EAST WEST BANK

Understanding the LIBOR Transition

As of 04-15-2021

This information is intended to inform East West Bank customers on the industry transition from LIBOR to an alternative benchmark interest rate. This change will impact the majority of loans, leases, contracts, and swaps with LIBOR references that mature after the LIBOR cessation dates.

What is LIBOR?

The London Interbank Offered Rate ("LIBOR") is a widely used benchmark for determining interest rates on various financial products. LIBOR is used to help set the rates on derivatives, bonds, commercial loans, student loans, mortgages, and various other financial products. LIBOR is calculated by the ICE ("Intercontinental Exchange") Benchmark Administration ("IBA") based on the anticipated cost of short-term borrowing from a panel of global banks.

Why is LIBOR going away?

In July 2017, the Financial Conduct Authority ("FCA"), the regulator of LIBOR, announced that it will no longer require panel banks to submit rates for the calculation of LIBOR after 2021. Several panel banks have already stopped providing LIBOR submissions, making LIBOR unstable and less representative of the whole market it is intended to represent.

The FCA later confirmed that LIBOR will either cease to be provided by administrators or will no longer be representative of underlying markets. These events were in part the result of accusations that several large banks manipulated their LIBOR data submissions. Today, bank regulators and financial institutions across the globe, including East West Bank, have begun to prepare for the transition to a new benchmark rate.

When is LIBOR going away?

Due to the lack of necessary input data to calculate U.S. LIBOR, the ICE Benchmark Administration ("IBA") stated that it would cease publication of the seven U.S. LIBOR settings after the following dates:

U.S. LIBOR Settings	Cessation Date
1-week 2-month	December 31, 2021
Overnight/Spot Next 1-month 3-month 6-month 12-month	June 30, 2023

The IBA's public statement is available here.
The FCA's public statement is available here.

Continued on next page >

What will replace LIBOR?

East West Bank is currently evaluating several potential alternative reference rates ("ARR") including Prime, Treasury Rates and the Secured Overnight Financing Rate ("SOFR"). While SOFR is expected to replace U.S. LIBOR for most financial products, suitable ARRs may depend on the type of loan or financial instrument, and the LIBOR tenor in use for existing loans and financial instruments. We will determine the best ARR for each impacted product and contact our customers to facilitate the transition. Whichever ARR is chosen, an appropriate spread adjustment will likely be required to align with existing LIBOR rates.

What is SOFR?

SOFR is a broad measure of the cost of borrowing cash overnight collateralized by U.S. Treasury securities in the repurchase agreement (repo) market. SOFR differs from LIBOR in two key respects: SOFR is a single overnight rate while LIBOR includes rates of several tenors; and SOFR is deemed a credit risk-free rate while LIBOR incorporates an evaluation of credit risk. Additionally, SOFR is based on historical transactions whereas LIBOR is based on "expert judgment" from the panel banks. Currently, there is a daily simple SOFR and a compounded SOFR. The industry is still working on the development of forward-looking term SOFRs.

More information on SOFR can be found here.

How is East West Bank preparing for the LIBOR Transition?

East West Bank continues to monitor industry developments regarding the anticipated discontinuance of LIBOR. We have created a cross-functional team to facilitate the LIBOR transition with our customers and partners.

U.S. regulatory agencies, including the Federal Reserve Bank (East West Bank's prudential regulator) have issued guidance for banks to cease new contracts using U.S. LIBOR as a reference rate by December 31, 2021. East West Bank will act in accordance with this guidance.

What does the transition mean for East West Bank customers?

It is important that all our customers are informed of this global market change. If you have an impacted product with East West Bank, we will contact you with details specific to your product prior to the cessation of LIBOR. Financial products with one-week and two-month tenors will be transitioned prior to the end of 2021. All other tenors will be transitioned prior to June 30, 2023.

For existing hedged loans with a swap, cap, floor, collar, etc., your hedging agreement will also need to be amended. This can be accomplished by adhering to the International Swaps and Derivatives Association, Inc.'s ("ISDA") 2020 IBOR ("Interbank Offered Rates") Fallbacks Protocol, which incorporates fallback language for a replacement index and spread adjustment. East West Bank has already adhered to the Protocol. You should consider its impact on your own business—but only after consulting with your own legal, tax, financing, and accounting advisors. New hedged loans will incorporate fallback language in the hedging agreement by adhering to the ISDA 2020 IBOR Fallbacks Supplement. Information on ISDA's 2020 IBOR Fallbacks Supplement and Fallbacks Protocol can be found here.

Continued on next page >

Additional Questions?

If you have additional questions or concerns regarding this process, your East West Bank Relationship Manager is always available to ensure you have the information you need during this transition.

These FAQs are not intended to be, and should not be relied upon, as a representation, warranty or other assurance or as financial, legal, tax, accounting or other advice. These FAQs are not intended to be comprehensive and material developments may have occurred since they were last updated. This document was first prepared prior to the date indicated above and may not have been updated to reflect recent market developments. It contains information on IBOR and benchmark reform that is intended for the use of East West Bank ("EWB") clients only and it should not be shared with third parties. The information this document contains is general and does not constitute advice. EWB accepts no responsibility or liability to you with respect to the use of this document or its contents. If you have questions in relation to the contents of this document, you should consider seeking independent professional advice (legal, tax, accounting, financial or other) as appropriate.