, six-month and twelve-month settings)	2021/12/31
GBP LIBOR	all seven (7) tenors	2021/12/31
EUR LIBOR	all seven (7) tenors	2021/12/31
JPY LIBOR	all seven (7) tenors	2021/12/31
USD LIBOR	one-week & two-month	2021/12/31
	overnight, one-month, three-month, six-month and twelve-month	2023/6/30

In order to encourage the transition away from IBORs, regulators and national working groups have published milestone guidance on when market participants should cease issuing new loans referencing IBORs. For example, in the United States, US regulators have encouraged financial institutions to cease entering new loans that reference USD LIBOR as soon as practicable and in any event by 31 December 2021; in the United Kingdom, the Bank of England has recommended that market participants cease initiation of new loans referencing GBP LIBOR that expire after 2021 by the end of first quarter of 2021; and in Singapore, the SC-STS has recommended that all lenders and borrowers cease issuance of SOR-linked loans that mature after 2021 by the end of April 2021.

FCB recognizes the importance of aligning with these timelines given that the date for the cessation of LIBOR has now been confirmed. We encourage you to review the timelines set forth by the relevant regulators and national working groups and to assess any impact on your business.

3. <u>What will LIBOR be replaced with?</u>

In order to prepare for the transition away from IBORs, national working groups, such as the ARRC, the Working Group on Sterling Risk-Free Reference Rates ("**WG on Sterling RFR**"), a working group of market participants and trade associations representing relevant sectors and

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markets, and the Steering Committee for SOR & SIBOR Transition to SORA ("**SC-STS**"), a committee established by the Monetary Authority of Singapore ("**MAS**") to oversee the industry-wide interest rate benchmark transition, have identified certain RFRs as possible replacements for IBORs or are considering how existing interest rate benchmarks might be reformed.

For example, in 2017, the ARRC selected the SOFR as its recommended replacement rate for US Dollar LIBOR. SOFR is based on overnight transactions in the US Treasury repurchase market, one of the largest rates markets at a given maturity in the world. In the same year, the WG on Sterling RFR announced Sterling Overnight Index Average ("**SONIA**") as its preferred interest rate for sterling transactions. In addition, in 2019, the Association of Banks in Singapore and the Singapore Foreign Exchange Market Committee recommended the Singapore Overnight Rate Average ("**SORA**") as the most suitable and robust benchmark to replace the Singapore Dollar Swap Offer Rate ("**SOR**") and SIBOR.

The table below sets out LIBORs for the five (5) currencies and the corresponding RFRs that have been recommended as possible fallback rates by the relevant national working groups:

	USD LIBOR	GBP LIBOR	EUR LIBOR	CHF LIBOR	JPY LIBOR
Recommended Alternative Rate	SOFR Secured Overnight Financing Rate	SONIA Reformed Sterling Overnight Index Average	€STR Euro Short-Term Rate	SARON Swiss Average Rate Overnight	TONA Tokyo Overnight Average Rate
Working Group	Alternative Reference Rates Committee	Working Group on Sterling Risk-Free Reference Rates	Working Group on Euro Risk-Free Rates	National Working Group on Swiss Franc Reference Rates	Cross-Industry Committee on JPY Interest Rate Benchmarks
Administrator	Federal Reserve Bank of New York	Bank of England	European Central Bank	SIX Swiss exchange	Bank of Japan
Nature	Secured	Unsecured	Unsecured	Secured	Unsecured

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RFRs differ from IBORs in three key respects. First, IBORs represent interest rates across different tenors, e.g., one-week, one-month, two-month, three-month, six-month. As a result, IBORs are forward-looking term rates which incorporate term liquidity premiums. On the other hand, RFRs are generally backward-looking overnight interest rates that incorporate little liquidity premium as they are overnight rates. Second, IBORs are unsecured borrowing rates that incorporate credit risk premium of the panel banks. In contrast, RFRs can be either secured borrowing rates or unsecured borrowing rates; however, given that they are overnight rates, RFRs incorporate no or little credit risk premium. Lastly, IBORs rely in large part on expert judgment due to low volume in the relevant underlying markets whereas RFRs are based on a broad range of actual transactions.

4. How will interest be calculated for loans referencing RFRs?

Given the differences between IBORs and RFRs, interest payments to be calculated for loans referencing RFRs will differ from how interest payments are currently calculated for loans referencing IBORs. In a typical loan referencing an IBOR, each interest payment is based on the IBOR fixing at the beginning of the corresponding interest period, and thus, is known at the beginning thereof. In comparison, as RFRs are overnight rates, the calculation of interest payments cannot be performed in the same way. Various methodologies to calculate interest payments for loans referencing RFRs have been developed, including compounding, simple averaging, in advance, in arrears, payment delay, lookback and lockout, etc.

Should you seek additional information on how market participants can use RFRs in loans, please consider reviewing published information from regulators, national working groups and trade associations, examples of which are set forth below.

- ARRC – A User's Guide to SOFR: www.newyorkfed.org/medialibrary/Microsites/arrc/files/2021/users-guide-to-sofr2021-update.pdf
- WG on Sterling RFR – Best Practice Guide for GBP Loans: www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/rfr/best-practice-guide-for-gbp-loans.pdf

5. Are forward-looking term RFRs available? Are there any alternatives to forward-looking term RFRs and if so, are they recommended by national working groups?

In certain jurisdictions, efforts are underway to develop forward-looking term RFRs. Such forward-looking term RFRs will be based on the RFR derivatives market. Like IBORs, term RFRs will be forward-looking so that they will be available in different tenors, such as one-month, three-month, and six-month. As a result, similar to IBORs, the interest payment will be known at or near the beginning of the interest period.

With respect to US Dollar, on July 29, 2021, the ARRC formally recommended CME Group's forward-looking term SOFR, following the completion of a key change in interdealer trading conventions aimed to increase the trading volumes of SOFR derivatives. Please note that the FSB has emphasized that there may be limitations on the use of forward-looking term RFRs and it is not yet certain how the market will adopt the use of forward-looking term RFRs.

You should consider seeking independent advice from professional advisors, including, but not limited to, financial, legal, tax, accounting or others, as you deem necessary, in understanding which interest rate benchmark is appropriate for you.

6. What is fallback language? What will happen if my contract has no adequate fallback language when IBOR ceases? Any recommended fallback language for loans?

Fallback language refers to contractual terms that are intended to provide for a smooth transition to an alternative interest rate benchmark in the event the relevant IBOR ceases to exist. The cessation of LIBOR after the end of 2021 and June 30, 2023 for major USD LIBOR settings may affect the enforceability of the loan agreements if adequate and robust fallback language are not included in such loan agreements.

If you have not already done so, it is important that you review your contracts to identify whether adequate and robust fallback language has been incorporated to address the cessation of IBORs. For example, the lack of adequate and robust fallback language may result in the loan referencing the last published IBOR rate on a continued basis.

Regulators, national working groups and trade associations have published recommended fallback language. For example, the ARRC has published recommended language for US Dollar bilateral and syndicated loans. Specifically, the ARRC has recommended using "hardwired" fallback language for syndicated loans pursuant to which the replacement rate after the cessation of US Dollar LIBOR will be determined in accordance with the following

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waterfall structure. First, if the ARRC recommends a forward-looking term SOFR, the replacement rate will be such forward-looking term SOFR plus a spread adjustment. Second, if the ARRC does not recommend a forward-looking term SOFR, the replacement rate will be daily simple SOFR plus a spread adjustment. Given that the ARRC has recommended CME Group's forward-looking term SOFR, FCB will offer such forward-looking term rate to its customers to facilitate the transition away from USD LIBOR.

Other national working groups have published similar recommended fallback language. Trade associations, such as Loan Market Association ("**LMA**"), Loan Syndications & Trading Association ("**LSTA**"), and International Swaps and Derivatives Association ("**ISDA**"), have also published their suggested draft fallback language.

FCB encourages the use of recommended fallback language and approaches developed by regulators, national working groups and trade associations to ensure affected legal agreements are smoothly transitioned.

7. What is a spread adjustment? When will the spread adjustment be calculated?

IBORs and RFRs are calculated using separate methodologies and thereby have inherent differences between them. In order to address such differences and minimize value transfer to the extent possible, regulators, national working groups and trade associations have recommended the usage of a spread adjustment.

The established market approach for the spread adjustment is based on the historical median that calculates the difference between the relevant IBOR and its related RFR over a five-year period. The consultations with respect to this established market approach by the ARRC, WG on Sterling RFR, and ISDA are set forth below:

- ARRC: www.newyorkfed.org/medialibrary/Microsites/arrc/files/2020/ARRC_Recommendation_Spread_Adjustments_Cash_Products_Press_Release.pdf
- WG on Sterling RFR: www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/summary-of-responses-on-consultation-credit-adjustment.pdf
- ISDA: www.isda.org/2019/11/15/isda-publishes-results-of-consultation-on-final-parameters-for-benchmark-fallback-adjustments/

The spread adjustment calculation as recommended by the ARRC, the WG on Sterling RFR, and the ISDA was calculated on March 5, 2021, the date the FCA formally announced the

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cessation of LIBOR. In other words, this announcement locked in the spread adjustment. Any loans using the fallback language recommended by the ARRC will apply the spread adjustment locked in on March 5, 2021 and such spread adjustment will be fixed for the duration of the loans.