Information on account segregation models

(according to section 38 CSDR and section 73 FMIA)

RECITALS

1. Background

In its books, the Bank maintains individual client accounts to display the claims of its clients arising from financial instruments. The Bank also maintains contractual relationships with central securities depositories ("CSD")[1] abroad and with these, maintains accounts in its name (or in the name of its nominee) in which it holds the financial instruments of its clients.

In accordance with the FMIA[2] and the CSDR[3], the Bank as counterparty of a CSD offers to its clients the choice between two client account segregation models for their securities held in safekeeping with a CSD. **This choice is only available in cases where the Bank - for certain financial instrument - is a direct member of a CSD.** Financial instruments may in such cases be held at a CSD

either in a

- omnibus client account segregation (standard)
  The financial instruments of a client are booked with the CSD separately from the holdings of the Bank but together with the holdings of all clients who chose this model.

or in a

- individual client account segregation
  The securities of a client are booked with a central securities depository separately from the holdings of the Bank and also separately from the holdings of other clients.

Unless otherwise instructed by the client, the Bank uses omnibus client segregation as a standard.

2. Purpose of the document

The purpose of this document is to provide information about both account segregation models (in case where the Bank is - for certain financial instruments - a direct member of a CSD), the differences in level of protection incl. the related legal framework (particularly insolvency law regulations applicable in Liechtenstein) and its implications as well as related costs associated with the respective client segregation models.

This document complies with the requirements according to 38 (6) CSDR (in relation to EEA-CSD) and section 73 FMIA (in relation to CH-CSD).

Important

This document is meant to serve as a guide. It does not constitute legal advice. The Bank recommends to its clients to - in case of doubts - obtain legal advice to choose the suitable account segregation model.

The Bank does not assume any liability for the accuracy or comprehensiveness of this information.

[1] CSD means a central securities depository according to both, the FMIA and the CSDR.
[2] Swiss Financial Market Infrastructure Act
[3] Central Securities Depositories Regulation.

LEGAL FRAMEWORK CONDITIONS

1. Legal position of clients

The Bank has the financial instruments of clients held in safekeeping directly or indirectly with CSDs. In the case of central safekeeping of financial instruments abroad, the legal position of a client with respect to the financial instruments held in safekeeping will be assessed based on the law of the country in which the CSD is located. The Bank chooses foreign CSDs with care and reviews them on a regular basis.

The Bank holds the existing omnibus client accounts and individual client accounts with CSDs in its own name, but for the account of the relevant clients. A client who has chosen individual client segregation model has a contractual claim against the Bank for delivery of all financial instruments that are booked in the individual client account assigned to that client. A client who has chosen omnibus client segregation model has a contractual claim against the Bank for delivery of the share to which the client is entitled of the financial instruments held collectively in safekeeping in the omnibus client account.

In its own books, the Bank books financial instruments that it holds for clients separately from financial instruments in its own holdings. In its books, the Bank is not permitted to mix client holdings with its own holdings.

2. Bank failure

In case the Bank fails, particularly in case of insolvency, the Liechtenstein courts and authorities are responsible and Liechtenstein law would apply to the corresponding proceedings.

On application by a person so entitled, a Liechtenstein court may institute insolvency proceedings against the Bank. Furthermore, under certain circumstances, the FMA may take measures to wind up a bank. These measures may involve a bail-in[4] or the complete or partial sale, spin-off or transfer of assets and liabilities of the Bank to another legal entity.

The rights of clients to financial instruments held by the Bank for their account in an omnibus client account or individual client account with a CSD are generally not affected in case of a failure of a bank, especially not by its insolvency. Regardless of the account segregation model chosen, financial instruments are segregated and transferred to another custodian bank designated by the client. The client needs therefore not assert his claim in insolvency proceedings for delivery of the financial instruments held in safekeeping for the client by the bank.

In the case that financial instruments held in safekeeping with a CSD in the name of the insolvent bank cannot be clearly allocated to client holdings or holdings of the bank, it will be assumed that the financial instruments are client holdings.

Even any winding up measure taken by the Financial Market Supervisory Authority Liechtenstein (FMA) does not affect the legal position of the client in relation to the financial instruments held in safekeeping by the bank unless these financial instruments were issued by the bank itself. This applies for both safekeeping in omnibus client accounts and individual client accounts.

[4] Bail-in means a liquidation measure that may be used by a bank in a crisis situation in which the Financial Market Supervisory Authority Liechtenstein (FMA) may write down financial instruments and certain liabilities of the bank either in full or in part or convert to equity capital (shares) to stabilise the Bank in this manner.

RISKS

This section describes the principal risks in connection with the safekeeping of financial instruments and the account segregation models.

1. General risks of insolvency

For various reasons, there may be time delays and additional costs (such as costs for legal advice) in connection with the segregation of securities held in safekeeping for the account of the client. These risks exist for both omnibus client accounts and individual client accounts for the following reasons: Segregation of financial instruments takes place only after satisfaction of any counterclaims by the bank under the custodian agreement (e.g. charges, fees). Delays in insolvency proceedings may furthermore occur due to applicable procedural rules. In the case of omnibus client accounts, a delay in segregation of the financial instruments of an individual client may result in a delay in segregation of all client holdings held in safekeeping in this omnibus client account.

In a bank insolvency, clients generally do not have any direct claim against the central securities depository for delivery of the financial instruments held for them in safekeeping. Such a claim may usually only be enforced by the bank liquidator arranging for transfer of the financial instruments to another custodian bank. In a specific case, however, the participant agreement between the insolvent bank and the CSD may provide otherwise.

When client holdings are held in safekeeping with a CSD located abroad, the legal system of the country of location of the CSD will also apply to the insolvency of the bank, in addition to the legal system of Liechtenstein. The bank therefore recommends to its clients to include information made available by CSD in his/her/its decision about the choice of client account segregation model. In view of the complexity that arises as a result of the interplay of several legal systems, it may also be wise to obtain legal advice in this regard.

2. Limitation of the right of segregation

In the case of insolvency of the Bank, clients must expect that they will possibly not have their financial instruments returned. Regardless of the account segregation model chosen, this risk may exist for the following reasons:

- Lien and rights of retention over financial instruments of the client granted by the client in favour of the bank will conflict in part or in full with segregation of the financial instruments concerned in the insolvency of the bank.

- If the client transferred financial instruments to the bank as collateral by way of transfer of title or as part of securities lending or repurchase agreements (repo transactions), the bank acquires ownership of the financial instruments. In the case of insolvency of the bank, the client may therefore not segregate the financial instruments concerned but has only a contractual claim against the insolvency assets for the retransfer of similar securities. The client is thus exposed to the risk that their claim cannot be satisfied or cannot be satisfied in full.

- The same applies if the client granted the bank rights of use of the financial instruments held for the client in safekeeping and authorised the bank to use the financial instruments for its own account. If the bank exercises the right of use, ownership of the financial instruments concerned passes to the bank and the client has only a contractual claim for retransfer of the financial instruments which may not be satisfied, or may not be satisfied in full, in the case of insolvency of the bank.

3. Shortfall

If, in the case of insolvency of the bank, the number of financial instruments booked to client accounts is less than the number of securities to which the clients assert a total claim, there will be a shortfall. Such a shortfall may occur for various reasons. Conceivably, there may be loss or manipulation of data, accounting errors, external events and failure on the part of third parties.

Although the risk of a shortfall exists regardless of the type of client segregation model, there are different consequences depending on the client account segregation model.

In the case of insolvency of the bank, financial instruments of the same class will be segregated from the holdings of the bank in favour of the clients to the extent of the shortfall in the case that there are not enough financial instruments booked to the client accounts to fully satisfy the claims of the clients against the bank.

If this is still not enough to fully satisfy the claims of the clients, the clients must be responsible for the final shortfall. In this situation, a client who chose individual client account segregation needs only be responsible for the shortfall that exists in the individual client account assigned to the client. However, clients who had their securities held in safekeeping in omnibus client accounts are responsible for both the shortfall affecting their own financial instruments and also that of other clients since the shortfall results in a proportionate reduction of the claims of all clients.

A client is entitled to a claim against the insolvency assets to the extent of the shortfall of the client that may not be satisfied or not satisfied in full.

Outside insolvency proceedings, any shortfall of securities will also be at the expense of the clients if the Bank acted on the account of the client and the Bank is not responsible for the shortfall. In the case of omnibus client accounts, there will also be a communitization in relation to the shortfall.

4. Insolvency of other parties involved

This document deals with insolvency of the bank only. The failure of any other parties involved in the central safekeeping, such as the failure of a CSD, may also result in a negative impact on the rights of the clients in relation to their financial instruments.

The rights of the bank and the client in the case of the failure of a CSD are determined by the law of the country in which the CSD is located. Additional information on this may be found in the information documents published by the respective CSD.

CSDs where the bank holds financial instruments in safekeeping, are required by law to publish their own information documents as to the level of protection of the client account segregation models. These information documents are available upon request.

COSTS

Holding financial instruments in safekeeping (custody) at CSDs is subject to remuneration.

Costs for holding financial instruments in safekeeping in an omnibus client account are included in the remuneration owed by the client.

Costs for holding financial instruments in safekeeping in an individual client account will, per each account, be charged separately and additionally (according to the Fee Schedule [as amended]). This

additional fee is owed even if the financial instruments held in safekeeping or booked out again at the time the fee was charged or client's account debited.

FURTHER INFORMATION

The bank expressly reserves the right to amend this document at any time.

Please contact your client advisor for any additional information you may require.