



Public CSD Rating Report

Misr Company for Central Clearing, Depository & Registry

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Thomas Murray CSD Public Rating for: **Misr Company for Central Clearing, Depository & Registry is A+**

CSD Rating	Overall Rating	Asset Commitment Risk	Liquidity Risk	Counterparty Risk	Financial Risk	Operational Risk	Asset Servicing Risk
MCDR Rating:	A+	A	A+	A+	A+	A+	A+

The outlook for the rating is: **Stable**

Overall Risk Summary

Thomas Murray has assigned an overall central securities depository risk rating of A+ to Misr Company for Central Clearing, Depository & Registry (MCDR), which translates as low risk. The rating is a weighted average of six different risk components comprising of Asset Commitment risk, Liquidity risk, Counterparty risk, Financial risk, Operational risk and Asset Servicing risk. The Overall rating has been upgraded due to recalculation based on the following risk rating movements: Asset Commitment Risk downgrade from A+ to A; Liquidity Risk upgrade from A to A+; Asset Servicing Risk upgrade from A to A+

MCDR operates the settlement, custody and registration facility for the Egyptian Stock Exchange (EGX). The design of the settlement system is primarily focused on minimising Counterparty risk exposure. Settlement between brokers is on an interdependent Delivery-Versus-Payment (DVP) basis, with book-entry transfers in MCDR linked with settlement in same-day central bank funds in the Central Bank of Egypt's (CBE) RTGS system. Selling client's securities positions are electronically blocked on trade execution, ensuring that securities should always be available for settlement. When clients deliver to their selling broker, this is coordinated by the custodian, not centrally by MCDR. This mechanism is ensuring DVP for the custodian, but not for the local broker. Securities title is never transferred to the broker, instead being delivered through a client account under the broker's 'control'. Although local brokers are typically funded by their local clients (which makes up 80% of trading value), foreign clients typically refuse to do so, leaving the liquidity burden on the broker. Brokers source funding from local banks and recover the costs through their commission, which is adding to the trading costs in the market for foreign clients.

MCDR operates the Settlement Guarantee Fund (SGF) which pro-actively intervenes to assure settlement, and has intervened in 2% (by value) of all transactions in the past year in order to achieve a 100% settlement rate for the interbroker side. SGF resolves short securities positions by sourcing securities positions from a lending pool of assets supplied by government and municipal institutions. Previously, the SGF had been using a method of creating 'virtual' securities to resolve these short positions, but this practice was discontinued in July 2007.

MCDR, as central registrar, plays a key role in Asset Servicing in the market, especially in assisting the issuers in setting up the corporate event. However MCDR does not act as the principal information source for corporate events. The official source is still one formal newspaper, and hence for most custodians initial corporate action notifications are still captured manually, and information processing is still reliant on extensive re-keying and data input. MCDR takes no liability over the quality of event notifications, but assumes liability for incorrect or non-execution of corporate actions. The dividend distribution service is extremely flexible and client-friendly, with the ability to pay directly into bank accounts domestically and overseas.,

MCDR is a not-for-profit utility, owned by its participants, and provides a number of free services (especially for its large retail client base). However, it has always been operationally profitable, and is well capitalised, especially as an emerging market depository. A large proportion of its revenue and profitability comes from the investment of various funds by its Investment Department. Paid-in

capital in 2008 was EGP 140 million (USD 25.2 million) which has been steadily growing over the last few years (financed totally out of retained earnings). MCDR carries insurance coverage of EGP 38 million for theft, fire, vaults, computer hardware, systemic and operational risk, but has no Professional Indemnity or Bankers Blanket Bond coverage.

MCDR has immobilised over 98% of eligible equities and 100% of eligible corporate debt but is still maintaining physical certificates in its vaults (even where the issue is 100% immobilised). Although MCDR has developed its own systems in-house which are effective, there is still potential for further automation, particularly in its interfaces with issuers and custodians. MCDR has extensive operating documentation and strict internal control mechanisms to manage operational risk exposures. However, although internal audit arrangements were intensified during 2007 and 2008, not all activities have yet been completely reviewed within the three years since the start of the internal audit programme. Also no external audits on operational controls have been undertaken nor has an IT audit been conducted. MCDR management has supplied signed Internal Control representations to Thomas Murray attesting to the sufficiency of internal controls and procedures. MCDR is part of a National Market Practice Group (NMPG) which is developing ISO 15022 message standards for the market, and MCDR hopes to have these implemented in their own systems by the end of 2010.

Disaster Recovery plans are in place and back-up servers and communication lines at the 'hot' site are able to resume operations within 30mins of a major disaster. A real-life switch-over to back-up operations was undertaken in September 2009 when a fire in an electricity substation disrupted power to the main site. The switch-over was seamless and did not result in any loss of data. A new building is due to open in 2010 which will house enhanced disaster recovery and business continuity facilities as well as new vaults and other amenities.

MCDR has an account with Clearstream Banking Luxembourg and is in the process of opening an account with Euroclear Bank. MCDR also became the second non-European member of Link-Up markets which provides the opportunity to establish settlement links with a variety of CSDs through a single IT architecture.

Outlook Summary

Thomas Murray has assigned an Outlook of Stable, as there are currently no definitive developments that may further change the rating in the short term. The major projects which have the potential to beneficially impact Operational Risk exposures are the introduction of e-signatures and the development of SWIFT 15022 messaging into MCDR systems. However, these developments are not expected to go live until sometime later in 2010 at the earliest. The introduction of a Securities Lending and Borrowing facility allied with short selling permissions, has been postponed until market conditions improve.

Role of the Depository

Misr Company for Central Clearing, Depository & Registry (MCDR) is the sole Egyptian CSD providing clearing and settlement services to the Egyptian Exchange (EGX). MCDR operates both the depository and the clearing house through a single entity. It is a not-for-profit private company owned by the stock exchanges, local banks and its participants. It was incorporated under the Capital Market Law No. 95 of 1992 and its executive regulations, commenced operations in October 1996 and is currently governed by the Depository and Central Registry Law No. 93 of 2000. It is regulated by the Egyptian Financial Supervisory Authority (EFSA).

Membership is given to brokers, licensed custodians (bookkeepers), mutual funds, clearing members, pension funds and issuers. Banks may serve the role of a custodian, as well as any other entity after fulfilling the EFSA requirements. The CMA Decree 7, which introduced the licensing requirement for custodians (bookkeepers), prohibited local brokers from providing custodian activities from 13 January 2002, but they can apply for a custodian license if they fulfil the EFSA capital requirements. Licensed custodians track holdings in securities at the investor level.

All issues were originally targeted to be immobilised by the end of 2005, but this period has been extended. MCDR acts as central registrar for all Egyptian securities deposited in its custody, and all securities must be deposited at MCDR to be traded on the EGX. Physical certificates will remain in custody at MCDR until the immobilisation process is complete. Around 98% of EGP denominated equities and 97% of EGP denominated bonds are now held in immobilised form at MCDR. The vast majority of securities are registered (there is only one bearer issue) usually in the name of the beneficial owner. Law 93 introduced the legal foundation for the nominee concept allowing custodian banks, depository banks, asset managers and any other activity issued by a ministerial decree, after consulting the EFSA, to apply for a licence to become a nominee through the EFSA.

MCDR supports the settlement of equities, corporate and government debt that are traded on the EGX and unlisted securities which trade OTC. MCDR also settles Treasury Bond transactions. Treasury Bills are cleared and settled by the Central Bank of Egypt (CBE).

In March 2010, MCDR joined Link Up Markets, a joint venture that provides a single point of access for cross border settlements and a common infrastructure into which CSD participants can connect and access the services of other participating CSDs across all assets except derivatives. Link Up Markets therefore improve efficiency and reduce costs of cross-border post-trade processing. The joint venture now includes MCDR and 9 other CSDs, namely Clearstream Banking AG Frankfurt (Germany), Cyprus Stock Exchange (Cyprus), Hellenic Exchanges S.A. (Greece), IBERCLEAR (Spain), Oesterreichische Kontrollbank AG (Austria), SIX SIS Ltd (Switzerland), VP SECURITIES (Denmark), VPS (Norway) and Strate (South Africa).

Risk Summary	Risk

<p>Overall Risk</p>	<p>A+</p>
<p>Asset Commitment Risk</p> <p>MCDR provides DVP for brokers' market side transactions with overnight asset commitment risk. However, since brokers never receive legal title of securities during the settlement process, their exposure is only on the cash side. There is no exposure for the local broker against local clients since these prefund him directly. However for foreign investors who will not prefund, the local broker must either fund their clearing bank account (for purchases) or pay the custodian to release securities for delivery (for sales) by 2.00pm SD-1. Since final funds settle in the CBE's RTGS system at 8.30am SD, brokers are exposed to 18.5hrs asset commitment risk on cash.</p> <p>The DVP of foreign client-side settlements between brokers and custodians is not managed by MCDR but by the custodians. Custodians protect foreign investors' assets by not releasing either securities or funds until countervalue has been received from the broker. On sales, securities must be blocked upon trade execution on TD, and the asset commitment risk exposure extends for the client until the selling broker pays for the securities by 2.00pm SD-1, giving an asset commitment period of between 24-28hrs. On purchases for foreign clients, the asset commitment period is negligible as the broker pre-funds the trade and the custodian only remits funds to the broker after receipt of securities.</p> <p>From the broker's perspective on both purchases and sales the asset commitment period is around 40mins depending on how quickly custodians release the client's countervalue after the broker has delivered/paid.</p> <p>For local clients, the asset commitment periods are substantially longer. Securities are blocked upon sale on TD and with sale proceeds being remitted at 8.30am on T+2 at the earliest, this gives an asset commitment period of 42-46hrs. On purchases, cash must be funded to the broker by 2.00pm SD-1 and securities are received with finality at 2.00am SD giving a 12hr asset commitment period.</p>	<p>A</p>
<p>Liquidity Risk</p> <p>Local buyers suffer liquidity risk exposure on cash caused by the need to pre-fund their local broker by SD-1, whereas foreign investors suffer no such risk. However, this shifts the liquidity burden to the local brokers who typically need to source overnight liquidity facilities from local banks. Sellers suffer liquidity risk exposure by the requirement for securities to be sold to be blocked on the selling client's account at the custodian from TD until transfer to the broker's account by 6pm SD-1 (T+1 for liquid securities). Netting is only provided for cash, resulting in high liquidity demands on securities, particularly given the disjuncture between client-side and market-side settlement timings.</p> <p>The short selling and securities lending systems and framework were introduced in the market on 24 April 2008, but until the lending pool is fully constructed no lending activity related to short selling is taking place. The SGF runs a lending facility to cover 'technical' shorts, whereby securities can be sourced from a pool of stocks funded by government associated funds. The pool covers most but not all traded stocks.</p> <p>The Settlement Guarantee Fund (SGF) acts as a risk intermediary penalising late settlers and backing settlement through buy-ins on SD. The SGF is proactive in intervening prior to SD, but has only had to do so for 1.77% of transactions (by value) between July 2008 and July 2009. Its interventions have resulted in a 100% market settlement rate for 2009 (until October).</p>	<p>A+</p>
<p>Counterparty Risk</p> <p>The blocking of securities positions on trade execution mitigates against delivery failures. Inter-broker (market-side) settlements are conducted on an inter-dependent non-simultaneous DVP basis with payment in central bank funds. However, securities are transferred with finality at 2.30am SD against deposit of funds at the CBE on SD-1 (blocked from this point), not on confirmation of funds transfer at 8.30am SD. Broker-custodian (client-side) settlement is controlled by the custodian to ensure the custodian (and hence their local/foreign client) receives DVP, but the local broker does not. However, the length of the broker's risk exposure is typically short (~40mins). Since, all broker activity in the market is agency based (i.e. they are not taking proprietary positions), the degree of counterparty risk exposure that can be built up by a broker should be reasonably low.</p> <p>Nevertheless, the Settlement Guarantee Fund (SGF) monitors the counterparty risk of brokers (although not on a daily basis), and attempts to ensure that their open positions are covered sufficiently by their contributions to the Fund. Stress testing for the SGF is being developed. Brokers also have to provide a periodic liquidity position report to the EFSA which may be as frequently as daily if required. Payments are protected by the CBE, and counterparty risk is dissipated by having multiple clearing banks (8). However, average credit ratings for Egyptian banks are around the BB+ mark. The CBE requires all local banks to hold a 14% reserve at the CBE.</p>	<p>A+</p>

Asset Servicing Risk

Issuers are obliged by MCDR general terms and conditions to supply MCDR with all corporate actions information. The process for uploading information into MCDR's system and passing this to its participants requires manual intervention. MCDR accepts no responsibility for the accuracy, completeness and timeliness of this information, unless it is due to a transcription error on MCDR's part. Corporate action information processing is mainly automated, although there remains the option to take dividends in physical form. Overall, only 50-60% of income payments are collected on PD, but the vast majority of payments to custodians for foreign investors are made on PD, MCDR does not accept responsibility for missed corporate action deadlines where it has not received the necessary information from the issuer. MCDR has established a financial provision of 0.35% of total dividend coupons payable to guard against claims made against them as paying agent. MCDR does provide electronic proxy voting services, but this is not yet being widely used.

A+

Financial Risk

MCDR is well capitalised for an emerging market depository, and doubled its issued capital in 2007 in preparation for an extended substantial investment in various service developments and commercial ventures. MCDR profitability has consistently increased since the restructuring of the company in late 2005. Although the depository operates a not-for-profit model, it has always been operationally profitable.

A+

MCDR has insurance policies in place covering theft, fire, vaults, computer hardware, systemic and operational risk. Legal claims against the depository are outstanding, but only as co-defendant with other capital market entities (e.g. EFSA, EGX), and MCDR has made provision against the possibility of such claims in its balance sheet. MCDR is obliged by law to pay direct and consequential losses where it is at fault.

Operational Risk

MCDR operates a strong internal control culture designed to minimise operational risk exposures. However, the internal audit department is yet to complete its full audit programme of critical departments begun in 2005. There is no external operational or IT audit conducted. MCDR management has made signed Internal Control representations to Thomas Murray attesting to the adequacy of internal controls and procedures. For the introduction of new systems and services, all controls and audits are subject to revision by the internal audit committee, which consists of members of the MCDR Board, the internal audit department manager and a representative from MCDR's external (financial) auditors.

A+

Although, a vast proportion of certificates are immobilised, individual certificates are still held, even in issues that are 100% immobilised. MCDR has developed a range of proprietary systems for communication and processing, and ISO15022 messaging standards and electronic signatures are being built into the system by 4Q2010.

DRP arrangements exist that involve a recovery period of 30min to the back-up site system. A disaster recovery test on the EGX link is conducted quarterly, and a full test is conducted at least twice a year. Business Continuity facilities have been renovated, and MCDR would be able to shift core operations to the back-up site within 30mins of a disaster (60mins for non-core operations).

CSD on CSD Credit Risk

MCDR has a co-operative agreement with depositories in Abu Dhabi, Kuwait, and, Lebanon, but no settlement links have been built yet. MCDR has established a link with Clearstream ICSD and is establishing a link with Euroclear Bank. MCDR joined Link Up Markets in March 2010 which provides a single point of access for cross border settlements with a variety of CSDs.

Links Exist

Asset Commitment Risk

Summary

MCDR provides DVP for brokers' market side transactions with overnight asset commitment risk. However, since brokers never receive legal title of securities during the settlement process, their exposure is only on the cash side. There is no exposure for the local broker against local clients since these prefund him directly. However for foreign investors who will not prefund, the local broker must either fund their clearing bank account (for purchases) or pay the custodian to release securities for delivery (for sales) by 2.00pm SD-1. Since final funds settle in the CBE's RTGS system at 8.30am SD, brokers are exposed to 18.5hrs asset commitment risk on cash.

The DVP of foreign client-side settlements between brokers and custodians is not managed by MCDR but by the custodians. Custodians protect foreign investors' assets by not releasing either securities or funds until countervalue has been received from the broker. On sales, securities must be blocked upon trade execution on TD, and the asset commitment risk exposure extends for the client until the selling broker pays for the securities by 2.00pm SD-1, giving an asset commitment period of between 24-28hrs. On purchases for foreign clients, the asset commitment period is negligible as the broker prefunds the trade and the custodian only remits funds to the broker after receipt of securities.

From the broker's perspective on both purchases and sales the asset commitment period is around 40mins depending on how quickly custodians release the client's countervalue after the broker has delivered/paid.

For local clients, the asset commitment periods are substantially longer. Securities are blocked upon sale on TD and with sale proceeds being remitted at 8.30am on T+2 at the earliest, this gives an asset commitment period of 42-46hrs. On purchases, cash must be funded to the broker by 2.00pm SD-1 and securities are received with finality at 2.00am SD giving a 12hr asset commitment period

All listed stocks in the market settle on T+2. There is also an optional same day trading and settlement cycle (T+0) if the investor buys the stock and sells on the same day. This market accounts for around 4.5% of market activity, and there is no asset commitment periods on purchases since buy and sale deliveries are netted out ('zero sum') with only the cash difference being transferred.

The settlement cycle for dematerialised Treasury bonds has been established at T+1. There is no special treatment for foreign investors, settlement procedures are the same as for local investors. All treasury bonds settle on T+1.

Processing Cycles

The settlement chain involves the selling custodian delivering to the selling broker, who then settles within MCDR against the buying broker, who then delivers to the buying custodian (all via the relevant bookkeeper). Settlement is on T+2 for all on-market equities transactions, except for sameday trading.

The optional same day trading and settlement cycle (T+0) allows the investor to buy and sell the stock on the same day. In case the investor does not sell on TD, the settlement takes place on T+2 automatically for both the buy and sell legs. Brokers must pre-fund a balance of EGP 5 million for same day trading. Same day trading accounts for around 4.5% of market volumes.

Treasury bonds follow a T+1 market settlement cycle.

On-Exchange Transactions - T+2 settlement

Automatic pre-sale blocking of shares at MCDR was introduced on 3 March 2005. Its system is electronically linked to the EGX trading system. Executing brokers send blocking requests via the MCDR system to custodians and acknowledged blocked requests are reflected on the executing local broker's trading terminal at the EGX, as available for sale.

After the end of the EGX trading session at 2.30pm, matched completed transactions are fed to the MCDR system between 2.45pm – 3.00pm TD. Between 4.30 pm – 5.00 pm TD and again at 8.30am on T+1 (SD-1), brokers receive a report of their net settlement obligations through the MCDR proprietary system. Buying brokers must fund their settlement account with their banks by 2pm SD-1 (T+1). Selling brokers must have sufficient securities in the selling client's account under the broker (having been released by the custodians) by 6.00pm SD-1. Once MCDR has verified that sufficient securities and funds cover is available, it begins the securities settlement processing at 12.00am (midnight) SD and completes it between 2.00am-2.30am (SD). However, practically participants only see securities finality in the system when system access is available at 8.30am SD.

Once securities finality has been achieved at 2.30am SD, MCDR instructs the Central Bank of Egypt (CBE) to execute cash settlement (see Cash Settlement section) once the CBE system opens at 8.00am SD.

On-Exchange Transactions - TD settlement

MCDR runs a designated same day settlement service for same day trading, but this only accounts for around 4.5% of MCDR's total settlement volume. Day trading is restricted to first buying, then selling securities (at least until the introduction of short selling). Brokers buy first from the market and then block the shares in a suspense account through a specific screen provided by MCDR, before selling the securities in the market. If the broker succeeds in the sale, the broker is notified by an instant execution confirmation coming from EGX via the FIX system whether they have to settle a cash debit or credit from the trade. This must be settled by 4.30pm, at the latest.

In the same day trading environment there are no custodians involved as the broker first buys then sells so the net securities position is zero. However, since the broker must record the buying order in EGX like any regular transaction, a custodian must be recorded. Thus, in EGX the broker does not sell the quantity bought and it goes to regular settlement on T+2, a presumed custodian account is automatically created on TD and then automatically transferred to the normal custodian on T+2 for unsold securities.

For (buy) same-day trades, prefunding is a prerequisite as long as it is a same day trade. If the EGP 5 million is not available, the broker can never buy. For (sell) same-day trades, the securities/loan would be blocked before trade execution. This could result in a maximum asset commitment period of 6 hours.

Broker-to-Custodian Settlement

There is no matching service provided by MCDR to match buy- and sell-side settlement instructions. However, pre-matching is an established practice between brokers and custodians, with brokers faxing their invoice receipts to custodians by 9.00am on T+1. Custodians match these invoices against their client's settlement instruction to validate the transaction and initiate the transfer of the securities from their client's account to the broker's account. For fixed income securities, there is also a requirement to include the yield rate in all RVP/DVP settlement instructions to improve the matching services.

The broker-custodian settlement process is controlled by the custodian. For sales transactions, securities are transferred within MCDR upon transmission of a Free Delivery Order (FDO) from the custodian's client's account, to the client's account under the executing broker. The custodian only sends the FDO upon receipt of confirmation that the broker has deposited funds by 2.00pm SD-1. The custodian transfers the securities to the client's account at the selling broker via FDO by 6.00pm SD-1. If securities that have been sold are not in this account by this time, the broker-broker DVP settlement will require the intervention of the Settlement Guarantee Fund to complete settlement (see Liquidity Risk). MCDR processes FDOs in 3 batches at 10.00am, 12.00pm, 2.00pm and 6.00pm.

For purchase transactions for foreign investors, brokers' must fund their accounts with their settlement bank in advance of receiving the funds on SD from the custodian. The broker initiates a FDO by book entry on SD to the custodian, following receipt of the underlying securities in the 2.30am inter-broker settlement processing by MCDR. The custodian pays the broker upon receipt of securities, via account transfer before the close of the funds transfer system at 4.30pm on SD.

OTC Transactions

On 1 July 2002, the Egyptian market implemented an OTC trading procedure that required the involvement of a licensed local broker. The processing of OTC instructions is executed using a special instruction form approved by the exchange. The clearing and settlement process is identical to that of listed shares, that is via MCDR to ensure proper adherence to the rules and regulations, such as identification of customer, assuring ownership rights and eligibility of the shares.

Free of Payment Transactions

The MCDR system is open for FOP transfers 24 hours a day, 7 days a week. The system will not accept FDOs only during the daily settlement batches.

Cash

On-Exchange Transactions - T+2 settlement

Brokers are not eligible to open accounts at CBE, so three accounts are opened at one of the eight clearing banks, either Banque Misr, Misr Iran Development Bank, Arab African International Bank, Piraeus Bank, Ahly United Bank, Commercial International Bank (CIB), BNP Paribas or the National Bank of Egypt (NBE). These three accounts are a Current Account (for the broker), a Settlement Account (for settlement in MCDR), and a Credit Account (for transfer of funds between the broker and their client).

MCDR nets cash obligations amongst broker counterparties. For payments between counterparties utilising the same settlement bank, MCDR instructs the settlement banks at 8.00am on SD to pass debit/credit entries to the brokers' cash accounts via intermediary accounts opened by MCDR at each of the settlement banks. This process is completed around 8.30am SD.

MCDR also sends net cash settlement instructions to CBE via manually generated SWIFT MT202 (General Financial Institution Transfer) instructions to settle positions amongst the clearing banks. If there are sufficient funds (the sum of the balance in settlement account and any available liquidity generated through credit extension) for the payment to be settled, it will be settled immediately.

Broker-to-Custodian Settlement

Funds settlement for broker-custodian settlement is outside of MCDR's operational scope and is under the control of the custodian. Brokers typically maintain accounts at the custodian their clients use; hence, settlement is via inter-account transfer at the custodian.

For purchase transactions, the custodian initiates payment to the broker once the broker has delivered on the securities (via FDO) they have received in the 2.30am SD settlement batch. Custodians should pay brokers prior to the close of the payment system at 4.30pm SD. For sales transactions, brokers must pay custodians prior to the custodian delivering securities via FDO on SD-1. Brokers can pay between 8.00am and 6.00pm on SD-1, and can receive securities thereafter between 8am and 6pm.

Asset Commitment Periods

Asset commitment periods vary depending upon the transaction and transacting counterparty, specifically whether it is a market-side (i.e. inter-broker) or client-side (broker-custodian) settlement, and whether the instructing client is a local or a foreign institution. Foreign client business makes up about 20% of settlement by value, local client business about 80%.

For market-side settlements, buying brokers are expected to pre-fund their account at their settlement bank by 2.00pm on SD-1 and normally receive compensation in their account at 8.30am on SD through MCDR. Foreign clients will not fund the broker overnight, so this generates a minimum asset commitment period of 18.5 hours for the broker. However, local clients must fund the broker prior to 2.00pm SD-1, hence brokers suffer no asset commitment risk with the local client.

For client-side settlements, custodians control the settlement timing with the broker, not permitting release of client securities/funds until confirmation of delivery of countervalue from the broker has been received. Brokers therefore suffer variable asset commitment periods depending on the timing gap between the delivery to and from the custodian but is on average around 40mins. For foreign clients, there is no asset commitment risk on purchases since securities will be received before payment is made to the broker. However for sales, the requirement to block securities at client level upon execution of the trade on the EGX means that asset commitment risk runs from trade execution until payment from the broker on T+1. Depending on what time the trade is executed, this could be between 24-28hrs.

Local investors do, however, have asset commitment risk exposure on both purchases and sales. Since they must pre-fund the broker for a purchase transaction, the exposure on buy transactions is around 12.5hrs (2pm SD-1 to 2.30am SD (receipt of securities)), while on sell transactions it is between 42-46hrs (between trade execution on TD and 8.30am T+2).

Irrevocability

Brokers have an irrevocable commitment to transfer assets by the relevant securities and cash deadline (6.00pm SD-1 and 2.00pm SD-1 respectively) where they have provided matched settlement instructions to MCDR.

According to Art. 12 of the Executive Regulations of Law 93 of 2000, 'If a court ruling is issued stating the bankruptcy of one of the participants, the company shall make the clearing and settlement for the transactions the participant made before the court ruling was issued even if the related procedures extended after the ruling is issued.' This ensures that transactions executed prior to default declaration are still settled, unless the EFSA decides to cancel the transactions.

Finality

There are 48 articles in the Law and Executive Regulations which contribute to defining finality in the Egyptian settlement system. Securities 'under settlement' in the overnight process are still under the legal possession of the seller until the point of settlement where ownership transferred (around 2.30am SD). Cash payments are irrevocable at 2.00pm on SD-1 and considered legally final when CBE receives the MCDR SWIFT instruction to transfer cash at 8.00am on SD when transfers are made across the clearing bank accounts at the CBE. Legal finality can be provided to the cash transfers pending in the CBE due to CBE's commitment to guarantee all payments through its system. However, practical finality on interbank cash clearing is at 8.30am SD.

The EFSA has the ability to reverse a transaction in the event of misconduct by a brokerage firm or for the use of inside information. In such a case the counterparty responsible for the reverse is legally required to return any assets previously confirmed as settled. MCDR would enter counter-transactions in the system in such an event.

Asset Commitment Risk - Key Indicators			
<i>Irrevocable commitment to the processing cycle</i>			
	<i>Transaction Type</i>	<i>Start</i>	<i>Finish</i>
Securities	Sale: Foreign/Local Investor	10.30am – 2.30pm TD	2.30am T+2

Cash	Market side: Broker (foreign client)	2.00pm T+1	8.30am T+2
	Client side: Local Investor	2.00pm T+1	8.30am T+2

Comments (i.e., on pre-funding and irrevocability)

Local investors pre-fund purchases to their broker on SD-1. Non-resident investors, through their custodians, typically do not pay for their purchases until stock has been delivered on SD. Purchasing brokers end up funding their clients purchases from 2pm SD-1 until they deliver securities to the client (via the custodian) on SD. Brokers pay the funds to custodians acting for foreign investors prior to the broker to broker settlement taking place within MCDR.

Securities processing cycle outlined

MCDR operates one overnight batch which is completed at 2.30am on SD. Sellers have to move securities to their selling broker by close of business on SD-1 (6.00pm) for placement into the overnight batch.

MCDR provides linked near-simultaneous DVP between brokers. Settlements between brokers and custodians are on a non-DVP basis with securities moving via bookkeepers' accounts through a Free Delivery Order (FDO) within MCDR and cash moving outside the settlement system. The interdependence of the movements of securities and cash is controlled by the custodian.

The settlement system is open for Free Delivery Orders (FDOs) 24 hours 7 days.

Cash processing cycle outlined

Brokers are required to open three cash accounts at one of the eight designated cash settlement banks, but typically hold accounts at each of the settlement banks to facilitate cash settlement with custodians. MCDR nets brokers cash settlements and settlement processing is contingent on brokers' accounts with their settlement banks being sufficiently funded prior to the overnight securities processing. MCDR instructs the settlement banks to move funds between brokers' accounts after it moves securities across bookkeepers' accounts. Cash movements between brokers and custodians are independent of the settlement system and take place on a bilateral basis by inter-account transfer at one of the eight settlement banks.

Liquidity Risk

Summary

Local buyers suffer liquidity risk caused by the need to pre-fund their local broker by SD-1, whereas foreign investors suffer no such risk. However, this shifts the liquidity burden to the local brokers who typically need to source overnight liquidity facilities from local banks. Sellers suffer liquidity risk exposure by the requirement for securities to be sold to be blocked on the selling client's account at the custodian from TD until transfer to the broker's account by 6pm SD-1 (T+1 for liquid securities). Netting is only provided for cash, resulting in high liquidity demands on securities, particularly given the disjuncture between client-side and market-side settlement timings.

The system and framework for short selling and securities lending was introduced in the market on 24 April 2008, however the service is yet to be utilised because the EFSA is yet to approve the introduction of shortselling and sign off on the framework. Loans from this pool will be provided to cover positions from the short selling scheme only (i.e. not 'technical shorts'). The SGF runs a securities lending mechanism to selling brokers left short by non-delivery from their clients ('technical short').

The Settlement Guarantee Fund (SGF) acts as a risk intermediary penalising late settlers and backing settlement through buy-ins on SD. The SGF is proactive in intervening prior to SD, but has only had to do so for less than 2% of transactions (by value) in 2009. Its interventions have resulted in a 100% settlement rate between July 2008 and July 2009.

Processing Model

For settlements between brokers, MCDR employs BIS Model 2 settlement, with the gross transfer of securities on a book-entry basis, followed almost immediately by the settlement of the cash on a net basis. Settlements between brokers and custodians are on a non-DVP trade-for-trade basis. The local broker typically funds the purchases for foreign clients from 2pm SD-1 until receipt of funds from the local custodian (from the investor's account) after receipt of stock from the broker on SD. For foreign clients, the broker typically funds this overnight liquidity by borrowing from its local bank. Local clients must pre-fund their broker by 2pm SD-1. Market volumes and size of trades are at present within reasonable levels so as not to put pressure on cash liquidity levels, and brokers recoup the costs of these bank credit lines for foreign client funding through their client commissions.

Fails Management

A Settlement Guarantee Fund (SGF) has been established, operated by MCDR to provide additional protection within the market and also to enhance liquidity from forced settlement by either buying or selling in the market in the event that a participant fails to perform by SD. Between July 2008 and July 2009, the SGF had to intervene in 1.77% of transactions (by value) split by 1.75% sales and 0.02% purchases.

Fails management procedures can be summarised as follows:

Penalties - The SGF rule states that the defaulting broker will be penalised 0.5% (0.005) of the transaction value for each day a transaction remains outstanding, limited to the amount of the participant's contribution to the SGF. The defaulting broker begins paying the fine on SD+1 (fine covers SD and SD+1 value unsettled), would be fined again on SD+2 before 11.00am, and would be fined once more after 1.00am SD on the unsettled balance.

Securities Lending - MCDR stated that its 'virtual' securities lending arrangement was discontinued in July 2007. Since this time, MCDR has had informal arrangements with some government bodies to borrow securities from their portfolios, for up to 2 days, on an unsecured basis, to cover technical shorts in the market. The value of lending for the period 1 July 2008- to 30 June 2009 was EGP 8.13bn (USD 3.92bn) from 176,390 transactions.

Buy-ins - For trades that remain unsettled by 11.00am SD+2, the SGF will activate the buy-in process. The failing broker will be responsible for any losses due to price differences and the payment of any additional costs associated with the buy-in. These charges, as well as any penalty levied, will be recovered from the members' contribution to the SGF. Failure on the part of a broker to settle the entirety of its obligations will have a negative impact on its rating and will increase the amount of the contribution it would otherwise be making to the SGF. Repeated offences could result in the suspension of the broker. There have been no buy-ins executed in the last three years.

Participants needing to increase their contribution after each recalculation will be given 5 days grace period to make any required top up. If payment is not made after this period, MCDR will start charging a penalty of 0.5% (fifty basis points) on the outstanding amount per day until payment is received.

Credit Facilities

MCDR does not provide credit to participants. Foreign investors are allowed technical EGP overdrafts for a maximum of 7 days.

Brokers who require overnight credit to fund the settlement of purchase transactions undertaken for non-residents do so through facilities with commercial banks. Currently, there is no active interbank repo market that operates in Egypt to provide short-term liquidity between banks.

The CBE has intraday loan facilities available to banks, including repo operations. In the event a clearing bank was temporarily

short of liquidity, the CBE can extend credit facilities to the bank until end of day

MCDR handles the administration of pledges between its participants and banks through a centralised service. No substitution of collateral is permitted without de-pledging and re-pledging, a process that takes one day. Once all correct pledge documents and forms are submitted to MCDR, the pledge or de-pledge process takes place within one working day within MCDR's system depending on the FDO batch settlements that take place three times a day prior the midnight settlement batch.

Typically, a 40% haircut on collateral is taken against the value of the loan, although this is at the bank's (the pledges) discretion. The pledgees are also responsible for marking-to-market and calling additional margins. Only domestic securities are available for pledge.

Securities Lending

MCDR implemented the systems for a centralised securities borrowing and lending (SBL) facility to support short selling on 24 April 2008. However, as of July 2008, the service had not been utilised since the EFSA is waiting for general market conditions to improve before allowing short selling to commence.

As such, the following should be noted as a guide to how the service will operate when the pool is finalised. The facility will be implemented in two phases:

Phase I: SBL will include securities that follow the same day trading mechanism.

Phase II: SBL facility will be extended to all listed securities.

MCDR will act as principal for both lenders and borrowers. Forty-seven (47) securities will be eligible for short-selling/securities lending, including two USD-denominated securities. The lending pool will be open for all and is free of charge. Lending will be optional but borrowing will be mandatory for all brokers intentionally short-selling.

In case of short-selling on a T+2 transaction, the selling broker is obliged to borrow the missing amount, versus a cash collateral of 125% of the actual sold shares' value. The premium over the actual value is to cover price fluctuations (since EGX listed securities are limited to 20% price variation per day) and the actual premium will be announced two days prior to being applicable. Collateral will be marked-to-market on a daily basis, and margin calls will be processed in the overnight cycle. To avoid margin calls, borrowers will be advised to fund a 50% haircut rather than the minimum 25% required.

Collateral will be managed and invested by MCDR in cash deposits, low-risk securities and in the currency markets. Returns on investments will be credited to lenders on a quarterly basis, after deducting MCDR commissions of 30%. This will be paid instead of a standard lending fee.

A lending agreement should be signed between lenders and their local custodians, before lenders offer any securities. Prior to executing a short sale, a broker will have to request a loan to cover the position which is blocked in the same way as current cash transactions. Hence, short securities positions will be identified on trade execution (through attempting to block securities for sale on the client's account, and obviously failing) and loans will settle on the standard T+2 cycle. There is no maximum period for borrowing, buy in only takes place if the lender wants to get back his securities and they are not available in the pool as they are borrowed. The scenario of the best price available on the trading session applies. The lender is entitled to all corporate actions related to the lent shares except voting powers. Pledged shares can be offered for lending provided that the pledge agreement includes the creditor's approval on lending pledged shares.

Daily "Mark-to-Market" monitoring will be conducted by MCDR, where if the closing price exceeds the actual trade price, the borrowing broker has to increase the collateral with the price difference on T+1.

Lenders are able to sell lent shares when needed with prior notification to MCDR on the same day. MCDR will then obtain the securities through another lender.

In cases where shares are unavailable to be lent, the buying broker will be approached to buy borrowed shares. If the buying broker is not able to buy the borrowed shares, MCDR will pay the lender the shares' value, based on the highest price of the trading session the lender wanted to sell the lent shares on. The client may also decide to continue lending the shares.

The lender may choose to recall shares from the lending pool through a request submitted to the lender's local custodian. Where the lending participant recalls its shares for any reason other than selling those shares and the shares were not actually lent, MCDR will provide the shares on the same business day. If shares had already been lent, the client request will be met either through a new lending transaction or actual purchase of the lent quantity from the market. If MCDR does not return the requested shares within ten days, the lender can decide between being paid the value of the lent shares as of the closing price of the period, or continue the lending process.

Returned borrowed shares are placed back in the lending pool and cash collateral is credited to the selling broker's account held with one of the commercial banks.

The loan allocation and income appropriation system will be set in proportion to the available quantity offered by each lender.

According to MCDR, the traditional securities lending scheme will only be used in conjunction with the short selling regime.

Registration Model

For all shares that have been dematerialised into MCDR, records of ownership are maintained by the MCDR as central registrar. Law No. 93 of year 2000 obliged MCDR to hold shareholders' records approved by the EFSA on behalf of the issuing companies. It has become the only record approved by the EFSA.

Assets are registered at the MCDR in the beneficial owner's name and are held in individual beneficial owner accounts within the local custodian's umbrella account (nominee). Each beneficial owner is assigned a unique Unified Code. The regulation governing nominee accounts obligates the account holders to disclose the beneficial owners under these accounts. In addition, MCDR ensures through its rules and internal controls that all beneficial owners under nominee accounts are disclosed by custodians.

Re-registration occurs instantaneously upon settlement.

Deposited securities

As of October 2009, 1,201 issues were eligible for deposit to the MCDR, of which 1,037 are fully immobilised. The eligible issues cover 99% of the traded securities, in both equities and fixed income. Of these, 98.24% of EGP denominated shares, 94.6% of USD denominated shares, 97% of EGP denominated bonds, 100% of USD denominated bonds, and 96% of mutual fund certificates, are held in custody at MCDR. All securities not immobilised in MCDR cannot be traded on EGX and forfeit their beneficial rights.

The objective is to have all remaining physical securities immobilised, but this objective has not yet been achieved since some shareholders did not deposit their physical scrip when the company announced it would immobilise. Full immobilisation is unlikely to be completed for some time given the nature of the remaining stocks and the difficulty in providing documentation of ownership transfer from the original owners of the stocks. As a consequence, MCDR must hold onto the script until it holds all shares, at which time it will replace it with a Jumbo certificate. A Jumbo certificate is normally a certificate from the company that issued the securities with a list of the investors who purchased the securities. At this stage, MCDR continues to hold the original certificates even after an issue has been immobilised with a jumbo certificate, although there is no legal or regulatory reason to do so. A committee is investigating the steps required to dematerialise all 100% immobilised securities.

As mandated by Art 3. of the Executive Regulations of the Depository Law No. 93 of the year 2000 and its executive regulation, all newly-issued securities have to be issued in book entry form only represented by a jumbo certificate held by MCDR.

Deposit and Withdrawal of securities

Since the enactment of the Central Depository Law No. 93 of 2000 (specifically Art. 12), no physical certificates can be withdrawn, except under extraordinary circumstances stipulated by decree of the Chairman of the EFSA. Should a security be withdrawn, it cannot be traded on the exchange and the owner will not be able to exercise their rights on the security.

MCDR still processes securities deposits on a daily basis though the volume is decreasing. Certificates go through double verification processes in separate MCDR departments and are stamped for authenticity by the issuer, depositing custodian and finally MCDR. The deposit process usually takes one day. Deposited securities are retained in a temporary vault at MCDR's main site, and transferred in bulk to the main vault site outside of Cairo. Should securities certificates turn out to be forged, the original depositor is responsible to make MCDR whole in the event of a claim against them.

Liquidity Risk - Key Indicators

Settlement Models

BIS Model 2 between brokers: Gross settlement of securities followed by net settlement of cash.

Modified BIS Model 1 between brokers and custodians: Gross settlement of securities and cash, not on a simultaneous basis.

Processing Periods

Overnight (by batch)

Yes

End of day

No

Batch daylight processing

Yes

Real-time and on-line

No

Other

No

Comments

Batch daylight processing: FDO deliveries take place between 10.00am, 12.00pm, 2.00pm and 6.00pm.

*Credit Facilities***Central bank money used to settle cash elements of trades**

Yes

Credit facilities provided by the CSD

No

Credit facilities provided by commercial banks

Yes

Comments

*

*Stock Lending***Is stock lending permitted in the market**

Yes

Are stock lending facilities provided by the CSD?

Planned

Are stock lending facilities provided by commercial banks/brokers?

No

Comments

The system and framework for lending to support the short-selling regime are in place, but the lending pool is still being created and final sign-off from the EFSA is still pending.

*Transfer of Securities***Are securities deliveries achieved by book-entry?**

Yes

*Registration of Securities***Period of time required to register a holding?**

Immediate for positions held within MCDR, and within one day for physical securities being deposited to the system.

Comments

MCDR is the central registrar for the Egyptian market.

Counterparty Risk

Summary

The blocking of securities positions on trade execution mitigates against delivery failures, and all transactions executed before the default of the counterparty must be settled. Inter-broker (market-side) settlements are conducted on an inter-dependent DVP basis with payment in central bank funds. Broker-custodian (client-side) settlement is controlled by the custodian to ensure the custodian (and hence their local/foreign client) receives DVP, but the local broker does not. However, the length of the broker's risk exposure is typically short (~40mins), but is dependent on the processing efficiency of the custodian. Since, all broker activity in the market is agency based (i.e. they are not taking proprietary positions), the degree of counterparty risk exposure that can be built up by a broker is relatively low.

Nevertheless, the Settlement Guarantee Fund (SGF) monitors the counterparty risk of brokers, and attempts to ensure that their open positions are covered sufficiently by their contributions to the Fund. Payments are protected by the CBE, and counterparty risk is dissipated by having multiple clearing banks (8). However, average credit ratings for Egyptian banks are around the BB+ mark. The CBE requires all local banks to hold a 14% reserve at the CBE. The SGF does not guarantee settlement between custodians and brokers, and there is currently no central counterparty in the market.

Participant Counterparty Risk

Settlements between brokers are subject to an interdependent DVP arrangement with cash and securities being exchanged in a single operation, which minimises counterparty exposure between them. These settlements are also backed by the SGF.

The automatic pre-sale blocking of shares in the client's account via the MCDR system (electronically linked to the EGX trading system) is a mandatory procedure. The sale order is executed only if it complies with the contents of the blocking request(s). Counterparty Risk exposure is therefore lessened for sales, as brokers are immediately aware upon trade execution that the client has unencumbered stock available at the depository. However, these securities still have to be transferred from the client to the brokers account prior to 6pm SD-1 for the inter-broker settlement to be successfully concluded.

Broker cash settlements are via the CBE. MCDR settles securities against confirmation that the broker has sufficient funds with their settlement bank to settle their net debit obligations.

The nature of local broker activity in the market is almost exclusively agency based, and brokers do not generally trade on their own account. Hence, the counterparty risk exposure to a broker default is quite small, and is limited to the period within the settlement process when brokers are due to deliver to a counterparty broker. More problematic, would be a case where a foreign client has received overnight funding from a local broker, and the foreign client were to default before reimbursing the broker. In cases where the client is the defaulting party, they will be held liable for compensating the brokerage company with any resulting charges or penalties, as well as the penalties that are applied by the Securities Guarantee Fund (SGF) on the brokerage company as result of late settlement caused by the client due to shortage of funds or securities.

The SGF only needs to cover the price variation of the net cash obligation (a maximum 20% according to limits on price variation under EGX rules), hence the level of exposure to broker default is lessened.

The risk of bank default is monitored by the CBE. CBE rules dictate that banks must maintain a 14% capital reserve in their CBE accounts at all times. Banks may utilise this reserve to clear their settlement obligations for the day. The CBE guarantees the settlement and finality of payments within its system. In the event of a liquidity shortfall in a clearing bank, the CBE can step in to provide intraday loans. However, rules of how a clearing bank default would be handled do not appear to be formally defined in terms of how the payments would be guaranteed or handled. The S&P sovereign risk rating for Egypt is BB+ and many of the local clearing banks are around this rating grade.

Settlements between brokers and custodians take place outside of MCDR by the use of FOP deliveries (FDOs) and separate payments. These settlements are not protected by MCDR's rules, regulations or the Settlement Guarantee Fund. Custodians limit broker Counterparty Risk to foreign investors by not releasing sold securities until payment has been received from the broker and not paying for bought securities until they have been delivered to their accounts in MCDR. Foreign investors could be held responsible if a delay occurs in delivery of sold securities.

Risk Containment Model

It is mandatory for licensed brokers and MCDR participants (clearing members, mutual funds, pension funds, banks and any other entity that desire to become a direct clearing member) to contribute to the Settlement Guarantee Fund, through which MCDR guarantees settlement between brokers. This Fund does not guarantee the client side settlements between the custodian and the broker.

The requirement to block securities on the client's account at MCDR before the broker executes the transaction on EGX provides some protection. The CBE guarantees all payments made through its systems.

Delivery Versus Payment

Broker-broker settlement is on an interdependent but non-simultaneous basis, while broker-custodian settlement is not on a

centralised DVP basis. Custodians control this settlement process by not releasing client's securities or cash until receipt of the countervalue from the broker. Hence, custodians can argue that they receive DVP from the broker on behalf of their client, but local brokers do not receive DVP and suffer counterparty risk exposure against the custodian deliveries.

Only one-third of settlement processing that MCDR conducts is on a DVP basis (i.e. the inter-broker leg) because of the settlement model employed. However, even for this inter-broker DVP process MCDR does not receive a cash settlement confirmation direct from the CBE, but via the clearing banks. The MCDR is able to confidently transfer securities prior to cash settlement confirmation, since the CBE guarantees all payments instructed through its systems.

Role of Central Counterparty (CCP)

While MCDR provides a Settlement Guarantee Fund for settlement assurance of exchange transactions, it does not act as central counterparty to settlements.

Participant Criteria

Membership is given to licensed custodians (bookkeepers), mutual funds, pension funds, clearing members and any other entity to which MCDR provides services. Settlement participants as at December 2008 consisted of: 157 brokers, 41 custodians, 32 direct settlement participants, and 14 primary dealers (1%).

While it is principally banks that serve the role of a custodian (bookkeeper), other entities can as well after fulfilling the EFSA requirements. The CMA Decree 7 (of the former Capital Markets Authority), which introduced the licensing requirement for custodians (bookkeepers), prohibited local brokers from providing custodian activities from 13 January 2002, but they can re-apply for the custodian license after fulfilling the EFSA requirements.

Brokers must fulfil the CMA decree no. 14/2007 on capital adequacy requirements. The methodology used in calculating the minimum net liquid capital requirement is based on a percentage of the company's liabilities and not a fixed amount of money. In this respect, brokers should have net liquid capital above 10% of its total liabilities before operating in Egypt.

Each transaction counterparty i.e. brokers and local custodians, is required to maintain a cash account at one of the eight appointed cash settlement banks, Banque Misr, the National Bank of Egypt, Misr Iran Development Bank, Ahly United Bank, Piraeus Bank – Egypt, CIB Bank, BNP Paribas or Arab African International Bank. The EFSA also sets fit and proper tests and requires technical qualifications and experience of the management.

Other participants in the settlement chain that are not direct members of MCDR are still regulated by EFSA. There are set minimum capital standards according to the type and purpose of the company. The minimum capital required for banks is EGP 250 million (USD 44 million). As of November 2009, there were thirteen brokers that qualified to act as custodians.

Participant Concentration

For the year 2009 until October, the percentage of transactions by value settled by the top 10% of participants was 65.89% (up from 40.42% in 2008 and back to similar levels as of 2007). For the same period, the largest participant was settling 6.63% (similar to 2008 but down from 10.52% in 2007). which is a low level of counterparty risk concentration in a single market participant by global standards.

Financial Compliance/Surveillance

MCDR monitors participants' settlement positions and any fails against their contributions to the settlement guarantee fund. If required, additional contributions can be called as a result of this monitoring.

Guarantee Funds

MCDR operates a Settlement Guarantee Fund (SGF) through a Settlement Guarantee Fund Committee, which is made up of representatives from: EFSA (one representative), MCDR (two representatives), the stock exchanges (one representative), brokers (two representatives) and custodians (one representative) and headed by one of the two MCDR representatives.

SGF is an operating unit within MCDR. It was established to guarantee financial and securities settlement obligations of brokers and therefore it covers the failure of a broker participant to deliver securities on settlement date or the failure of a buying broker to deliver funds to cover securities purchased.

Every quarter, the SGF calculates the minimum SGF capital required for the quarter ahead (based on the estimated maximum exposure), as follows: the average daily transaction value over three months x maximum potential limit for outstanding settlement days (i.e., 4) x market risk factor (35%). The minimum size of the Fund is the higher of the latest quarterly calculation and the calculation for the preceding four quarters. As of June 2009, the value of the SGF was EGP 250 million (~USD 45 million), of which EGP 179 million are member contributions and EGP 71 million are accumulated reserves. The fund is invested in money market instruments by law, with EGP 1 million kept in cash for immediate liquidity. MCDR invests the balances of SGF and the Investor Protection Fund (IPF) through its Investments Department.

Members' contributions are calculated as follows:

- Each participant's average purchase trading side over the last quarter multiplied by the risk factor of that participant.
- If the amount falls short of a broker's fails then additional contributions can be called.

Participants are assigned a risk factor of A (100%), B (125%), C (150%) or D (200%), based on their previous settlement performance. All broker participants are in category A.

Loss sharing is part of the new depository and central registry Law No. 93 of 2000, and can be applied to SGF. If a defaulting participant's contribution was insufficient to cover their outstanding obligations, the SGF may approach the remaining members of the fund to utilise their contributions. Each member's contribution is 'owned' by the contributor, but the contribution is not paid back unless the contributor's trading licence is cancelled or revoked.

The SGF also has an arrangement with several local banks that would be prepared to contribute an additional EGP 400m guarantee to resolve on-exchange settlement obligations in the event of a major counterparty default.

Counterparty Risk - Key indicators
Capacity of CSD Agent
Surveillance of participants by CSD Daily monitoring of brokers settlement positions against SGF contributions.
Settlement assurance Yes
Participation criteria Yes
Minimum Capital (local currency) Banks - EGP 250 million Brokers - EGP 10 million and availability of 10 branches. For a broker to act as a custodian, their net paid in capital should not be less than EGP 10 million according to the EFSA requirements.
Size of Guarantee Fund - (Name, local currency, Euro and USD - (millions)) EGP 250 million (USD 45 million)
Does the CSD act as a central counterparty No
Participant Concentration (Local Currency Millions)
Value of transactions in the market by top 10% of participants 65.89% as at October 2009
Volume of transactions by top 10% of participants N/A
Volume of largest individual participant 6.63% by value as at October 2009

Asset Servicing Risk

Summary

Issuers are obliged by MCDR general terms and conditions to supply MCDR with all corporate actions information. The process for uploading information into MCDR's system and passing this to its participants requires manual intervention. MCDR accepts no responsibility for the accuracy, completeness and timeliness of this information, unless it is due to a transcription error on MCDR's part. Corporate action information processing is still reliant on manual procedures. MCDR does not accept responsibility for missed corporate action deadlines where it has not received the necessary information from the issuer. MCDR has established a financial provision of 0.35% of total dividend coupons payable to guard against claims made against them as paying agent. MCDR does provide electronic proxy voting services, but this is not yet being widely used.

Information processing

Article 33 of the Executive Regulations of Law 95/1992 requires that the issuer publish capital increase event information in two daily, domestic (Arabic) newspapers which are in wide circulation. Issuers are obliged to provide MCDR with all relevant corporate action information according to Rules 89 and 92 of their General Rules and Terms. This is usually in written (letter) form, but once the electronic signature project is completed, it is hoped that more information will be received in electronic form. Currently, therefore, the processing of corporate actions information requires significant manual intervention. Notifications and other relevant information required for a corporate event are reviewed and checked by two separate individuals before being entered into the system.

Issuers must notify MCDR of cash dividend instructions at least 10 days before pay date, and 15 days prior to pay date for other forms of corporate actions. If notification is not received within the prescribed timeframe, MCDR can suspend services to the issuer, and should notify the EGX and EFSA (by written letter) to take further action.

MCDR can distribute event information to the market upon issuer request. MCDR does not provide a corporate actions information service via SWIFT, but shareholders can receive cash entitlements via SWIFT. MCDR does not validate information as it is sourced directly from the issuer.

MCDR will inform participants of all corporate actions, mandatory and optional, via several mechanisms including its proprietary electronic system, email, fax, telephone and post on the day of receipt. In addition, the depository will issue confirmations of final entitlements for each corporate action event and provide the full prospectus for the event upon request.

MCDR does not accept any responsibility for the accuracy, completeness and timeliness of corporate actions notifications to its participants that are beyond its direct control. MCDR have established internal procedures which mandate same day turnaround of received notifications to participants. If MCDR discovers information relating to corporate events that has not been published by the issuer, MCDR contacts the issuer to seek formal notification. MCDR provides issuers with shareholder lists on request, on Record Date, and at the time of the company meeting either in electronic form (via intranet) or on CD-ROM. It takes, on average, 2 working days (from the time of the issuer's request) for MCDR to extract and deliver the shareholder register. No later than 15 days from the General Assembly meeting date, the CSD should receive a letter from the issuer that includes the decision of the shareholders for the proposed Corporate Action. If issuer notification is not received by this deadline, the issuer can be fined, though this requires EFSA approval.

Instruction processing

By law, MCDR is required to execute all corporate actions decided by the General Assembly for those securities registered within the depository. All securities listed on an Egyptian exchange or the object of a public offering must be deposited in the MCDR.

Article 4 of the Central Registry Law 93/2000 stipulates ownership of securities cannot be transferred prior to settlement, which implies that corporate entitlements are based on settled positions. However, historically the market practice adopted by MCDR has calculated entitlements based on trade date positions. MCDR has an entitlement tracking system that allows them to monitor trading activity across corporate action periods, and ensure that the correct beneficiary receives the entitlement. Hence, there are very few (if any) claims in the market.

All instructions are required to be routed through MCDR. The majority of instructions for voluntary corporate actions from retail clients are provided by physically delivered documentation. This information, as well as details of some static information in relation to, for example dividend payments, is re-keyed into the system. Instructions from wholesale clients are amalgamated at broker and custodian level, and submitted by CD-ROM. These instructions are automatically uploaded into MCDR's system, and can thence be executed without any further human intervention (provided the instructions are complete and correctly formatted). Instructions must be submitted at beneficial owner level, even where participants operate omnibus accounts. MCDR will follow up with clients where an instruction is incorrect or inaccurate. However, when an instruction has not been received close to the deadline, MCDR will not advise the participant. Claims are not automatically processed through to receipt of outstanding entitlements because MCDR keeps records of entitlements of beneficial owners and is considered as an irrevocable source by law, although, it will support claims if necessary.

By Art. 32 of the Executive regulations of Law 93/2000, entitlements must be funded in the MCDR's cash distribution account by

the issuer at least 3 working days prior to pay date. However, if issuers are unable to fund the full value of the dividend 3 days prior to pay date, MCDR can arrange facilities enabling the issuer to pay in instalments provided the full balance is paid prior to PD. If the full balance is not paid prior to PD, MCDR provides a written warning to the issuer. During 2009, 98% of payments from issuers were funded to MCDR 3 days prior to PD. On pay date, MCDR directly distributes cash dividends to beneficial owner accounts through one of the following services and upon the shareholder's instruction:

- Direct transfer of cash dividends to shareholders' bank accounts (99% of EGP payments in 2009)
- Issue of nominal cheques for shareholders.
- Direct distribution of cash dividends to shareholders through the 47 eligible bank branches located throughout Egypt, where shareholders can go to one of these branches to collect their cash dividends. (0.5% of EGP payments in 2009)
- Delivering cash dividends to shareholders through the home delivery service provided by MCDR in association with Citibank.

All dividend payments are remitted to MCDR by the issuer, including for securities not deposited at MCDR. If the security is deposited, MCDR will immediately distribute it to the beneficial holder. However, if the security is not deposited within 5 years of the dividend pay date, MCDR will return the funds to the issuer.

The peak corporate actions and dividends seasons are in April-May and November-December. Cash dividends must be distributed no later than one month from the General Assembly meeting date. Between 50% and 60% of payments are completed on Pay Date (PD), 5%-10% on PD+1, 5%-10% on PD+2, and 20%-40% on PD+3 or thereafter. In 2009, 99% of EGP denominated dividends were paid by direct bank transfer to the participant's bank account with the remaining 1% paid directly in cash at one of the 47 bank branches around the country. 99.5% of USD denominated dividends were paid by cheque, with 0.5% collected directly from a designated bank branch. Where dividends are distributed through one of these bank branches, dividends are paid against an authorised payments list supplied by MCDR Head Office. All payments are handled by the bank staff, and payment orders generated by MCDR are reviewed against cash payment receipts from the banks on a daily basis.

Foreign investors have an opportunity to take advantage of the repatriation process applied in the Egyptian market and implemented by MCDR by which foreign investors can receive their dividends proceeds in their own currency and which can be deposited in their bank account at any bank throughout the world. MCDR recognises the difference between registered owners (direct participants) and beneficial owners, allowing entitlements to be directly distributed to the beneficial owners. Registered owners (normally custodian banks) must allow beneficial owners (their clients) to exercise all rights pertaining to their securities, and abide by their execution instructions.

MCDR accepts responsibility for any direct losses arising from missed corporate action deadlines where instructions have been received within published deadlines. The depository will confirm that participants' instructions have been executed within one day of receipt. Cash distributions are paid in same day funds on an actual rather than contractual income basis. MCDR has never missed a payment deadline due to its own fault, and there have been no claims against MCDR for cash distribution services in the last 3 years.

Proxy Voting

MCDR has designed an electronic proxy voting system but it is not widely used. MCDR will receive a formal request from the issuer stating his interest to carry out the voting processes for his general assembly meeting throughout MCDR. MCDR will prepare a shareholders' list on the designated date, and the list will be posted to the e-voting system on MCDR's website. The investor will login to the site and vote on the different subjects of the meeting, review them and confirm their decisions. MCDR will review the votes that have been submitted on a daily basis, and provide the issuer with all the statistics related to the voting process. On the agreed date, MCDR will deliver the vote results to the issuer.

MCDR will also send full prospectuses and meeting invitations to shareholders (backed by newspaper advertising) upon request by the issuer, MCDR will provide investors with information relating to general meetings. Proxy voting is generally performed directly between the investor or their custodian and the issuer. MCDR is required to attend general meetings by law and from the meetings is provided with a copy of the minutes containing all decisions taken at the meeting. These documents are scanned into MCDR's system and are also retained in physical form for a period of 15 years (as required by law).

Securities positions are frozen no later than 3 days prior to the meeting and are free by the end of the meeting day. This is only applied to shareholders who want to attend the meeting.

Other services

MCDR offers standing instructions to pay away income received from corporate actions and supplies company annual reports on request by participants. In addition, the depository credits corporate actions related to cash or stock entitlements on due date in the event that stock is out on loan on record or ex-date. MCDR does provide additional corporate action services such as stock split, capital restructure, mergers and acquisitions, stock swap, bond redemptions but does not provide tax reclaim services.

Payment Repatriations

Sale proceeds and dividend income may be repatriated through the MCDR automatic repatriation mechanism. The CBE normally allocates sufficient foreign currency to this mechanism.

Although the MCDR currently does not have a specific regulation in place that would establish a particular time limit for repatriation requests through the MCDR automatic repatriation mechanism, the MCDR may refuse to process a repatriation request if it deems that excessive time has elapsed since the receipt of sale proceeds or dividend income. In practice, the time limit for repatriations appears to be 10 days from the transaction settlement date. Delayed repatriation requests refused by the MCDR must be processed directly through the CBE. This will result in significant delays in obtaining foreign currency, as the CBE is currently not making foreign currency available for repatriations outside of the MCDR repatriation mechanism.

Asset Servicing Risk - Key indicators
<i>Information processing</i>
Securities covered Equities, and corporate and government debt.
Information sources used Issuers
Information provided in English Yes
<i>Number of Events during last full year</i>
Dividends 391 in 2008 (308 cash, 83 stock)
Interest & Redemptions 176 (119 bond yield distributions and 57 redemptions) in 2008
Corporate actions 48 (29 splits, 0 stock interchanges, 17 stock delistings and 2 capital reductions) in 2008
Notification via Proprietary electronic, SWIFT, email, fax, telephone and post.
SWIFT message types Yes for both cash settlement with the CBE and cash dividends to both individual and corporate investors.
Notification within Same day
<i>Instruction processing</i>
Use of depository Yes
Settlement on due date Yes
Optional corporate actions supported Yes
Cash account credited Yes
Central paying agent Yes
Entitlements based on Calculated on traded positions, tracked, and then paid on settled positions
<i>Proxy voting services</i>
On-line Yes
Outsourced

No

Elections (Voting)

No

Results reporting

Yes

Proxy voting services comments

MCDR service is available but not widely used.

Financial Risk

Summary

MCDR is well capitalised for an emerging market depository, and has been significantly increasing its capital levels for the last few years. MCDR profitability has consistently increased since the restructuring of the company in late 2005, and despite the recent global economic downturn, MCDR managed to increase profits by a modest 6%. Although the depository operates a not-for-profit model, it has always been operationally profitable, primarily down to substantial interest income .

MCDR has insurance policies in place covering theft, fire, vaults, computer hardware, systemic and operational risk.. Legal claims against the depository are outstanding, but only as co-defendant with other capital market entities (e.g. EFSA, EGX), and MCDR has made provision against the possibility of such claims in its balance sheet. MCDR is obliged by law to pay direct and consequential losses where it is at fault.

Financial and other Resources

Capital Structure

According to the Depository & Registry law no 93 for year 2000, ownership of each participant or related group cannot exceed 5%. The ownership composition is as follows; EGX 5%, Banks 50% and Brokerage firms 45%. The Egyptian government has a minor influence in virtue of its ownership of the stock exchanges. Under the Central Depository Law No 93 of 2000 only local Egyptian licensed members can be shareholders, not foreigners. Any group of companies that have a cross ownership in excess of 20% shall be eligible for the group ownership limitation. Where cross ownership is less than 20%, each participant will be regarded as an individual shareholder. Participants of MCDR can be shareholders.

As of 31 December 2008, MCDR's net capital and reserves were EGP 239.4 million (USD 43.85 million), up 60% from the EGP 149.4 million (USD 26.9 million), recorded in 2007 (which was itself an increase of 42% from the EGP 105.1 million (USD 18.2 million) in 2006)., excluding SGF contributions and income in 2006. Most of this increase came from the increase of issued share capital that had been begun in 2006, when the Board of Directors increased the issued capital of the company from EGP 20 million to EGP 40 million, and the authorised capital to EGP 100 million. In 2007, MCDR increased issued capital to EGP 80 million (financed out of retained earnings) and authorised capital to EGP 250 million. In 2008, MCDR has again increased issued capital from retained earnings to EGP 140 million. The Legal Reserve rose 51.4% from EGP 8.74 million in 2007 to EGP 13.24 million in 2007, and the Retained Earnings rose by 42% from RGP 60.66 million in 2007 to EGP 86.13 million in 2008.

Under international accounting standards, the operations of the depository, central registry and Settlement Guarantee Fund are separately accounted and then consolidated into the overall accounts of MCDR. As such, the consolidated accounts report SGF contributions and special accumulated fund (investment income) as part of MCDR's equity, although it should be noted that SGF contributions or income would not be considered part of MCDR's estate if it were to become insolvent, and the contributions have been more clearly separated on the accounts.

Earnings Performance

Although MCDR is a not-for profit entity, it has been consistently profitable in recent years. The net profit for 2008 was EGP 89.97 million (USD 16.5 million) excluding profits from the SGF, up 6% from the EGP 84.86 million (USD 15.28 million) in 2007.

Total revenue for 2008 was EGP 264.0 million (USD 48.37 million), up 34% from EGP 197.12 million (USD 35.49 million) in 2007. Income derived from interest earned on the float for dividends payments (funded 3 days in advance) accounted for approximately 35% (30% in 2007 and 37% in 2006) of net revenue and 87% (40% in 2007 and 50% in 2006) of the company's profit for the year ended 31 December, 2008. MCDR's reliance on this income has both insulated it from much of the effect of decreased transaction volumes on the EGX, but leaves them highly dependent on the continued legal requirement for issues to pre-fund income distributions to them 3 days prior to Pay Date (PD) (since this is the bulk of the available investment capital).

MCDR carried out a full review of departmental costs and revenues in 2007, and underwent a fee structure review. MCDR splits its fee structure by Central Depository and Central Registry fees. The Central Depository fee structure blends charges for participation (initial and annual), clearing and settlement, custody and ancillary services, while the Central Registry fees are based around issuer services. MCDR currently operates a number of services for participants free of charge (e.g. income distribution) although after the fee review in 2007, the number of free services has halved (300 to 150). Any changes in pricing must be approved by the MCDR Board, the EFSA and the Minister of Investment.

Guarantee Funds (Central Counterparty Funds Only)

There is no central counterparty in the Egyptian market, although there are early plans to develop one within the next 2-3 years. MCDR is one of the entities that have shown an interest in taking on the role.

MCDR is not permitted to utilise funds from the SGF for additional liquidity or capital since the funds of the SGF are legally participants' funds and not MCDR assets.

See Counterparty Risk for a discussion of the Settlement Guarantee Fund.

Access to Credit

MCDR can call on additional capital from its owners and is permitted to borrow money. However, MCDR currently has no debt, and has no committed credit lines in place.

Insurance

MCDR carries several insurance policies with the Egyptian Saudi Insurance House. Its main office and branches are covered by extensive buildings and contents insurance to a value of EGP 46.5m (USD 8.7m). Liabilities for certain services and operations are covered to a value of EGP 27.7m (USD 5.2m). MCDR does not carry any Professional Indemnity (PI) coverage against errors, omissions or negligence (although it is investigating obtaining a policy), nor does it have a Bankers Blanket Bond (BBB) to cover the depository against any criminal acts or malfeasance which may trigger losses and compensation claims from participants. Participants may submit a claim to the Investor Protection Fund (IPF) in such an event. MCDR's participation in the IPF amounts to EGP 1.35m (USD 251,722).

Potential Claims on Financial Resources

Credit Loss

Since MCDR does not extend credit to its participants, act as central counterparty or act as principal to loan transactions, it is not subject to any potential credit risk.

Central Counterparty Exposure

MCDR does not act as central counterparty to securities transactions.

Liability for Operational Losses

MCDR is bound by Art. 48 of Law 93 of 2000 to be liable for losses incurred by users of its services. The extent of these losses and whether they include indirect as well as direct losses has not been tested in law. Under the same Article, any damage not covered by insurance, would be borne by MCDR's shareholders. Civil Law obligates MCDR to compensate any claims against them for direct, indirect losses and emotional stress. MCDR has made a provision of 2% of its clearing and settlement revenue to cover such risk exposures directly related to clearing and settlement risks (contributed to the IPF), and an overall EGP 38 million (USD 6.8 million) against claims. Additionally, it has set aside a provision of 0.35% of the value of the total dividends payable through its dividends service to cover against any losses it causes the entitled beneficiaries through late or incorrect payment. MCDR is involved in 53 current claims against it, though it must be noted that these claims are generally aimed against all capital market infrastructure participants as joint defendants and no cases have been directed towards MCDR individually. No successful claims have been made since EGP 26 million (USD 4.5 million) was returned to two brokers in 2004 after they questioned the legal basis for the fining regime.

Under Art.48 of Law 93, 'Any damage arising from the liability of the company shall be borne by all shareholding Central Depository Members in accordance with the loss-sharing rules, unless the damage is covered by insurance'. However, this shareholder liability does not appear to extend to business losses under normal operating conditions under this piece of legislation.

Investment in Infrastructure

MCDR continues to make substantial investments in its infrastructure. Major infrastructure initiatives currently underway include; the development of a secondary site approximately 80 kms from Cairo (with an estimated total budget of EGP 92 million spread over 3 years and a completion date of 2009), the continuing support to Nile Information Technology (MCDR has 59% ownership translating to an investment of ~EGP 9 million) which will provide the local market with Service Bureau support to Participants for back and middle office activities, the development of a satellite TV channel for financial issues (MCDR contribution of USD 800,000 to the channels overall capital of USD 12 million has already been recovered), as well as the new securities lending system, digital signature system and a new rights processing/handling system. Future system developments may include derivatives clearing and margin trading systems.

Both NIT and the new satellite TV channel are limited liability companies, although since MCDR holds 59% of NIT capital, there could conceivably be a call for capital from MCDR if NIT were to run into financial difficulties. The new site being developed outside of Cairo (the 'Country Club') will have a new underground DRP facility and new vaults, although these will be substantially smaller than the present ones. MCDR will provide vault/storage services to its broker participants as well as conference and training facilities to other groups.

Financial Risk - Key indicators

Ownership of the CSD

	Number - Domestic	Number - Foreign	Total Percentage
Central Bank	0	0	0
Stock Exchange	2	0	5
Participant banks	18	0	50
Broker/dealers	126	0	45

Mutual funds	0	0	0
Private clients	0	0	0
Others	0	0	0

Comments

All participants are shareholders and only shareholders can be participants.

Statistics

	Capital structure Local Currency
Issued capital	80
Surplus	0
Reserves	8.7
Retained earnings	60.7
Total	149.4

Comments

Statistics (in EGP million) as at December 2007, excluding SGF contributions and income.

As of July 2007, the issued and paid-in capital of MCDR is EGP 80 million and the authorised capital of MCDR is EGP 250 million. It has been approved to raise the paid-in capital to EGP 140 million by June 2008.

Lines of stock

	2005	2006	2007	2008	2009
Lines of stock	1120	1144	1195	1228	1307
% Stock Exchange transactions cleared and settled through CSD	100	100	100	100	100
Total value of securities under custody	EGP 550bn	EGP 697 bn	EGP 924 bn	-	-

Comments

Lines of stock figure for 2008 is as at 31/5/08

Total value of securities under custody is as at 31 December of that year.

It is worth mentioning that MCDR holds more securities in custody both in value and volume than are traded at EGX, because not all securities held in the depository are listed at EGX.

Equities

	2005	2006	2007	2008	2009
Market Value	-	498 bn	543 bn	832 bn	704 bn
% of market capitalisation in the CSD	-	85.5%	96.4%	95.1%	98.24%

Comments

Values of securities are in EGP as at year-end for EGP denominated shares.

Fixed Income

	2005	2006	2007	2008	2009
Market Value	52 bn	64.5 bn	71 bn	-	125 bn

% of market capitalisation in the CSD	-	92%	93.7%	-	97.1%
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Comments

Values of securities are in EGP as at year-end for EGP denominated bonds.

Money Markets

	2005	2006	2007	2008	2009
Market Value	N/A	N/A	N/A	-	-
% of issued securities in the CSD	N/A	N/A	N/A	-	-
% of market capitalisation in the CSD	N/A	N/A	N/A	-	-

Comments

Treasury Bills are cleared and settled by the Central Bank of Egypt (CBE).

Expenses

	2005	2006	2007	2008	2009
Expenses as % total operating revenue	85%	85%	47%	45%	-

Comments

Annual figures as at 31 December.

NB. 2006 figures are the first set of accounts to include all of depository, registry and Settlement Guarantee Fund operations.

Operational Risk

Summary

MCDR operates a strong internal control culture designed to minimise operational risk exposures. However, the internal audit department is yet to complete its full audit programme of critical departments begun in 2005. There is no external operational audit conducted.

MCDR management has supplied signed Internal Control representations to Thomas Murray attesting to the sufficiency of internal controls and procedures. For the introduction of new systems and services, all controls and audits are subject to revision by the internal audit committee, which consists of members of the MCDR Board, the internal audit department manager and a representative from MCDR's external (financial) auditors.

Although, a vast proportion of certificates are immobilised, individual certificates are still held, even in issues that are 100% immobilised. MCDR has developed a range of proprietary systems for communication and processing, but until ISO15022 messaging standards and electronic signatures are built into the system, full automation and Straight-through-Processing potential will not be realised.

DRP arrangements exist that involve a recovery period of 30mins to the back-up site system. A disaster recovery test on the EGX link is conducted quarterly, and a full test is conducted twice a year as a matter of policy. Business Continuity facilities have been fully operational since December 2007, MCDR would be able to shift core operations to the back-up site within 30mins of a disaster (60mins for non-core operations).

Depository controls

The MCDR internal audit department checks all the operational, financial and administrative procedures related to the depository, but there is currently no operational audit undertaken by an external auditor. MCDR maintains comprehensive procedure manuals for each activity; most of these are available on-line to employees.

MCDR's Internal Audit (IA) Manual was developed by their external auditors (BDO Khaled & Co) Management Consultancy Department. There are 7 auditors in the MCDR IA department. Internal Audit began a full operational audit of all critical (15) departments in July 2005. By November 2009, they had completed audits on 17 departments with 3 more in progress. MCDR also carried out a limited operational audit on 3 of the main Egyptian under their powers as an SRO (Self-Regulatory Organisation).

Safekeeping

Around 98% of EGP denominated equities and 97% of EGP denominated bonds by volume are now held in immobilised form at MCDR. MCDR continues to receive certificates on a daily basis for deposit. All deposit operations are conducted under dual control. After being counted and verified through two different departments, the certificates are held in temporary vaults at MCDR's main site, before being transferred to the main vault outside of Cairo on a fortnightly basis.

1037 of the 1201 issues held in MCDR are 100% immobilised. Immobilisation of the final physical certificates continues, but is unlikely to be 100% completed for some time given the nature of the remaining stocks and the difficulty in providing documentation of ownership transfer from the original owners of the stocks. MCDR continues to retain physical certificates of issues up to and after 100% immobilisation in case there are any challenges against original ownership and transfer of individual certificates. However, individual certificates are without value since the MCDR's book-entry register legally constitutes evidence of title. Physical certificates effectively represent a residual record of securities already registered, hence physical security and operational controls surrounding their safekeeping are deemed to be of less importance. MCDR has formed a committee to investigate the process of dematerialising securities that are 100% immobilised. Physical security measures in the vault are in place, such as fingerprint controlled locks, TV surveillance, dual control, and terminal passwords. Cheques and other valuables are safeguarded.

All documentation relating to pledge operations are also physically safekept indefinitely in a separate area of the vault. Art. 42 of the Executive Regulations of Law 93 stipulates the appropriate documentation required for pledge operations, although it does not specify that these documents must be in paper form. However, since many of these documents need to be accompanied by authorised signatures, physical pledge documentation cannot be replaced by electronic processing until MCDR's electronic signature project is completed and appropriate systems have been developed. Electronic signatures are permitted through Law 15.

MCDR holds over 14 million individual certificates in its main vault, relating to around 1200 issues. There are no bearer certificates. An annual audit of a random selection of issues is conducted by internal audit staff and representatives from external audit firms, with no losses or discrepancies recorded in the last audit.

Internal Security

Physical security includes the use of cameras throughout the building and access to restricted areas is via swipe card and thumb print validation. Cameras are only able to be located in corridors and are not allowed in offices by Egyptian law.

Service desks are maintained by MCDR for the large number of direct retail participants in the system. Retail participants commonly do not subscribe to MCDR's internet services, and can utilise the service desks to receive all services. Every participant's identity is checked upon entry into the service office (which is in MCDR's main building) and messengers for brokers, custodians and other institutional participants must be authorised and carry authorised ID. The two new branches being developed in West and East Cairo will further support this type of retail client services.

Staff training

There are internal and external training programmes for MCDR staff, the external programmes being provided by the American Chamber in Cairo. Of the 466 staff employed by MCDR, there were 229 trainees attending various courses throughout the year.

Interfaces

MCDR uses FIX interface with EGX. There is also a web interface that is used interactively between MCDR and Arab brokers within the triple agreement among Egypt, Kuwait and Lebanon. SWIFT interface is used for payments and securities settlement with the Central Bank individual and corporate bank transfers, cash coupons transfers and in securities in GDRs. Wholesale participants and some retail participants utilise MCDR's proprietary system which provides online instruction and reporting facilities (by free registration).

Clearing controls

The automatic pre-sale blocking of shares in the MCDR system (electronically linked to the EGX trading system) replaced the previous manual blocking process on 3rd March 2005. Acknowledged blocked requests are reflected on the executing local broker's trading terminal at the EGX, as available for sale. Upon delivery to the broker on SD-1, the investor's custodian logs onto their MCDR terminal and generates a Free Delivery Order (FDO) to the broker's account. The transition from the manual to automated process improved Straight-Through-Processing (STP) between EGX, their members and MCDR.

Matched locked-in trade details are received from the EGX at the end of each day's trading session and, once uploaded into MCDR's system, automatically generates settlement instructions between the brokers. This introduces some human intervention into the clearing process. Additionally, the actual settlement batch must be triggered by an MCDR settlement operator, once all pre-settlement checks have been completed.

For cash settlement of MCDR processed DVP transactions, MCDR does not maintain a cash account at the CBE. Once the CBE receives a MT202 (General Financial Institution Transfer) from MCDR to debit or credit the clearing banks' account, CBE creates a MT 202 to credit the bank account and MT 204 (Direct Debit) to debit the other bank's account. MT202s from MCDR have to be manually generated in their system under dual-control conditions. CBE's SWIFT messaging is similarly manually generated. This manual generation of messages creates an area of operational risk exposure that must be mitigated through internal controls and procedures at MCDR and CBE.

Reporting

Settlement confirmation, portfolio balances and other forms of reporting are available online on MCDR's proprietary system. MCDR's online services are available by free subscription, and although all brokers and custodians have subscribed, many retail clients have not. Retail clients can access similar information over the Internet, or by receiving physical reports at one of MCDR's branches. Issuers communicate mostly by Internet and the IVR proprietary system (48% of all communication each).

Reconciliations

MCDR reconciles the total balance of each issue on a monthly basis. Ledger reconciliation on movements is conducted daily. Participants can download portfolio records from MCDR's systems to their own systems by diskette. Some custodians have developed their own auto-reconciliation systems, while others still reconcile manually. The new MCDR subsidiary, Nile Information Technology (NIT) will be developing back-office systems for participants to improve this situation.

Data processing controls

System Security

The internal audit department is responsible for revising all procedures concerned with data processing. All system access is segregated by operator roles, hence MCDR staff can only access those parts of the system required for their jobs. System logs for all access is maintained and reviewed periodically by internal auditors. Participants externally accessing the system have designated usernames and passwords, and the system locks-out operators after 3 unsuccessful log-in attempts. Participants are linked to MCDR via dedicated lines. MCDR has no direct link with CBE; communication goes through the SWIFT network.

Firewalls are maintained on all MCDR internet and intranet networks. CISCO Intrusion Protection Systems (IPS) were implemented

on MCDR servers and networks in 2007.

No ethical hacking/system penetration test has been commissioned or carried out in since 2004, although one is being considered.

Processing

At present, there is no automated link between brokers' and custodians' internal systems with the MCDR system. This negates the ability for participants to achieve Straight-Through-Processing for settlement and asset servicing. As of 1Q08, MCDR is facilitating the joining of brokers to the SWIFT network, activating the use of SWIFT category 5 and ISO 15022 messages. Upon completion of the project, brokers will be able to use SWIFT messages for transfer of securities, which is expected to improve the quality of data transmitted and Straight Through Processing (STP). As of July 2008, 5 brokers had begun using SWIFT messaging and another 54 were in the process of setting up use (to be completed by end of September 2008). There are around 150 active brokers in the market. There is also a Securities Market Practice Group (SMPG) which is analysing processes to which SWIFT standards and messaging can be applied.

There appears to be a significant degree of manual intervention in the corporate actions services provided by MCDR. Since most information about standard mandatory and voluntary corporate events is received from issuers in manual form, information has to be re-keyed into MCDR systems (though this is double entered for dual-control/verification purposes).

MCDR's E-signature project aims to replace physical signature on documentation/instructions. Digital signature is built on a technology called PKI (Public Key Infrastructure) it is based on issuing 2 keys for each client, private key and public key

1. A Private key is the key which generates the signature along with client's digital certificate, the key and certificate is stored on the client's smart card and is held as confidential.
2. A public key is the key which is used by a relying party to verify the client's signature this key is also stored on the certificate but is not confidential.

The digital signature allows for an authenticated authorisation for any data submitted from a participating entity, as well as the time stamping of transmission of such data. Participants will be able to register for use of PKI at the Cairo and Alexandria offices of MCDR against National ID card verification. The use of digital signature is backed by Law no. 15 of 2004.

In 2007, the IT department was re-structured and the following new departments were added: Quality Assurance, Documentation, Testing. The addition of these departments has provided a new focus in the IT Department in identifying and controlling operational risks exposures in new and existing systems.

Disaster Recovery/Business Continuity Procedures

Disaster Recovery Arrangements

MCDR has extensive disaster recovery arrangements in place. The depository will publicly announce any system interruptions, and notify all direct participants and the EFSA via e-mail, intranet and telephone.

- All components of MCDR's computer system are redundant except the development server, which sometimes needs to switch to the disaster recovery site.
- MCDR has comprehensive contingency plans in place. There is a contingency plan in place for failed systems and utilities, and it is tested daily. In addition, the MCDR maintains an off-site back-up for all critical systems. Data is sent to the back-up server at the Talaat Harb branch of the MCDR with no delay. Additionally, a backup on tapes is conducted every day and restored to the disaster recovery site servers. They are also saved in an external safe on a daily basis.
- MCDR conducted a full communications review between 2006 and 2008, and post-analysis, implemented full redundancy on all its communication lines.
- High-speed fibre optic lines have been completed between the main site at El Gomhoria and Talaat Harb. However, since Talaat Harb is only around 2km away from the main MCDR site at El Gomhoria, this is recognised as not being the optimal solution and longer term plans are to establish the disaster recovery site at the new 'Country Club' facility to be built 35km outside of Cairo. Another longer-term option may be to have disaster recovery facilities at the Alexandria branch.
- A back-up power generator and uninterrupted power supply (UPS) are also maintained at the main site and Talaat Harb which are tested once a week. The UPS can be used for up to 25 minutes. The generator can be used up to 2 days using fuel from the installed small tank. Another larger tank is available that can be used for up to 11 Days. The generators and UPS have been fully tested once in 2007, but the generator is tested 3 times a week for maintenance purposes. There have been several real cases of power interruption during the last year when the UPS has kicked in and signalled for the generator to be started.
- In the event of a need to switch to the back-up server, this can be undertaken immediately if there is a problem. The time taken to switch to the backup system at the disaster recovery site is around 30mins. If the main site systems are interrupted, but not critically damaged, main server processing can be recovered within 30mins.
- A disaster recovery test on the EGX link is conducted quarterly. A full disaster recovery test is conducted twice annually. The last full disaster recovery plan test was conducted in September 2009, which was a 'live test' with the (unwitting) involvement of market participants. Tests are audited and recorded.
- There are four dedicated communication lines provided by two separate communication providers linking EGX with MCDR.

Fire suppression systems (powder) are installed in the main vault and in the server rooms at the main and back-up sites, and fire

extinguishers are widely distributed at the main offices.

MCDR has developed a risk matrix specifically for threats requiring activation of the DRP. All possible threats have been taken account of, and an analysis of probability of each threat has been made.

Business Continuity

Business Continuity Procedures are in place and the Talaat Harb office would be used as a secondary operations centre if required. The facilities at Talaat Harb were upgraded between April and December 2007 while the fibre optic connection with the main site was installed and the offices and facilities at Talaat Harb updated. During this time, there was no dedicated BCP facilities. However, since December 2007, the BCP facilities at Talaat Harb have been fully operational. Apart from the fibre optic connection, other enhancements included:

- 3 UPSs were replaced with a new UPS
- Call centre backup servers were added
- New employees' workstations were installed.
- New Training database
- New Source Safe, Anti-Virus and FTP Server
- added backup communications lines
- added dedicated Symmetrix telephone line
- upgraded web Server and database

The BCP identifies key services and processes and the core personnel attached to these operations, and the staff for these should be relocated and have these up and running at the back-up site within 30mins of a disaster. Non-core services and their personnel, are required to have these up and running at the back-up centre within a further 30mins (i.e. 60 mins from disaster). During the live test of 21 June 2008, these timescales were adhered to. There is no provision for staff to work from home, but staff would be distributed to other MCDR branches. Operations could continue at these back-up locations/branches indefinitely.

Depository Liability

MCDR is bound by Art. 48 of Law 93 of 2000 to be liable for losses incurred by users of its services. The extent of these losses and whether they include indirect as well as direct losses has not been tested in law.. Under the same Article, any damage not covered by insurance, would be borne by MCDR's shareholders. Civil Law obligates MCDR to compensate any claims against them for direct losses, indirect losses and emotional stress. MCDR has made a provision of 2% of its clearing and settlement revenue to cover such risk exposures directly related to clearing and settlement risks, and an overall EGP 38 million (USD 6.8 million) against claims. Additionally, it has set aside a provision of 0.35% of the value of the total dividends payable through its dividends service to cover against any losses it causes the entitled beneficiaries through late or incorrect payment.

MCDR is involved in 60 current claims against it, though it must be noted that these claims are generally aimed against all capital market infrastructure participants as joint defendants and no cases have been directed towards MCDR individually. No successful claims have been made since EGP 26 million (USD 4.5 million) was returned to two brokers in 2004 after they questioned the legal basis for the fining regime.

Under Art.48 of Law 93, 'Any damage arising from the liability of the company shall be borne by all shareholding Central Depository Members in accordance with the loss-sharing rules, unless the damage is covered by insurance'. However, this shareholder liability does not appear to extend to business losses under normal operating conditions under this legislation.

Systems Performance

There have been no outages of vital systems within the last 3 years. The system has never failed to operate for more than a few hours, with no repercussions on the market. The systems were unavailable for 2 hours after the EGX session end due to a power outage in June 2007. After UPS finished operating, the Power Generator failed to start.

MCDR has the potential to settle up to 500,000 transactions per one settlement session and within the same time period. The average daily number of transactions is 120,000, up 50% from the 2006 figure.

Server storage is currently running at 15% capacity of the maximum capacity of operation. All capacity measurements are collected periodically and compared with future requirement trends to investigate whether any upgrades are needed. However, no capacity stress testing has been undertaken.

Operational Risk - Key indicators

Control objectives identified by the CSD match standard objectives

Yes

Key controls and procedures are identified by the CSD

Yes

Independent evidence exists that key controls and procedures have operated effectively through the last year

Yes

Material errors have been identified

No

CSD on CSD (Credit) Risk

Summary

MCDR has a co-operative agreement with depositories in Abu Dhabi, Kuwait, and, Lebanon, but no settlement links have been built yet. MCDR has established a link with Clearstream ICSD and an account with Clearstream is now opened. An account with Euroclear is being established. MCDR joined Link Up Markets in March 2010 which provides a single point of access for cross border settlements to a variety of (mainly European) CSDs.

CSD - CSD Links

The stock exchanges and MCDR maintain close relationships with other exchanges in the Middle East and North Africa region. MCDR has a co-operative agreement with the depository and clearing houses in Kuwait and Lebanon.

MCDR opened an account with Clearstream ICSD in January 2008, for Egyptian investors abroad and Clearstream clients for settling Egyptian GDRs and ADRs. Eligible securities include equities and fixed income instruments.

In March 2010, MCDR joined Link Up Markets, a joint venture that provides a single point of access for cross border settlements and a common infrastructure into which CSD participants can connect and access the services of other participating CSDs across all assets except derivatives. Link Up Markets therefore improve efficiency and reduce costs of cross-border post-trade processing. The joint venture now includes MCDR and 9 other CSDs, namely Clearstream Banking AG Frankfurt (Germany), Cyprus Stock Exchange (Cyprus), Hellenic Exchanges S.A. (Greece), IBERCLEAR (Spain), Oesterreichische Kontrollbank AG (Austria), SIX SIS Ltd (Switzerland), VP SECURITIES (Denmark), VPS (Norway) and Strate (South Africa).

Processing Cycles

N/A

CSD on CSD (Credit Risk) - Key indicators

International Links: List of international links established and/or planned by the CSD

None – no cross-border settlement links have yet been established but once get the approval of the Linkup Markets board approval on February 9, there will be.

Governance and Regulation

Management and governance of the depository

MCDR was established under the Capital Markets Law No. 95 of 1992. The CSD was launched in October 1996, and performs its depository and clearing activities under the Depository and Central Registry Law No. 93 of 2000.

The MCDR Board can be up to 11 members. In 2009, the Board consisted of 9 members including the Chairman & Managing Director and Deputy Chairman and Managing Director of MCDR. The other 7 members were from the EGX banks and brokerage companies in Egypt. The MCDR general assembly votes for 6 board members (3 from banks, 3 from financial institutions) and the EGX appoints the other board member. Board members are elected for a 3 year term, and can be re-elected any number of times. All Board members have equal voting rights, although the Chairman also holds a casting vote in the event of any tied decision. Starting from the next MCDR General Assembly, the general assembly will elect all members except for EGX which now has an automatic right to at least one board member.

Decision-making is heavily centralised at the senior management level. MCDR has an Audit Committee, a Risk Management Committee and a Members Consultative Committee who report directly to the Board of Directors.

Regulatory and independent examination of the depository

MCDR is regulated by the EFSA which also regulates the stock exchange and securities intermediaries. The EFSA was established in December 1979 and reports to the Ministry of Investment. The EFSA has wide powers over MCDR in terms of the services it provides, participation in MCDR and the fees it charges. It can also seek an audit of MCDR. MCDR meets with EFSA on a regular basis - at least 4 times a year.

According to Law 93 of 2000 Art. 65 of the executive regulation, MCDR must provide EFSA with the following;

- Daily report of settled trades.
- Monthly report of the SGF activity.
- Quarterly report of registered securities.
- Quarterly report of deposited securities.
- Quarterly report of cash coupons of deposited securities.

The EFSA's Investigations Department conducts an annual inspection of MCDR's financial reports, reports of daily transactions, the borrower/lending system, the depository, delisting, and registry functions. Over and above this, IT software applications require prior approval from EFSA.

MCDR uses a firm of external auditors, BDO Khaled & co. (a member of BDO International) and the United Accountants Company who audit the accounts of MCDR and the Settlement Guarantee Fund (SGF) respectively on a quarterly basis (from 2007). There is no external audit of operational controls. Previously, when the EGX had a significant shareholding in MCDR, MCDR operational controls were subject to an external government audit.

Internal controls and procedures for safeguarding investments

Each participant is required to reconcile their beneficial-owner records to their omnibus position at MCDR, on a weekly basis.

MCDR has an Internal Audit (IA) department of around 8 staff that report to the Managing Director and to the Audit Committee of the Board of Directors. It meets with the Audit Committee twice a year. IA is responsible for auditing the financial and operational controls, although this does not include auditing the IT systems. Internal audit does become involved with reviewing the controls from the initial stages of a development project. IA has identified and follows a comprehensive framework in auditing departments and services. However, of the 15 critical departments/services that IA commenced its operational audit on in 2005, it will take until the end of 2010 to complete their first full audit. However, certain departments/services have or will have gone through a second audit by this time, and subsequent audits can be completed in a more timely fashion. IA has also identified a further 5 services/departments to be audited before the end of 2009 and is also investigating whether it can complete a limited operational audit on their 12 custodian participants.

Other legal protection mechanisms

The Law 93 introduced the legal foundation for the nominee concept allowing custodian banks, depository banks, asset managers and any other activity issued by a ministerial decree after consulting the EFSA to apply for a license to become a nominee through the EFSA. However, the concept has not been fully implemented and may be hindered by the requirement that the registered owners of securities disclose the names of the beneficial owners.

About the Depository

Name and Address

Misr Company for Central Clearing, Depository & Registry

Segregation of Assets at the Depository

Depository assets from participants

Yes

70 El-Gomhoria St Cairo Egypt	Participant assets from clients Yes									
Website www.mcdr.com.eg	Eligible Securities Depository under SEC Rule 17f-7									
Date of establishment 1992	System of central handling of securities Yes									
Date commenced operations October 1996	Regulated by a financial regulatory authority Yes									
Legal status Incorporated under the Depository and Central Registry Law No 93 of 2000.	Holds assets of all participants on equivalent terms Yes									
Type of legal entity Not for-profit private company	Identifies and segregates participant assets Yes									
Regulated by EFSA	Periodic reports to participants Yes									
Is use of the CSD required?	Periodic examination by a regulator or independent accountant Yes									
<table border="1"> <thead> <tr> <th></th> <th>Settlement</th> <th>Safekeeping</th> </tr> </thead> <tbody> <tr> <td>By Law</td> <td>Yes</td> <td>Yes</td> </tr> <tr> <td>By Market Practice</td> <td>Yes</td> <td>Yes</td> </tr> </tbody> </table>		Settlement	Safekeeping	By Law	Yes	Yes	By Market Practice	Yes	Yes	
	Settlement	Safekeeping								
By Law	Yes	Yes								
By Market Practice	Yes	Yes								
How securities are held Almost all securities are in registered form immobilised or dematerialised at the depository (global certificate).										
Domestic eligible participants As at 30 December 2008, MCDR has 1504 participants, broken down to: <ul style="list-style-type: none"> • 1260 issuers (84%) • 157 brokers (10%) • 41 custodians (3%) • 32 direct settlement participants (2%) • 14 primary dealers (1%) EGX is also a participant										
Foreign eligible participants HSBC and Citibank										
Ownership Domestic banks 50%, stock exchanges 5%, domestic brokers 45%.										

Internal Safety Measures

Participant Eligibility Criteria	Matching
Minimum Capital Standards Yes	Pre-matching services No
Financial Aspects	Matching services No
Ability to raise capital/borrow	

Services Provided

Yes	<i>Clearing</i>
Committed lines of credit in place No	Clearing services Yes
Publish audit financials Yes	Comments Clearing on cash only
Take lien on stock held No	<i>Securities Settlement</i>
Central Bank Guarantee No	Book-entry settlement Yes
Other third party guarantee No	Fails management Yes
Third party insurance Yes	<i>Cash Settlement</i>
Comments MCDR has no financial guarantee backing its business operations. The IPF covers the clearing and settlement operations defaults.	Internal cash settlement No
<i>Safeguard Facilities</i>	<i>Stock Lending</i>
Offsite Backup Yes	Securities lending for fails coverage Yes
<i>Disaster Recovery</i>	<i>Asset Servicing</i>
Disaster Recovery Plan Yes	Notifications Yes
Back-up power generator Yes	Securities processing Yes
UPS (Uninterruptible power supply) Yes	Paying agent Yes
	Central registrar Yes
	Proxy voting services Yes
	Comments Electronic voting services available but not used
	<i>Communications</i>
	Electronic communications Yes
	<i>Reporting Services</i>
	Electronic reporting Yes
	Reporting of every movement Yes
	Regular statement of securities deposited Yes

Definition

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Publication Date

The publication date represented here is February 2010. This is the date that the assessment report has been reviewed by third parties including the CSD. The report is updated on an on-going basis throughout the year as new information is received and should be read in conjunction with the relevant newflashes issued since the publication date.

RISK EXPOSURE DEFINITIONS

Asset Commitment Risk - The period of time from when control of securities or cash is given up until receipt of countervalue. This risk concerns the time period during which a participant's assets, either cash or stock, are frozen within the CSD and payment system pending final settlement of the underlying transaction(s). Following settlement, the risk period is extended until the transfer of funds and stock becomes irrevocable. It excludes any periods when assets, cash or stock, are committed to a market participant including brokers, banks and custodians, not caused by CSD processing.

Liquidity Risk - The risk that insufficient securities and or funds are available to meet commitments; the obligation will be covered some time later. This is where for certain technical reasons (e.g., stock out on loan, stock in course of registration, turn round of recently deposited stock is not possible) one or both parties to the trade has a shortfall in the amount of funds (credit line) or unencumbered stock available to meet settlement obligations when due. These shortfalls may lead to settlement 'fails' but do not normally lead to a default.

Counterparty Risk - The risk that a counterparty (i.e., a participant) will not settle its obligations for full value at any time. This is simply the total default of a direct participant of the CSD. This is the event when a participant is unable to meet its financial liability to other participants. This risk only goes as far as direct participants of the CSD and excludes clients of direct participants that default on liabilities to such participants, even if such a default should systemically cause the direct participant to subsequently default.

Asset Servicing Risk - The risk that a participant may incur a loss arising from missed or inaccurate information provided by the depository, or from incorrectly executed instructions, in respect of corporate actions and proxy voting. This risk arises when a participant places reliance on the information a depository provides or when the participant instructs the depository to carry out an economic transaction on its behalf. If the depository fails either to provide the information or to carry out the instruction correctly then the participant may suffer a loss for which the depository may not accept liability. The depository may provide these services on a commercial basis, without statutory immunity, or it may provide the service as part of its statutory role, possibly with some level of protection from liability. This risk is likely to become much higher when international securities are included in the service.

Financial Risk - The ability of the CSD to operate as a financially viable company. This risk concerns the financial strength of the depository and if its financial resources are sufficient to meet the on-going operation of the organisation. This risk also includes where the CSD may act as central counterparty, or otherwise acts in a Principal capacity.

Operational Risk - The risk that deficiencies in information systems or internal controls, human errors or management failures will result in losses. The risk of loss due to breakdowns or weaknesses in internal controls and procedures. Internal factors to be considered in the assessment include ensuring the CSD has formalised procedures established for its main services. The CSD should have identified control objectives and related key controls to ensure operation and proper control of established procedures. Systems and procedures should be tested periodically. There should be external audit processes in place to provide third-party audit evidence of the adequacy of the controls.

RATING SCALE

AAA	Extremely low risk
AA+	Very low risk
AA	
AA-	
A+	Low risk
A	
A-	
BBB	Acceptable risk
BB	Less than acceptable risk
B	Quite high risk
CCC	High risk
N/R	No rating has been given due to insufficient information

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Report Date

Egypt

11 March 2010