Classification: Public

Benchmark Factsheet

LLOYDS BANK

Euro Short Term Rate - (€STR)

This document must be read in conjunction with the respective *Product Summary*

What is €STR?

€STR is an interest rate benchmark – also known as a reference rate or a benchmark rate. It is the near risk-free rate (RFR) for Euro denominated derivatives and loans - meaning limited bank credit risk is included. €STR reflects the wholesale Euro unsecured overnight borrowing costs for banks located in EU member states that have adopted the EUR currency.

The European Central Bank (ECB) is the administrator for €STR which is published at 8am CET (Central European Time) on every business day the Eurosystem payments platform, TARGET2, is open for settlements.

Differences between €STR, EURIBOR and Euro LIBOR

1. €STR is described as a risk-free, or near risk-free, rate as unlike EURIBOR or Euro LIBOR it does not contain material term risk or bank credit risk.
2. €STR is an overnight rate which is published in arrears. In contrast EURIBOR and Euro LIBOR are term rates which are published at the start of the relevant period. This means that for products referencing €STR, unless adjustments are made to the methodology, the actual amount of interest payable is not known until the end of the agreed interest period.

EURIBOR has been reformed in order to comply with the EU Benchmarks Regulation and is now calculated using a 'hybrid' methodology. It is likely to continue as the main benchmark used in Euro denominated corporate lending and derivatives as there are currently no indications that it will cease in the near future. However, the ECB has recommended that €STR should be used as the primary basis for a fallback rate (where appropriate).

Euro LIBOR will cease to be published immediately after 31 December 2021.

Differences between €STR and EONIA

EONIA is calculated as €STR plus a fixed spread of 0.085%/ 8.5 basis points. The Working Group on Euro Risk-Free Rates recommends that market participants gradually replace EONIA with €STR for all products and contracts, making €STR their standard reference rate. EONIA will cease to be published from 3 January 2022.

How is €STR calculated?

€STR is calculated using overnight unsecured fixed rate deposit transactions over €1 million, that are based on borrowing transactions in Euros conducted with financial counterparties, that banks report in accordance with the Money Market Statistical Regulations (MMSR).

Features to consider

Interest for €STR products may be payable for periods longer than overnight (e.g. monthly, quarterly), so the daily rate will be aggregated in order to determine the effective interest rate that will apply for the relevant interest period.

As RFRs are overnight rates, the interest due for the respective period will not be known until the end of the interest period i.e. on the actual payment date. Lloyds Bank has adopted a number of possible conventions to address this uncertainty. These are explained below.

Please note: The effective interest rate for a period will not be known at the start of that period.

Conventions for interest calculation

Where Lloyds Bank uses €STR the rate of interest is calculated on a compounded basis (that is, interest is calculated daily on both the notional and any interest already accrued).

As the interest rate for a period is calculated in arrears, the last piece of data for the calculation will only be available at the end of the interest period. This may present operational difficulties in making timely payments, as amounts due will not be known until the actual payment date.

Lloyds Bank provides a range of different conventions and calculation methods, for example observation lag or payment delay (such as 2 days or 5 days). Interest rate quoting conventions continue to evolve as the market develops, and consequently there may not be an exact match for certain structure or derivative types. However the expectation is that, in most circumstances, the difference in floating rate calculated between these various conventions is likely to be minimal.

Lloyds Bank is able to structure derivatives to accommodate different conventions. €STR loans provided by Lloyds Bank on a bilateral basis have the floating interest rate calculated by compounding €STR on a daily basis with a 5 TARGET2 business day 'lookback'. This is consistent with conventions established in bond markets and used in early RFR loan products. Using this convention, you will receive a communication of the interest payable 4 business days before the payment date.

You should ensure that you understand the requirements of any convention applicable to your transaction. More information about the calculation conventions referenced in this factsheet is available in our RFR Floating Rate Conventions Factsheet. If you have any questions please contact your Lloyds Bank representative, or for further information refer to the links below.

It is important for all parties to a transaction to understand:

- **The calculation method that will be used to determine the aggregate rate of interest**
- **When the floating interest rate for a given period will be known**

Further Information

- https://www.ecb.europa.eu/stats/financial_markets_and_interest_rates/euro_short-term_rate/html/eurostr_overview.en.html
- https://www.ecb.europa.eu/paym/interest_rate_benchmarks/WG_euro_risk-free_rates/shared/pdf/20191016/2019-10-16_WG_on_euro_RFR_meeting_Checklist.pdf

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Issue date: Lloyds Banking Group 30/07/2021