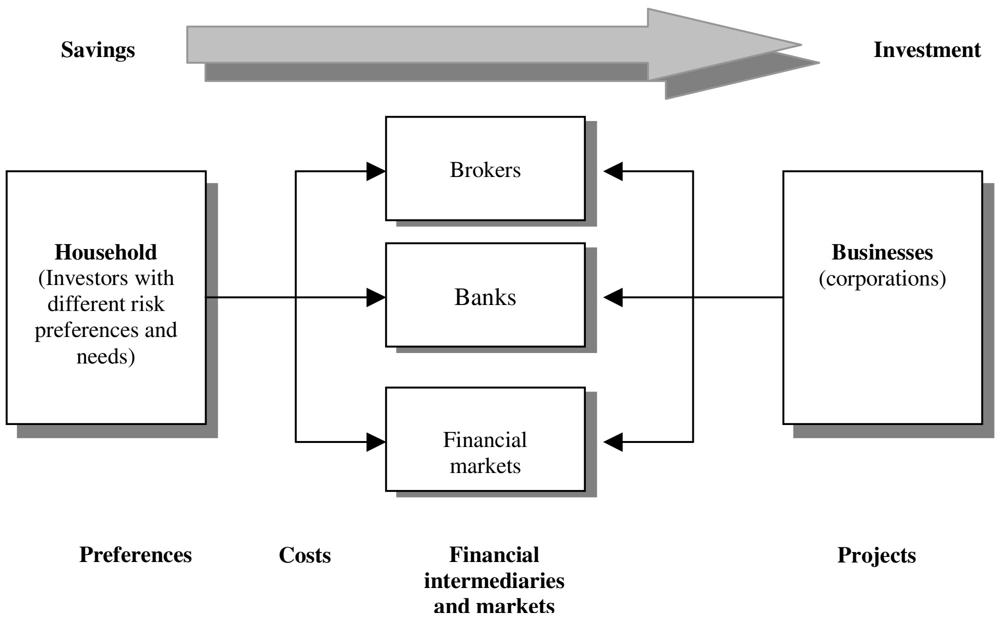
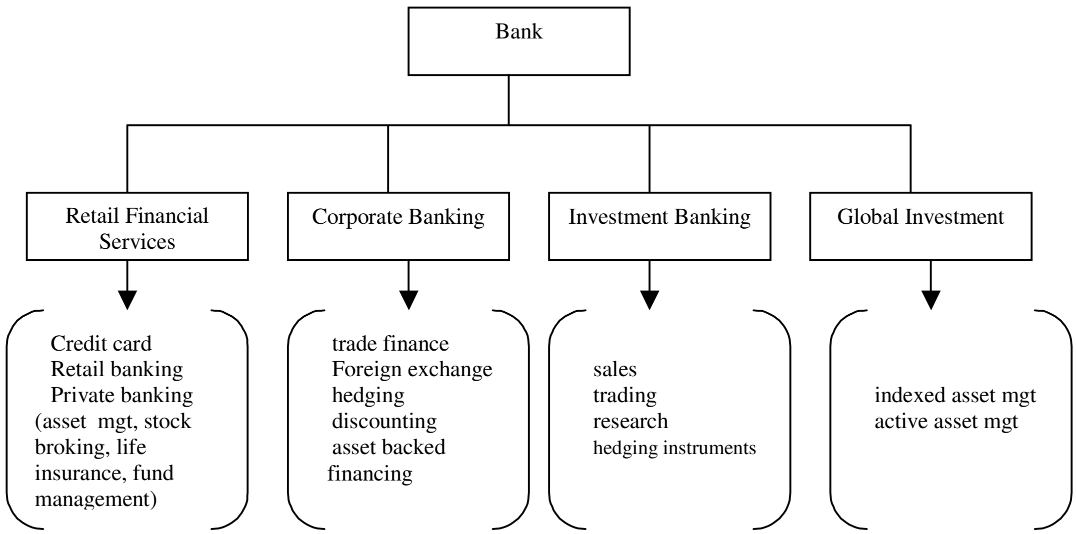
FINANCIAL INTERMEDIATION



Savings are transformed into investment in an economy via financial intermediaries (such as brokers and banks) and stock exchanges. The main role of financial inter-mediation is the reduction of the cost and facilitation of the matching process of borrowers and lenders needs, in term of amounts and time, and risk preferences.

Financial intermediaries conduct a special type of analysis to run their business and satisfy their customer needs. This analysis encompasses market prediction, portfolio management, risk management, and financial product development.

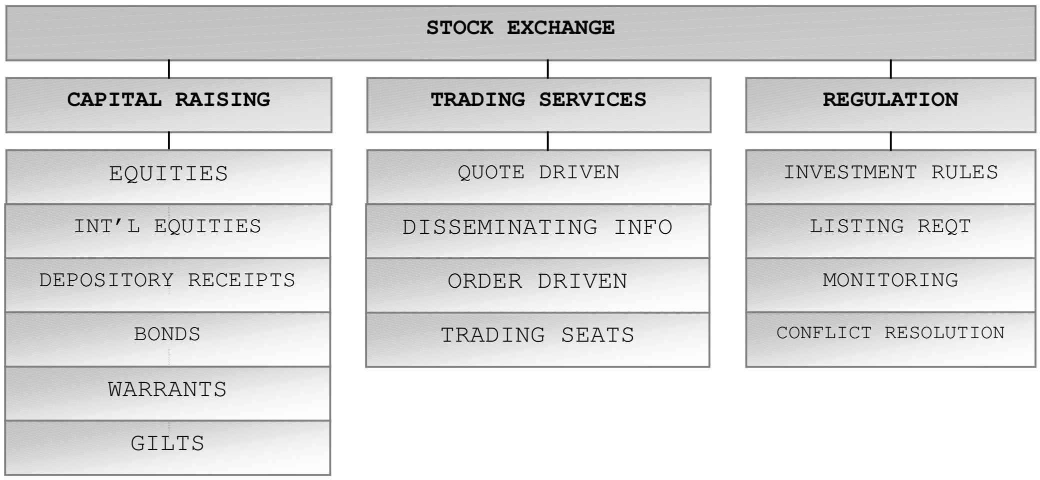
ORGANIZATIONAL STRUCTURE OF A BANK



ORGANIZATIONAL STRUCTURE OF A STOCK EXCHANGE

A stock exchange fulfils three basic functions:

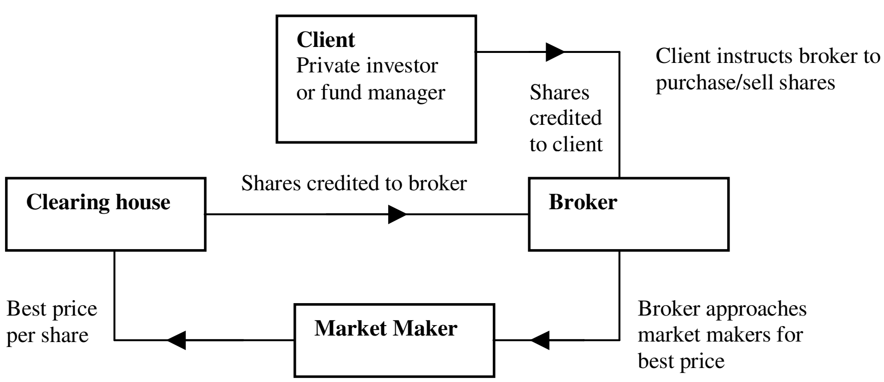
1) capital raising: allowing small and large companies to raise capital and to have their shares more publicly traded,
2) offering trading services: operating different types of trading systems – such as order driven, quote driven, or trading seats - and disseminating market information,
3) and regulating both capital raising and trading markets: through investment rules, companies listing requirements, exchange rules, and by monitoring members and companies compliance with rules, and resolving conflict of interest and rules violations.



The basic functions of a stock exchange [LSE]

A CLEARING SYSTEM

A clearing system helps financial intermediaries in the clearing and settlement of trades. The following figure depicts a typical flow of a transaction issued by a client and executed by a financial intermediary (broker) after clearing and settlement.



A clearing system [EASDAQ]