



IBOR Transition Guide Supplement

December 2021



This Transition Guide Supplement is supplemental to and should be read in conjunction with our IBOR Transition Guide (July 2021 version) which is available at www.aibgb.co.uk/ibortransition. It has been produced to provide information relating to synthetic LIBOR (correct as at 14 December 2021).

Please note that this Supplement applies to contracts governed by the laws of England and Wales, Scotland and Northern Ireland only.

Synthetic LIBOR

The United Kingdom Financial Conduct Authority (the "**FCA**") has confirmed that in order to avoid disruption to legacy contracts, a synthetic version of LIBOR ("**Synthetic LIBOR**"), with a different calculation methodology, will be available from the beginning of 2022 in a limited number of tenors (1 month, 3 month and 6 month) and in Sterling and Yen only. All contracts other than cleared derivatives will be permitted to use Synthetic LIBOR. Synthetic LIBOR is expected to be published on the same screen page and at the same time as LIBOR and is intended to operate smoothly without any legal or administrative disruption to contracts. All other tenors of Sterling LIBOR will cease to be available.

How is Synthetic LIBOR calculated?

The Sterling Synthetic LIBOR tenors will be published by ICE Benchmark Administration (IBA) and will be calculated as the sum of a term SONIA reference rate plus a fixed Credit Adjustment Spread. The FCA has chosen this calculation method "*to provide a reasonable and fair approximation*" of what LIBOR might have been in the future if it was not ceasing.

Term SONIA is forward-looking and is based on the market expectation of the SONIA interest rate for a given period, rather than the actual observed SONIA rates. This means it can be higher or lower than the actual SONIA rates for the relevant interest period. You could therefore pay more or less with Synthetic LIBOR than would have been the case had you completed active transition.



What will this mean for affected contracts?

For customers who have not already completed active transition (i.e. agree to amend your product documentation), products that currently reference 1, 3 or 6 month sterling LIBOR will automatically move to Synthetic LIBOR with effect from the next interest period commencing in 2022.

Synthetic LIBOR will apply to **all** references to 1, 3 or 6 month sterling LIBOR in a contract, not just interest rate calculations.

Does this mean that active transition is no longer necessary?

Sterling Synthetic LIBOR will initially be published for a period of 12 months. Its continued availability will be reviewed annually by the FCA.

There can be no certainty that Sterling Synthetic LIBOR will be available beyond the end of 2022.

The FCA has been very clear that Synthetic LIBOR is not a representative rate and that it is not intended to be relied upon for extended periods and that active transition is being encouraged. It is being made available on a time-limited basis in order to allow market participants more time to transition away from LIBOR. We therefore continue to encourage customers to transition away from LIBOR to a permanent replacement rate. (The FCA has highlighted that compounded risk-free rates have the most robust underlying markets, and as the new market standard for most products, they will benefit from the greatest liquidity in hedging products.)

Can I still move away from LIBOR to an alternative rate?

Yes. We encourage you to actively transition so please contact your Relationship Manager as soon as possible. We will make every effort to assist you in completing this transition, however, post 15th December 2021 we cannot give you assurances that we will be able to complete the transition prior to your next interest period in 2022.

Can other GBP tenors use synthetic LIBOR?

No, Synthetic LIBOR is only being made available in 1, 3 or 6 month tenors. Other GBP or JPY tenors will cease to be available, and will require active transition ahead of 31 December 2021, otherwise fallback provisions may apply under the terms of any relevant contract. See the IBOR Transition Guide for further information.

Can USD contracts use synthetic LIBOR?

No, the Synthetic LIBOR rates being published by ICE relate to a limited selection of GBP and JPY LIBOR tenors only. A limited number of USD LIBOR tenors will continue on a representative "panel bank" basis until the end of June 2023, but other USD LIBOR tenors will cease on 31 December 2021. See the IBOR Transition Guide for further information.

Questions

If you have any questions about this communication, please contact your relationship manager. Please also refer to the FCA's guidance which is available at:

<https://www.fca.org.uk/news/press-releases/further-arrangements-orderly-wind-down-libor-end-2021>



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Recipients of this Transition Guide Supplement should be aware of statements made by the Financial Conduct Authority and other international regulators, that LIBOR will cease to be published between now and the end of 2021. We encourage you to understand how the provisions of your product(s) with AIB Group (UK) p.l.c. and any linked products will operate should LIBOR or other applicable benchmarks be discontinued, have their use restricted, if any published benchmark rate ceases to be in customary market usage, or if there are changes to the way in which the benchmark is calculated, and bear in mind that amendments to your contract and any contract for linked products may be required in the future.

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We encourage you to keep up to date with the latest regulatory and industry developments in relation to IBOR transition and to consider its impact on your business. You should consider, and continue to keep under review, the potential impact of IBOR transition on any existing product you have with AIB Group (UK) p.l.c., any new product you enter into with AIB Group (UK) p.l.c. and any other products you hold.



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