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Information on Account Segregation (Article 38(6) CSDR)

Introduction

According to Art. 38 para. 5 and 6 CSDR (*Central Securities Depositories Regulation*, Regulation (EU) No 909/2014 of 23 July 2014) Erste Group Bank AG ("ERSTE") shall offer its clients at least the choice between omnibus client segregation and individual client segregation in respect of client securities held directly with Central Securities Depositories (CSDs). At present ERSTE holds client securities directly with the CSDs of Austria, of Slovakia and of Luxembourg.
The purpose of this document is to disclose the levels of protection associated with the different levels of segregation.

Background

In Bank's own books and records, Bank records each client's individual entitlement to securities that it holds for that client in a separate client account. Bank also opens accounts with CSDs in its own name in which it holds clients' securities. ERSTE makes two types of accounts available to clients: Segregated Accounts and Omnibus Accounts.

A *Segregated Account* is used to hold the securities of a single client and therefore the client's securities are held separately from the securities of other clients and the Bank's own proprietary securities.
An *Omnibus Account* is used to hold the securities of a number of clients on a collective basis. However, Bank does not hold its own proprietary securities in Omnibus Accounts.

Main legal implications of levels of segregation

Clients' legal entitlement to the securities that ERSTE holds for them directly with a CSD would generally not be affected by the bank's insolvency, regardless of whether those securities were held in Segregated Accounts or Omnibus Accounts.

Intermediated securities booked on safekeeping accounts do not form part of the bankruptcy estate. Instead they are designated to be excluded in favor of the relevant client.
A bank is also subject to strict requirements as to maintenance of accurate books and records and as to reconciliation of its records against those of the CSDs with which the intermediated securities are held. Accordingly, as long as a bank maintains sufficient holdings of intermediated securities in accordance with its statutory obligations, clients should receive the same level of protection in the bank's insolvency, regardless of whether the intermediated securities are held in a Segregated Account or an Omnibus Account.

However, Segregated Accounts could contribute to swifter identification of client assets in a default scenario. Moreover, the ability of the client to exclude securities in the case of insolvency may depend on whether the CSD could assert any right to set-off, retention right, security interest or similar right with respect to the securities.
ERSTE has to hold intermediated securities in a quantity and a kind at least equal to the intermediated securities credited to client accounts. If notwithstanding these requirements there were a shortfall between the number of intermediated securities that ERSTE is obliged to deliver to clients and the number of intermediated securities that ERSTE holds on their behalf in either a Segregated Account or an Omnibus Account, this could result in fewer intermediated securities than clients are entitled to being returned to them.

A shortfall could arise for a number of reasons including as a result of administrative error, intraday movements or counterparty default. In most cases a shortfall occurs as a result of a mismatch between the time when a bank receives intermediated securities and the earlier time when the delivery is booked to the account of the receiving account holder.
The risk involved with shortfalls is mitigated by the fact that, if a shortfall arises, a bank is obliged to acquire without delay securities if and to the extent the total number of available securities is less than the total number of securities credited to clients' accounts.

In the case of a Segregated Account, the securities held in the Segregated Account can only be delivered out for the settlement of transactions made by the Segregated Account client. As a matter of principle, this may reduce the risk of a shortfall in that account.

In the case of an Omnibus Account, a shortfall attributable to the Omnibus Account would be shared ratably among the clients with an interest in the Omnibus Account (and potentially other clients). Therefore, a client may be exposed to a shortfall even where securities have been lost in circumstances which are completely unrelated to that client.
If the bank were to become insolvent prior to covering a shortfall, clients would rank as general unsecured creditors for any amounts owing to them in connection with such a claim. Clients would therefore be exposed to the risks of the bank's insolvency, including the risk that they may not be able to recover all or part of any compensation claimed.
In order to calculate clients' shares of any shortfall in respect of an Omnibus Account, each client's entitlement to securities held within that account would need to be established based on the bank's books and records.

Costs
Should you elect a Segregated Account structure, costs are likely to be relatively higher than if you elect an Omnibus Account structure. This is due to the increased operational and maintenance costs associated with that structure, along with the fact that multiple such accounts would be required than would be required under an Omnibus Account structure. Please contact your account manager for further information about the costs of Segregated Accounts and Omnibus Accounts.