

List of SHUAA Capital Indices

		In US Dollars		In Local Currency	
		General	Free-Float	General	Free-Float
Main Index	Arab Index	x	x		
Regional Index	GCC Index	x	x		
	North Africa Index	x	x		
	Levant Index	x	x		
Country Index	Bahrain	x	x	x	x
	Egypt	x	x	x	x
	Jordan	x	x	x	x
	Kuwait	x	x	x	x
	Lebanon	x	x	x	x
	Morocco	x	x	x	x
	Oman	x	x	x	x
	Palestine	x	x	x	x
	Qatar	x	x	x	x
	Saudi Arabia	x	x	x	x
	Tunisia	x	x	x	x
	UAE	x	x	x	x
Sector Index	Agriculture & Fishing	x	x		
	Construction & Real Estate	x	x		
	Finance	x	x		
	Investments	x	x		
	Insurance	x	x		
	Manufacturing	x	x		
	Mining	x	x		
	Services	x	x		
	Telecoms	x	x		
	Trade	x	x		
	Transportation	x	x		
	Utilities	x	x		

SHUAA Capital Index Stock Selection Guidelines

SHUAA Capital Indices are intended to represent the performance of the most active stocks in their respective stock markets.

Eligible Securities

Any security that represents an equity interest in a qualified company may be included in the index. The types of securities include common stocks and preferred stocks without regard to their voting status. Investment trusts, mutual funds, and closed-end funds that may be listed are not eligible for inclusion in the SHUAA Capital Indices.

Trading Activity

Any share selected must be among the most actively traded shares in terms of value traded during the review period; it must have traded frequently during the review period; (i.e. one large block trade might skew the value traded statistics); and it must have reasonable prospects for a continued trading presence in the stock exchange (i.e. it must not be in imminent danger of being suspended or de-listed).

Market Capitalization Target Coverage

Stocks are selected in order of trading criteria until the market capitalization coverage target of 65% to 75% of total market capitalization is met. In the case where one or two stocks make up the target coverage (Solidere in Lebanon makes up 75% of market capitalization), a minimum of six stocks should be included in a country.

Additions Outside the Annual Review

If a stock comes to market through an initial public offering of significant size – (if the stock's market capitalization is 5% or more of the total market) – and if the stock has likely high liquidity, it is added to the SHUAA Capital Index.

Deletions Outside the Annual Review

Stocks are deleted from the SHUAA Capital Indices outside the annual review period only in the event they are de-listed, suspended from trading for six months or more and unlikely to resume trading, or disappear through corporate merger.

Adjustments to Market Capitalization

Simple market capitalization of a stock, defined as price per share times total shares outstanding, sometimes may not be an appropriate indicator for a stock's weight in a market-capitalization weighted index. Ideally, a stock's free-float is the best weight to use. This free-float is often very difficult to estimate and cannot be implemented accurately in practice. However, a number of adjustments to market capitalization are possible to more closely approximate the amount of a company's stock that is in the market. These include removing cross-holdings, government holdings, and strategic investors.

Cross-Holdings

Cross-holding is defined as the case where one company owns stock in a second company, both being constituents of a calculated market index. Since typically one company's holdings of another company's stock are included in the overall market valuation of the former, there is an element of double counting whenever cross-holding is present. Company A is valuable because it owns part of company B, and counting both A and B at their observed market capitalizations would be deceptive. Furthermore, an

investor could buy all of A and B for less than the sum of their observed market capitalizations, since by buying all of A this investor would automatically acquire part of B.

Correcting for cross-holding involves calculating adjusted market capitalizations, whereby any portion of market capitalization that is double counted is in effect taken out.

Example:

In Morocco, ONA Group owns 38% of the shares in SNI. As a result, 38% of the market capitalization of SNI will be taken out of the index calculation.

Government Ownership

Government ownership of many emerging market stocks is quite significant, even in stocks notionally privatized. These partial privatizations commonly bring large amounts of stock to the market, making the issues the largest and most liquid stocks in their home markets, yet significant and easily identifiable portions remain in government hands and are not available for trading.

Correcting for government holding involves calculating adjusted market capitalizations, whereby any portion of market capitalization that is held by the government is in effect taken out.

Example:

In the UAE, the government owns 60% of Etisalat. As a result, 60% of the market capitalization of Etisalat will be taken out of the index calculation.

Strategic Investors

In many cases, shareholders of a certain company include strategic investors that will probably hold the shares for an indefinite time, making the shares unavailable for sale. These investors can be either local or foreign institutions.

Correcting for strategic holdings involves calculating adjusted market capitalization, whereby any portion of market capitalization that is held by strategic investors is in effect taken out.

Example:

In Saudi Arabia, CitiGroup owns 22.8% of Saudi American Bank. As a result, 22.8% of the market capitalization of Saudi American Bank will be taken out of the index calculation.

General Methodology

The SHUAA Capital Indices are market capitalization weighted, calculated in U.S. dollar terms.

Adjustments at the Stock Level

Adjustments to the basic method of measuring change in capitalization are needed when a company issues new shares or declares a rights issue. The purpose of the adjustment is to neutralize the change so the change has no effect on the index. For example, when a company sells additional shares of stock, it adds market capitalization that would distort the index by implying that the market capitalization of the index increased from the period before the new shares were issued to the period after the new issue.

New Shares

If new shares were issued in the current period but not present in the previous period, the index algorithm subtracts newly issued capitalization from total capitalization in the current period. This equalizes the number of shares used in both periods so the index reflects only price changes.

A cancellation of shares is treated as a negative new issue. Shares created by the conversion of other securities are treated as new issues.

Example:

The price of a stock with 2,000 shares outstanding was \$10 prior to an issue of another 1,000 shares, \$10 immediately after the new issue, and \$15 at a later period. The total capitalization in the second period would be \$30,000, but the adjusted capitalization used in the index would be \$20,000 after subtracting out the \$10,000 in new capitalization.

In the third period and all future periods, the new capitalization is added back. This method is illustrated below with two different adjusted capitalizations for the same period: 2a is used to calculate the index for period 2, and 2b is used to calculate the index for period 3.

Period	Price	# of Shares	Total Cap.	Adjusted Cap.	Change	Index
1	\$10.00	2,000	\$20,000	\$20,000	-	1,000
2a	\$10.00	3,000	\$30,000	\$20,000	0%	1,000
2b	\$10.00	3,000	\$30,000	\$30,000	-	-
3	\$15.00	3,000	\$45,000	\$45,000	50%	1,500

Rights Issues

When shares begin trading ex-rights, the theoretical stock price falls by the intrinsic value of the rights. Total capitalization does not change because the combined capitalization of the two securities – the shares and the rights – equals the previous capitalization of the shares trading rights-on.

Because the index follows only the shares and not the rights, which may be trading separately, an adjustment is needed to prevent the index from dropping. The method is similar to that of a new issue. In both cases, the theoretical price is the weighted price of the shares at the instant after the change. The formula for the theoretical price of a share trading ex-rights is:

$$\frac{\left(\begin{array}{l} \text{Number of rights} \\ \text{required to buy} \\ \text{one new share} \end{array} \times \begin{array}{l} \text{market price} \\ \text{before the} \\ \text{ex-date} \end{array} \right) + \begin{array}{l} \text{subscription} \\ \text{price} \end{array}}{\begin{array}{l} \text{Number of rights} \\ \text{required to buy} \\ \text{one new share} \end{array} + 1}$$

Example:

A company has 1,000 shares outstanding selling at \$100 per share. The company declares a rights issue where each existing share receives one right for each share, with four rights plus \$90 required to purchase one new share. According to the formula above, the theoretical price is:

$$\frac{(4 * 100) + 90}{4 + 1} = \frac{490}{5} = 98$$

For the index in the second period, the algorithm subtracts the additional capitalization that is due to the new shares. In this example, 250 new shares are issued at a subscription price of \$90 per share, so the total subtracted is \$22,500. To calculate the index for the third period, the new capitalization is added back to the

period 2 adjusted capitalization. As in the previous example, this method is illustrated below with two different adjusted capitalizations for the second period.

Period	Price	# of Shares	Total Cap.	Adjusted Cap.	Change	Index
1	\$100.00	1,000	\$100,000	\$100,000	-	1,000
2a	\$98.00	1,250	\$122,500	\$100,000	0%	1,000
2b	\$98.00	1,250	\$122,500	\$122,500	-	-
3	\$117.60	1,250	\$147,000	\$147,000	20%	1,200

Splits

Because prices drop by the split ratio, total capitalization does not change at the time of the split and no adjustment is needed. The following example starts with the same assumptions as above but uses a two-for-one split instead of a rights issue.

Period	Price	# of Shares	Total Cap.	Adjusted Cap.	Change	Index
1	\$100.00	1,000	\$100,000	\$100,000	-	1,000
2	\$50.0	2,000	\$100,000	\$100,000	0%	1,000

Dividends

Stock dividends, also known as bonus shares, have the same effect as splits. Consolidations or purchase of shares for Treasury stock are treated as negative splits.

Cash dividends can affect stock prices, but the industry norm is not to make any adjustment for dividends in the price index.

Adjustments at the Index Level

The capitalization of the index is the sum of adjusted capitalizations of its individual stocks, whether the index is for a single market, a region, or for the composite of all markets. Further adjustments are required, however, when stocks are added to or deleted from the index. The principle of the adjustment is the same; adjust the current total capitalization so the index calculation is done on the same set of stocks.

When a stock is added to the index, its capitalization is subtracted from total capitalization in the current period so it will not give the appearance of an increase in index capitalization. It is added back in the index calculation for the following period.

When a stock is deleted from the index, its capitalization in the previous period is added to total capitalization in the current period so its removal will not give the appearance of a reduction in index capitalization. It is subtracted again for all future periods.