LIBOR TRANSITION

London Inter-Bank Offered Rate ("LIBOR") is an average benchmark interest rate widely used to price financial indentures across economies, including but not limited to standard inter-bank products (like interest rate futures/ options/ swaps/ cap/ floor), commercial field products (like variable rate mortgages) and hybrid products (like collateralized mortgage obligations). LIBOR is based on inputs given by major banks in London as to their interest rates vis-a-vis actual interest rate that they are paying or would be required to pay for borrowing from other banks.

However, after the financial crisis of 2008, regulators grew wary of overreliance on LIBOR. LIBOR is based largely on estimates from the global banks who are surveyed and not necessarily on actual transactions. On 27 July 2017, UK's Financial Conduct Authority (FCA), announced that market participants should not rely on LIBOR being available after 2021 as FCA will not persuade LIBOR panel banks to continue to submit quotes after 2021.

Regulators and working committees have been formed across the crucial currency issuing countries/areas for finalizing the Alternate rate to LIBOR such as SOFR for USD, SONIA for GBP, ESTER for EURO etc.

What could these changes mean for PNB customers?

The changes arising from LIBOR transition may affect a number of our products and services currently in use *or which may be used* in the future.

The impact will depend on various factors, such as which particular ARR (Alternate Reference Rate) is referred to in a product, the adjustments which need to be made to reflect credit and term differences between the relevant LIBOR and the ARR, the nature and term of the product or contract, the date when any changes arising from LIBOR transition take effect and the nature of any fallback provisions in the particular contract, if any.

LIBOR Transition will have number of effects including change in the value of products, the need to amend existing contracts, the possibility that certain products may no longer serve the purpose for which they were originally intended and making changes to existing operational processes and/or systems. There may also be tax, regulatory, legal and accounting impacts depending on a particular situation.

A reform may result in different calculation methodologies being adopted, which may result in the reformed ARR performing materially differently than it did prior to the reform. Further, the effects of transition may be experienced at different times with respect to different products and in different jurisdictions or regions.

PNB recommends you to conduct your own independent assessment of the impacts and risks as a result of the transition.

LIBOR Transition may affect products and services in a number of ways and the information provided above is general in nature and is not exhaustive. You should contact your professional advisors to assess the possible impact of LIBOR transition on the financial products being used to be used in future by you.