

Client Money Entitlement (“CME”) Calculation

CME is calculated pursuant to the Client Assets Sourcebook (“CASS”) issued by the Financial Services Authority. A Client Money claimant’s CME consists of the aggregate of its “individual client balance” (“ICB”) plus or minus its “client equity balance” (“CEB”).

ICB for each client is calculated in accordance with paragraph 7 of Annex 1 to Chapter 7 of CASS as follows:*

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| <p>Free <i>money</i> (no trades) and sale proceeds due to the <i>client</i>.</p> <p>(a) in respect of <i>principal deals</i> when the <i>client</i> has delivered the <i>designated investments</i>; and</p> <p>(b) in respect of <i>agency deals</i>, when either:</p> <p style="padding-left: 40px;">(i) the sale proceeds have been received by the <i>firm</i> and the <i>client</i> has delivered the <i>designated investments</i>; or</p> <p style="padding-left: 40px;">(ii) the <i>firm</i> holds the <i>designated investments</i> for the <i>client</i>; and</p> <p>the cost of purchases:</p> <p>(c) in respect of <i>principal deals</i>, paid for by the <i>client</i> but the <i>firm</i> has not delivered the <i>designated investments</i> to the <i>client</i>; and</p> <p>(d) in respect of <i>agency deals</i>, paid for by the <i>client</i> when either:</p> <p style="padding-left: 40px;">(i) the <i>firm</i> has not remitted the <i>money</i> to, or to the order of, the counterparty; or</p> <p style="padding-left: 40px;">(ii) the <i>designated investments</i> have been received by the <i>firm</i> but have not been delivered to the <i>client</i>;</p> <p>Less</p> <p><i>money</i> owed by the <i>client</i> in respect of unpaid purchases by or for the <i>client</i> if delivery of those <i>designated investments</i> has been made to the <i>client</i>; and</p> <p>Proceeds remitted to the <i>client</i> in respect of sales transactions by or for the <i>client</i> if the <i>client</i> has not delivered the <i>designated investments</i>.</p> |
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CEB for each client is defined in the FSA Glossary as follows:*

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| <p>the amount which a <i>firm</i> would be liable (ignoring any non-cash <i>collateral</i> held) to pay to a <i>client</i> (or the <i>client</i> to the <i>firm</i>) in respect of his <i>margin</i>ed <i>transactions</i> if each of his open positions was liquidated at the closing or settlement prices published by the relevant exchange or other appropriate pricing source and his account closed. This refers to cash values and does not include non-cash <i>collateral</i> or other <i>designated investments</i> held in respect of a <i>margin</i>ed <i>transaction</i>.</p> |
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*The ICB calculation and the CEB definition set out above and all italicised terms used therein are defined in FSA’s Glossary as in effect on 15 September 2008

Quantifying the CME of all clients involves at least three different activities: (1) establishing as a matter of law whether certain relationships or features of a relationship give rise to a CME, the answer to which may depend in part on general questions of law and in part on the effect of

particular contracts or types of contract; (2) establishing what offsets are allowed or required under the CASS Rules for amounts or balances in LBIE's favour. The CASS rules expressly allows some limited offsets in the calculation of the ICB and CEB and then between the two; and (3) undertaking detailed factual client by client calculations.

As an aid to clients, LBIE provides the following examples of the CME calculation for client ABC Fund Inc. These examples are for illustrative purposes only and do not reflect any specific client money claimant's CME. A client money claimant's CME calculation may differ significantly from the examples provided below.

Client Name: ABC Fund Inc.

Client Money Entitlement by Balance Type

| Individual Client Balance (ICB) | Account Number | Example A CME (USD) | Example B CME (USD) |
|---|----------------|---------------------|---------------------|
| Cash Balances | 032xxxx1 | 500.00 | 0.00 |
| Margin Excess/Margin Requirement | 056xxxx1 | 0.00 | 50.00 |
| Depot Breaks | 056xxxx1 | 0.00 | 600.00 |
| | 056xxxx1 | 0.00 | 50.00 |
| Fails | - | 0.00 | 0.00 |
| Manual Items | - | 0.00 | 0.00 |
| Stock Loan Payables | Lxxxx6 | 20.00 | 0.00 |
| | Lxxxx7 | 30.00 | 0.00 |
| Unapplied Statement/Ledger Credits | 042xxxx1 | 10.00 | 0.00 |
| Other | - | 0.00 | 0.00 |
| SUBTOTAL | | 560.00 | 700.00 |

| Client Equity Balance (CEB) | Account Number | Example A CME (USD) | Example B CME (USD) |
|-----------------------------|----------------|---------------------|---------------------|
| Futures | 279xxxx3 | (300.00) | 300.00 |
| Other | - | 0.00 | 0.00 |
| SUBTOTAL | | (300.00) | 300.00 |

| | Example A CME (USD) | Example B CME (USD) |
|---|---------------------|---------------------|
| Total Client Money Entitlement [ICB + CEB] = | 260.00 | 1,000.00 |