Rules for the Construction and Maintenance of the OMXI6 Tradable index

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Definitions

Icelandic indexes: The Icelandic indexes cover companies listed on NASDAQ OMX Iceland.

The Exchange: NASDAQ OMX Iceland hf

CSD: Central Securities Depository

VS: Verðbréfaskráning Íslands hf.

Global Industry Classification Standard (GICS): The Exchanges classify their securities according to Global Industry Classification Standard (GICS) constructed and maintained by Morgan Stanley Capital International (MSCI) and Standard & Poors (S&P). The use of a uniform classification standard (GICS) enables investors to easily and consistently make cross border comparisons in the region.

1 Introduction

1.1 Background

This booklet describes how the OMXI6 Tradable index is calculated. It is aimed at users, investors and others interested in the construction and computation of the index.

1.2 The OMXI6 index

The purpose of the OMX Iceland 6 (OMXI6) index is to create a highly liquid and stable universe. OMXI6 is also available in a capped version and a total return version, and is calculated in Icelandic kronas (ISK) and Euros (EUR)..

The OMXI6 indexes have a base value of 1000 and a base date of December 31, 2008.

1.3 Trademarks and intellectual property rights

NASDAQ OMX is the sole and exclusive owner of all rights, titles and interest in and to the indexes[1]. Any products based on the indexes require permission by NASDAQ OMX. NASDAQ OMX carries out the periodical and daily maintenance of the indexes, such as calculating and distributing the index values and calculation parameters, in accordance with “The Rules for the Construction and Maintenance of the OMXI6 Tradable Index”.

1.4 Information Policy

Changes to the index composition of the OMXI6, rule changes and corporate actions adjustments are published in index notices by the Exchanges.

Deadlines for announcements:

- **Rule amendments**: Material changes to the rules are normally announced 3 months before they are put into effect.
- **Periodic index composition**: A notice including the new composition of the OMXI6 index is normally published no less than 15 calendar days prior to the effective date. If necessary a corrected composition may be published before the effective date in case of a merger or take-over. The composition of the OMXI6 index including weights and constituents is published one day before the effective date.
- **Daily maintenance**: Adjustments of the OMXI6 index due to corporate actions are normally announced no later than the day prior to the event taking effect.

1.5 Index Currency

The OMXI6 index may consists of securities quoted in different currencies and the underlying price of the securities is converted into the index currency (ISK or EUR) based on currency quotes provided by The World Markets Company plc (“WM”) in conjunction with Reuters[2]. For the calculation the Exchanges use hourly updated exchange rates.

[1] The use of the indexes is the sole responsibility of the user. The Exchanges shall not be liable for any loss or damage whatsoever or howsoever caused or arising in connection with the use of the indexes.

[2] "The WM/Reuters Spot Rates provided by The World Markets Company plc (“WM”) in conjunction with Reuters. WM shall not be liable for any errors in or delays in providing or making available the data contained within this service or for any actions taken in reliance on the same, except to the extent that the same is directly caused by its or its employees’ negligence"

2 Construction and Maintenance

2.1 Eligible securities

In principle, all securities listed and traded on NASDAQ OMX Iceland are eligible for inclusion. However, certain criteria such as liquidity may make a stock ineligible for index purposes.

Companies where 90 per cent or more of the outstanding shares are controlled by a single shareholder will be deemed ineligible.

If a company has listed multiple stock classes, each of which is priced and traded separately, all stock classes are eligible for inclusion and are treated as separate securities.

Mutual funds, rights, warrants or similar derived securities are not eligible for index inclusion.

2.2 OMX Iceland 6 Tradable Index

2.2.1 General

The purpose of the index is to have a highly liquid composition of shares that reflects the Icelandic investment universe and functions as a desired investment tool for all types of investors, fund managers etc. in the marketplace. The index portfolio is fixed between revisions.

2.2.2 Selection of the composition

6 companies are selected for the index at each semi-annual review. The index portfolio is reviewed semiannually and published on the tenth of December and the tenth of June. The new compositions take effect on the first trading day of January and the first trading day of July each year. In the case of an index constituent being delisted, or for other reasons deemed unfit for index inclusion, another constituent will be added to ensure that the number of constituents is never less than 6. An index committee will select the index constituents and the selection will, other things equal, be based on the following guidelines:

1. Companies will be ranked according to the auto match turnover during a preceding 6-month period, from 1 December to 31 May or from 1 June to 30 November respectively. The four highest ranking companies are automatically included in the index.
2. Companies which rank 5 to 6 are included if they satisfy the following spread requirements during the reference period:
    a. The difference between the best bid and best ask prices at the end of the trading day must not exceed 1.5% on average.
    b. Bid and ask orders must be present in the trading system at the end of at least 95% of the trading days.
3. If one, or both, of the companies ranked 5 – 6 does not satisfy the spread requirements, companies ranked 7 – 8 will be considered. If 6 of these 8 companies fail to satisfy the spread requirements, the auto match turnover will be the deciding factor in selecting the final constituents.
4. The first three days of trading, after a company has been admitted to trading, are always excluded in turnover calculations. If a company has been listed for less than 6 months and at least 6 weeks, its turnover is multiplied by the following adjustment factor, to approximate a 6 month period:

$$\frac{(\text{Number of trading days in reference period}) - 3}{(\text{Number of days listed}) - 3}$$

   If a company has been listed for less than 6 weeks its turnover shall be multiplied by the same adjustment factor as a company which has been listed for exactly 6 weeks, which is the greatest possible adjustment.

5. If listed companies merge during the reference period, their combined turnover will be used in the selection.
6. If a spin-off involving a listed company occurs during the reference period, and the spun-off company is subsequently admitted to trading (within one month of the spin-off), the pre spin-off turnover is allocated to each company in proportion to their respective free-float adjusted market value, calculated three days after the listing of the spun-off company. If the spun-off company is not listed, the pre spin-off turnover is assigned entirely to the listed company.
7. If a constituent is removed from the index because it is in the process of being delisted, or is, for other reasons, deemed unfit for the index, an additional constituent will be added. The number of constituents will thus always be equal to 6.

The index committee reserves the right to diverge from the above-mentioned selection methodology to ensure the quality of the index.

2.2.3 Free float criteria

Free float is an important issue when constructing an investible index. Free float is defined as the portion of the share capital of a company, which is freely available for trading in the market. The objective of introducing free float criteria is to avoid a distortion in the price of a security and to improve the index's overall investability.

Portfolio investments such as pension funds, unit trusts (mutual funds) and shares held by insurance companies are generally not considered to restrict the free float. A low free float will not exclude a company from an index but will restrict the percentage portion of the outstanding shares, which is included in the index calculation. The free float criterion may be applied for secondary listings and foreign domicile if the number of shares in the index calculation is based on at least a majority of the total capital in the stock class.

Free float is measured by identifying the ownership of the ten largest investors. The review is conducted on the basis of figures from the end of the second Thursday in May and November or, if not available at these dates, at the closest earlier date for which figures are available. Only publicly available information is used in calculating the free float restriction.

The following ownership is in general considered as restricting free float:

- Government holdings - Shareholdings owned by governments. This does not include shareholdings owned by a municipality.
- Controlling shareholders – Shares owned by a private or a public shareholder representing at least 50% of the capital are always considered as non-free float. Ownership Stakes exceeding 30% are also considered as non-free float. If one ownership stake exceeding 10% combined with another ownership stake exceeds 40%, they are considered as non-free float. If three or more ownership stakes, all exceeding 10%, combined exceed 50%, they are considered as non-free float. Shareholdings owned by an OMX ICE listed company in the same Industry Group exceeding 10% of the capital are always considered as non-free float.
- Company Insider stakes – Shares owned by persons included in the Insider list from the Financial Supervisory Authority, including treasury shares owned by the company itself. Shares owned by companies with representatives on the board are considered as insider stakes.
- Cross holdings – Shares owned by an index constituent or an OMX ICE listed non-constituent are classified as non-free float if the companies own shares in each other.

Securities with a free float greater than 15% will be included in the index with an inclusion factor equal to their actual free float (one decimal), rounded up to the closest 5%. Securities with a free float less than 15% will be included in the index with an inclusion factor equal to their actual free float, rounded down to the closest 1%. The constituent's free float is generally not changed between the review dates unless the free float has changed considerably as a result of a takeover according to rule 4.7.2

2.2.4 Market capitalization limit (Capping)

The maximum weight for a company in the OMXI6 Cap index is 35%. The largest company in the OMXI6 index may not weigh more than 35% of the total market value and the companies next in line may not weight more than 20% each.

The index is reviewed on a weekly basis to ensure that this criterion is not broken. At the end of each Friday each company's weight in the OMXI6 index is reviewed and capped if necessary. The revised composition takes effect the following Monday. If the largest company's weight is greater than 35% its weight is capped at 34% and if other companies' weight exceeds 20% their weight is capped at 19%. The capping results in the proportional increase of weights of non-capped index constituents. Should it happen as a result of the capping that the weight of another company exceeds the aforementioned limits, it is capped as well. This procedure is recursively repeated until no further capping is necessary. Finally a capping factor is calculated for each index constituent. The capping factor is the ratio of a company's capped number of shares to its number of shares in the OMXI6 index. Thus we see that index members which are capped have a capping factor < 1, and companies which have not been capped have a capping factor = 1. When share increases/decreases occur, the number of shares in the index is increased/decreased according to the capping factor.

3 Index Calculation

3.1 General

The Exchanges calculate and disseminate the OMXI6 index values in real-time.

3.2 Formula

The main objective of the index calculation is to reflect the changes in value of a portfolio consisting of the Index Constituents.

The OMXI6 index is calculated by using the following formula.

$$I_t = \frac{\sum_{i=1}^{n} q_{i,t} * p_{i,t} * r_{i,t}}{\sum_{i=1}^{n} q_{i,t} * p_{i,t-1} * r_{i,t-1} * j_{i,t}} * I_{t-1},$$

where

I_t = Index level at time t

$q_{i,t}$ = Number of shares of company i applied in the index at time t

$p_{i,t}$ = Price in quote currency of a share in company i at time t

$r_{i,t}$ = Foreign exchange rate of index quote currency to quote currency of company i at time t

$j_{i,t}$ = Adjustment factor for adjusting the share price of a constituent security due to corporate actions by the issuing company at time t

The formula yields the index value at the end of period t, represented by the sum of the previous index value and the periodic percentage change in the market capitalization (adjusted for corporate actions) multiplied by the previous index value. I.e. $I_t = (1+R) * I_{t-1}$, where R represents the periodic percentage change in the value of the portfolio consisting of the Index Constituents.

3.3 Number of Shares

The number of shares of a constituent applied in the index, $q_{i,t}$ in the formula in 3.2 is a result of the semiannual review and is fixed in the period between reviews with the exception of adjustments for corporate actions with priority for existing shareholders. The Exchange will provide both an uncapped and a capped version of the OMXI6, the market capitalization limit is described in 2.2.4.

3.4 Dividends

Both Price (PI) and Gross (GI) versions of the OMXI6 index are calculated.

3.4.1 Total Return - Gross indexes (GI)

To reflect the true performance of a market, dividends are reinvested in the total return version of the index. The reinvestment is carried out by adjusting the price $p_{i,t-1}$ in the denominator of the index formula - subtracting dividends from this price on the ex-dividend date t. This adjustment reinvests the dividend in all index constituents in proportion to their weights in the index.

$$\tilde{p}_{i,t-1} = \mathrm{p}_{\mathrm{i,t\text{-}1}} - dividend$$

3.4.2 Price Indexes (PI)

In the price return index cash dividends are not reinvested in the index. Hence, the price return index reflects the market performance related to stock price movements only. The difference in rate of return for the total and price return version of an index is attributable to the dividend yield of the index.

3.5 Adjustment Factor

If a company carries out a corporate action with priority for existing shareholders, any diluting effects must be adjusted for in order to reflect the true performance of the security in the index. In the event of a corporate action undertaken by a constituent company, an adjustment factor will be calculated and applied in the index calculation, $j_{i,t}$ in the formula in 3.2, according to the rules in section 4.

The adjustment factor used expresses the theoretical percentage change in the stock price as a result of the dilution.

4 Corporate Actions

This section lists the most common corporate actions undertaken by listed companies and describes the appropriate adjustment applied by the Exchange to uphold the correct representation of the index performance. Re-balancing will be undertaken using closing prices of the day prior to the revision.

The following corporate actions may lead to an adjustment of the indexes.

- Issues
- Split / Reverse split and change in face value
- Market price issue
- Spin-off and adjustments for issues
- Merger / take-over
- Redemption and cancellation of shares

The adjustments effected after the individual events are described in detail below.

4.1 Discretionary adjustments

OMX decides which adjustment alternative shall be employed and may in the cases described below make other adjustments than those stated, if warranted by special circumstances. The Exchange may also make adjustments to an index in other cases than stated below. Notwithstanding, the index adjustments shall wherever possible be in accordance with the aims set forth in 4.2 – 4.9.

4.2 New Share Issue with rights for existing shareholders (Rights Issue)

New share issue is an offer by the company to existing shareholders to take part in a new issue of shares. The new shares are offered in proportion to each shareholder's existing holding, generally at a reduced price. The issue of shares at below-market-price results in dilution of the existing shares. In a rights issue both the number of shares outstanding and market capitalization of the company increase.

Effective from the ex-date, the number of shares and price of the constituent are adjusted to reflect its true performance.

The adjustment factor is calculated by using the following formula:

$$\text{Adjustment factor j} = \left(\frac{p_{ex}}{P_{cum}}\right)$$

$$p_{ex} = \left(\frac{p_{cum} \cdot m + P \cdot n}{m + n}\right)$$

p_{cum} = Security price cum-rights

p_{ex} = Theoretical security price ex-rights

P = Subscription price

m = Number of head shares

n = Number of new shares

4.3 Bonus issue

A bonus issue or a stock dividend is an issue of shares free of charge to existing shareholders, the shares being brought into existence by the capitalization of the company's reserves. The new shares are issued in proportion to each shareholder's existing holding. The issue of bonus shares is merely an accounting transaction and results in no flow of capital into or out of the company. The number of shares increases but the market capitalization of the company remains unchanged. If the new shares deviate significantly from the Index Constituent, the Method described in 4.6.1 shall be applied.

The Exchange will increase the number of shares of the constituent security, by the number of additional shares, on the day that the Index Constituent is first available for trading on the Exchange ex rights (ex-day).

4.4 Split / Reverse split and change in face value

A stock split or a reverse split is the action of a company to split or recoup its shares, reducing or increasing, respectively, par value in proportion and so increasing or decreasing, respectively, the number of shares. The economic effect of a stock split or a reverse stock split is equivalent to a bonus issue, as there is no flow of capital into or out of the company. The number of shares increases (decreases) but the market capitalization of the company remains unchanged.

A reduction of share capital removes part of the nominal share capital of a security without affecting the market value. If the reduction takes place by maintaining the number of shares but reducing the face value of the shares (change in denomination) the price will not be affected and only the face value will be changed.

The Exchange will increase (decrease) the number of shares of the constituent security, by the number of additional shares (by the reduced number of shares), on the day that the Index Constituent is first available for trading on the Exchange ex rights (ex-day).

4.5 Market price issue

Market price issues where existing shareholders have waived their pre-emptive right to subscribe in the issue are usually offered to the public, directly to a person or an organization. As the issue is not reserved for present shareholders it is assumed that they are somehow compensated for, if any, dilution. The issue of new shares results in flow of capital into the company, the number of shares increases and the market capitalization of the company changes. Other issues like private placements and employee share issues, conversion of convertible debts and exercise of warrants or similar securities do also increase the share capital and are treated as a market price issue.

.For the OMXI6 index the number of shares is reviewed periodically so new shares from a market price issue are not included before the implementation of the new index composition at the next periodic review. If the new shares deviate significantly from the Index Constituent, the Method described in 4.6.1 shall be applied.

4.6 Spin-off and adjustments for issues

A spin-off is the action of a parent company to distribute among its shareholders the controlling stock that it holds in a subsidiary company or to issue shares in a new company based on a part of its current business. The spin-off results in outflow of capital in form of capital transfer from the parent company to the new company. In a spin-off the number of shares outstanding remains unchanged. However, the price of the company will be affected.

4.6.1 Direct Exclusion from the Index

When the company, the shares of which constitute an Index Constituent, carries out any of the following measures and where the shareholders have preferential rights of participation, Direct Exclusion from the index shall be used:

(i) issue of convertible bonds (debentures), debenture certificates carrying subscription warrants or similar securities,

(ii) offer to acquire securities or rights of any type or receive such securities or rights without consideration and
(iii) when a new issue is carried out which involves the issue of a new type of stock having rights that deviate significantly from the rights carried by the Index Constituent.

Exclusion method

If no satisfactory estimate of the right has been obtained, effective on the ex-date only, the constituent security is excluded from the index. However, if no price has been obtained on the ex-day, the constituent security will remain excluded from the index until the day after the first price observation. The adjustment results in the excluded constituent having the same performance as the weighted average performance of the other Index Constituents as a proxy for its true performance.

4.6.2 Inclusion of issued securities

If a constituent company distributes the controlling stock that it holds in a subsidiary company or issues shares in a new company based on part of its current business and the distributed securities are listed on the exchange at the spin off date, but not later than three (t+3) days after the spin off, the new company will be included, in the OMXI6 index until the next rebalancing date. The method to be applied in the treatment of the spin off will be evaluated according to the rules in 4.6.1.

4.7 Merger / take-over

A merger or take-over is to combine the ownership of two companies into a new company or that one company obtains the ownership of the other.

4.7.1 Take-over, control of 90 % of the acquiring company

The adjustments below will be effective on the day the acquiring company controls at least 90% of the outstanding shares in the acquired company. The term “control” is here defined as when either, (a) the acquiring company notifies the Exchanges of their control or receiving accepts of at least 90 per cent, (b) the transaction is registered in the Exchanges trading system or (c) the ownership of the shares is registered with the CSD.

In case such a replacement shall take place, the number of shares to be included in the Index Calculation is determined in accordance with the terms of the take-over offer or merger. Any conditions in the offer are not considered if the acquiring company gains control.

(i) If the acquiring company and the acquired company are index constituents and the acquisition is settled entirely or partly in eligible shares, the market capitalization of the acquiring company is increased in accordance with the terms of the offer or merger. The acquired company is deleted from the index.
(ii) If the acquiring company is not a constituent and the acquisition is settled entirely or partly in eligible shares, a part of the market capitalization of the acquiring company is included in the index in accordance with the terms of the offer or merger. In case the new Index Constituent is listed on the Exchange before the last listing day of the existing Index Constituent, the replacement shall take effect on the second listing day of the new Index Constituent on the Exchange. In cases where the constituent is de-listed from the Exchange before the first listing day of the new Index Constituent, the Index Constituent shall be deleted effective from the day following the last trading day of the Index Constituent. The new Index Constituent shall be included from its second listing day.
(iii) If the acquiring company is not listed on the Exchange or otherwise deemed unsuitable for inclusion, the acquired company is deleted from the index without including a new constituent.
(iv) If the acquiring company is a constituent and the acquired company is not a constituent, the market capitalization of the acquiring company is not increased until the next semi-annual review.

However, if a breach in the conditions of the offer results in reversing the adjustment, the reversing is treated as a spin-off in subsection 4.6.

4.7.2 Take-over: Adjustment of Free Float

To maintain the investibility after a substantial decrease in the shares available for trading the free float may be adjusted in the following case. When the terms and conditions of the take-over offer, including the minimum control of the acquired company, are fulfilled the free float can be adjusted. The adjustment will take effect two trading days after the acquiring company has announced the result of the offer. If the acquiring company obtains over 90% control of the acquired company rule 4.7.1 will be applied.

4.8 Redemption and cancellation of shares

If an Index Constituent resolves upon the redemption and cancellation of shares and if the shareholders have preferential rights to participation, the number of shares in OMXI6 shall be adjusted, normally on the trading day following the day on which the Exchange has received the conclusive announcement. Adjustment shall take place through a reduction in the number of shares included in the Index Constituent.

If the capital reduction is followed by a distribution of cash and/or rights, the corporate action is treated according to subsection 4.6.1.

4.9 Fast exit

If a security is de-listed from the Exchanges, an eligible replacement constituent is included in the index composition immediately. The exclusion of an Index Constituent will usually be carried out on its last trading day unless the security is deemed unsuitable for index purposes earlier.

Constituents will be removed at zero value, if considered to be in liquidation (and therefore of no value), or at the suspension price for all other circumstances.

Should a deleted constituent that has been suspended at a price other than zero (which would normally be the suspension price) be subsequently de-listed and deemed to be of zero value this stock will be included for one day's calculation in the index from which it was removed to enable the fall in the stock's value to be reflected in the index value. In this situation, the stock will be re-included at the suspension price, and its price will be zero throughout that day's calculation, including the closing price.

5 Limits of liability

OMX assume(s) no liability for loss or damages related to or arising out of the use of the indexes. OMX expressly disclaim all warranties of accuracy, completeness, merchantability or fitness for a particular purpose with respect to the indexes. Neither OMX nor any third party make any express or implied warranties or representations in respect of the indexes, the results to be obtained by the use hereof or the value of the indexes at any given time.

Appendix 1 – OMX Iceland 6 Indexes

Shortname	Full_name	ISIN
OMXI6	OMX Iceland 6	IS0000018885
OMXI6CAP	OMX Iceland 6 Cap	IS0000018901
OMXI6GI	OMX Iceland 6 GI	IS0000018893
OMXI6EUR	OMX Iceland 6 EUR	IS0000018919
OMXI6EURCAP	OMX Iceland 6 EUR Cap	IS0000018935
OMXI6EURGI	OMX Iceland 6 EUR GI	IS0000018927