



Preparing for IBOR Discontinuation

This explanation and general risk warning is provided for customers of Dubai Islamic Bank PJSC and each of its subsidiaries (collectively, 'DIB') who may have Islamic products or agreements (investments, financing products, Sharia compliant Wa'ad and agreements relating to hedging and derivative products) which uses the London Interbank Offered Rate ('LIBOR') or another inter-bank offered rate (together with LIBOR, the 'IBORs') as a benchmark rate.

Information relating to IBOR discontinuation may change at any time, and by providing you with this explanation and general risk warning, DIB does not imply that the information contained herein is correct at any time subsequent to the date set out above, or that any other information provided to you in relation to IBOR discontinuation is correct at any time subsequent to the date of the relevant communication containing such information.

What are benchmarks?

In general terms, a benchmark rate is a published reference rate against which payments, accruals or other rates applicable under a transaction are calculated. How DIB uses an IBOR in your Islamic product or agreement will depend on the nature of that product, and its relevant terms and conditions.

IBORs are used for many types of financial transactions. For example, floating rate financings, such as International Commodity Murabaha, Ijarah (leasing), Musharaka, Mudaraba, Wakala, Service Agency or combination of one or more of the foregoing Sharia nominated financing and investment contracts, may use an IBOR as a benchmark for calculating the amount of profit, rental or returns or incentives that is payable by the customer. In more complex financial transactions such as Sharia compliant hedging products, a profit rate swap may use an IBOR, or other rates that are derived from IBOR, to calculate the payments which the parties may need to pay to each other.

Benchmark reform

Interest rate benchmarks including, among others, the London Interbank Offered Rate (LIBOR) and certain other Interbank Offered Rates (IBORs) are being reformed. The UK Financial Conduct Authority (FCA) has stated that after 2021 it will no longer compel banks to submit rates used for the calculation of LIBOR. This means that LIBOR is expected to be discontinued, most likely after the end of 2021. The US Federal Reserve and other regulators have also taken measures to move markets away from IBORs within set timelines. As a result, the continuation of LIBOR and other IBORs on their current basis cannot be guaranteed after 31 December 2021.

Regulators globally have emphasised that it is now time for market participants to start transitioning from the use of IBORs to alternative benchmark rates. Regulatory authorities and public and private sector working groups in several jurisdictions, including the International Swaps and Derivatives Association (ISDA) and the Alternative Reference Rates Committee (ARRC), have been discussing alternative benchmark rates to replace the IBORs.

LIBOR is administered by ICE Benchmark Administration Limited. LIBOR is one of the most commonly used benchmarks for profit rates and is referenced in many financial products such as Islamic derivatives, Sukuk, finance, structured products, mortgages and structured 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
Tenor	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 various rates across tenors and currencies on every applicable London business day.



DIB is not currently aware of any forthcoming changes to the Emirates Interbank Offered Rate administered by the Central Bank of the United Arab Emirates, which is also an IBOR and more commonly referred to as "EBOR" or "EIBOR". The Central Bank of the United Arab Emirates may in the future mandate reforms to this benchmark rate, and advance notice of the timing or nature of such changes may not be available to market participants.

What are the Alternative Reference Rates (ARRs) that could replace LIBOR?

Risk Free Rate working groups in several jurisdictions have identified replacement benchmarks and have begun developing strategies for transition. Select examples of benchmarks which are either being replaced or benchmarks where changes either have or will be made to their methodology (notably the way in which they are determined) are set out in the table below.

The table is not exhaustive and there may be other benchmarks which are either discontinued or where changes have or will be made to their methodology.

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

Benchmark fallback arrangements including alternative rates

If benchmark rates such as IBORs are discontinued or otherwise become unavailable, or stop being appropriate for use in a product or agreement, then the calculation of amounts such as profit, rental, returns, income, incentives and other provisions which reference the benchmark will be determined using fallback arrangements (if any) set out in the relevant agreement.

Any changes made to DIB's products, contracts or agreements to reflect the adoption and implementation of an alternative rate shall be made in accordance with Sharia principles as advised to DIB by DIB's Internal Sharia Supervision Committee ("ISSC").

Potential impact on agreements between you and DIB

The use of the alternative rate and any adjustment spread may result in products or agreements performing differently than if the original benchmark rate had continued to apply. This could include variation or amendment to the calculation of profit, income, rental, return or incentive amounts, differences to hedge accounting issues, resulting mismatches with other transactions that you may have entered into with DIB or any third parties, as well as other possible effects.



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You should consider now, and continue to review, the potential impact and risks of any future changes to benchmark rates for products and agreements between you and DIB. These may include, depending on the product:

- Fallback arrangements under the relevant agreement(s) becoming operative, which may change the rate used to calculate amounts that you pay or amounts that might be paid to you;
- Amendments to the calculation of amounts payable, which may change the amount of profit, income, rental or return that you pay or amounts that might be paid to you;
- Alterations to the payment mechanics of an existing product or the introduction of a replacement product in order to accommodate the adoption and implementation of an alternative rate;
- Consequential changes to other provisions, such as the calculation of margin that is payable and changes to associated fees and charges;
- Practical implications, such as changes to systems and accounting practices; and
- A mismatch between products that, by virtue of transition to an alternative rate, cease to be linked to the same underlying benchmark rate. This could, for example, affect hedging agreements associated with a facility.

This is not an exhaustive list and there are likely to be other factors for you to consider without reliance upon DIB. We recommend that you keep up to date with the latest developments in relation to the changes and the potential alternative benchmark rates that may be relevant to you.

Further information

For further information in relation to the transition away from LIBORs, including anticipated timeframes, please refer to the table below for details of the relevant LIBOR transition working group:

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

This overview is not complete or exhaustive and does not constitute any form of advice or recommendation. We recommend that you keep up to date with the latest developments in relation to the changes and the potential alternative benchmark rates that may be relevant to you. Clients should contact their professional advisors on the possible implications of the changes such as financial, legal, accounting or other economic consequences.

If you wish to discuss this further with us, please contact your DIB Relationship Manager.