



INDEX METHODOLOGY

NASDAQ OMX ICELAND FIXED DURATION INDEXES

OMXI1YNI – (OMXI 1-YEAR NON-INDEXED)

OMXI5YNI – (OMXI 5-YEAR NON-INDEXED)

OMXI5YI – (OMXI 5-YEAR INDEXED)

OMXI10YI – (OMXI 10 YEAR INDEXED)

OMXI10YNI – (OMXI 10 YEAR NON-INDEXED)

INDEX DESCRIPTION

The Nasdaq Iceland Fixed duration index family aims to reflect the Icelandic government guaranteed fixed income universe. In order to fix the duration of the indexes only government guaranteed bonds listed on Nasdaq Iceland with duration that falls within a certain period are eligible.

SECURITY ELIGIBILITY CRITERIA

Eligible security types

Eligible security types generally include all Icelandic government guaranteed bonds, notes and bills listed on Nasdaq Iceland.

Other eligibility criteria

In principle, all benchmark government guaranteed bonds, notes and bills listed and traded on NASDAQ Iceland are eligible for inclusion. If the benchmark system is eliminated in the future, Nasdaq will announce its response specifically; such a response will aim at having "benchmark-equivalent" classes in the indices and reflect the (probable) trading volume.

INDEX CALENDAR

Reconstitution schedule

The Index Reconstitution is conducted monthly. However, all constituents are removed from the index three (3) trading days prior to maturity date.

Reconstitution reference dates

The Security eligibility criteria are applied using market data at the end of the 25th calendar day of each month.

Reconstitution announcement dates

Index reconstitutions are announced at least one (1) business day prior to reconstitution effective date.

Reconstitution effective dates

Index Reconstitution become effective at market open on the first trading day in each month. In addition, constituents are removed from the index three (3) trading days prior to maturity date.

Rebalance schedule

The Indexes are rebalanced monthly.

Rebalance reference dates

The index Rebalance uses duration of the bonds at the end of the 25th calendar day of each month. The duration of the bonds as of that date (based on closing yield that day) is used as reference where duration is rounded to one decimal place.

Rebalance announcement dates

Index rebalances are announced at least one (1) business day prior to the Rebalance effective date.

Rebalance effective dates

Index Rebalances become effective at market open on the first trading day in each month.

CONSTITUENT SELECTION

Constituent selection process

The indexes are reviewed monthly. Eligible security types generally include all Icelandic government guaranteed bonds, notes and bills listed on Nasdaq Iceland. In principle, all benchmark government guaranteed bonds, notes and bills listed and traded on NASDAQ Iceland are eligible for inclusion. In addition to monthly review, constituents are removed from the index three (3) trading days prior to maturity date. If the benchmark system is eliminated in the future, Nasdaq will announce its response specifically; such a response will aim at having "benchmark-equivalent" classes in the indices and reflect the (probable) trading volume.

Bonds, notes and bills can be considered for inclusion in an index if their duration falls within the period¹:

[duration of the index - 0.5 * (1 + duration of the index), duration of the index + 0.5 * (1 + duration of the index)]

This entails the following:

For the 1Y index, bonds with a duration of 0 to 2 years are eligible

For the 5Y index, bonds with a duration of 2 to 8 years are eligible,

For the 10Y index, bonds with a duration of 4.5 to 15.5 years are eligible.

In addition, wherever possible, bonds, notes and bills of both longer and shorter duration than that of the index should be chosen. Thus, bonds outside of the duration intervals indicated above can be considered if necessary, to ensure that the index includes durations both longer and shorter than the designated index duration.

If bonds with durations on both sides of the index duration are not available, only one bond shall be chosen for the index, i.e., the bond with a duration closest to the index duration. Only under such circumstances is the index duration variable and will differ from its reference duration.

CONSTITUENT WEIGHTING

Constituent weighting scheme

Calculation of the weight of each bond in the index is done in two steps:

All bonds, notes and bills in the index with a duration less than the index duration are placed in one group (portfolio 1) and all bonds exceeding the index duration in another (portfolio 2). The weights of bonds in each group are determined using a normal distribution, with the mean equal to the index

¹ When determining the eligibility of a bond, its duration is rounded to one decimal place.

duration and standard deviation equal to $0.25 * (1 + \text{index duration})$. In particular, weights of a bond i in portfolio k ($k = 1$ or 2) is:

$$\alpha_i = \frac{F(-z_i)}{\sum_{i=1}^{n_k} F(-z_i)} \quad (1)$$

Where:

α_i is the weight of bond i

$F(.)$ is the cumulative probability function for the afore-mentioned normal distribution,

z_i is the number of standard deviations (absolute value) the Macaulay duration of a bond is from the duration of the index, and

n_k is the number of bonds in group k

The weights of the portfolios on each side of the index duration are determined in the following manner:

If dp_1 is the duration of portfolio 1, dp_2 is the duration of portfolio 2 and d_{index} is the duration of the index, the weight of portfolio 1 is

$$\gamma_{p1} = \frac{d_{\text{index}} - d_{p2}}{d_{p1} - d_{p2}} \quad (2)$$

and the weight of portfolio 2 is

$$\gamma_{p2} = 1 - \gamma_{p1} \quad (3)$$

The weight of bond i in the index is thus

$$w_i = \alpha_i * \gamma_{pk} \quad (4)$$

if the bond is in portfolio k ($k = 1$ or 2)

The duration of portfolio k is found using the following formula:

$$d_{pk} = \sum_{i=1}^n \alpha_i d_i \quad (5)$$

where d_i is the Macaulay duration of bond i .

INDEX MAINTENANCE

Deletion policy

Index securities are removed from the index three (3) trading days prior to maturity date.

If, at any time during the year other than the Index Reconstitution(s), an Index Security no longer meets the Eligibility Criteria, or is otherwise determined to have become ineligible for inclusion in the Index, the Security is removed from the Index. This includes circumstances where an Index Security is determined to be ineligible for continued inclusion in the Index due to delisting.

Replacement policy

Index Securities are not replaced in the Indexes outside of the Index Reconstitutions.

Addition policy

Index Securities are not added to the Index outside of the Index Reconstitution.

ADDITIONAL INFORMATION

Announcements

Nasdaq announces Index-related information via the Nasdaq Global Index Watch (GIW) website at <http://indexes.nasdaqomx.com>.

For more information on the general Index Announcement procedures, please refer to the **Nasdaq Index Methodology Guide**.

Holiday schedules

The Indexes are calculated Monday through Friday, except on days when the Eligible Exchange is closed.

Unexpected market closures

For information on Unexpected Market Closures, please refer to the **Nasdaq Index Methodology Guide**.

Index calculation

The index value is calculated using the following formula:

$$I_t = I_{t-1} \sum_{i=1}^n w_{it} \frac{P_{it}}{P_{it-1} - j_{it-1}} \quad (6)$$

Where:

I_t = the index value on day t,

w_{it} = the weight of bond i in the index on day t,

P_{it} = the dirty price, or settlement price, of bond i on day t,

j_{it-1} = an adjustment factor for interest payments and instalments. This is the amount of the cash flow (the sum of instalments and interest) on day t.

All bonds are thus placed in the index formula on a comparable price basis, i.e., using the dirty price for all of them, which makes the price in the formula differ from the quoted market price, where the quoted market price is the clean price.

The adjustment factor j in the equation denominator results from the fact that on a cash flow “ex-date”, and holding other things constant, the dirty price (settlement price) falls by the amount of this cash flow.

Index yield calculation

The index yield is calculated end of day with index value for the fixed duration indexes. The method we will use is an approximation to an average yield. We use weighted individual yield for each constituent multiplied by its duration since duration is the discounted life of all future cash flows of the bond:

$$Y_t = \frac{\sum_{i=1}^n w_i * d_i * p_i * y_i}{\sum_{i=1}^n w_i * d_i * p_i} \quad (7)$$

Where:

d_i = Macaulay duration for bond i,

p_i = dirty price of bond i,

w_i = weight of bond i in index,

y_i = Yield to maturity of bond i,

Y_t = Index yield at time t.

n = number of bonds in index

Recalculation and restatement policy

For information on the Recalculation and Restatement Policy, please refer to the **Nasdaq Index Recalculation Policy**.

Data sources

For information on data sources, please refer to the **Nasdaq Index Methodology Guide**.

Contact information

For any questions regarding an Index, please contact the Nasdaq Index Client Services team at indexservices@nasdaq.com.

Index dissemination

Index values and weightings information are available through Nasdaq Global Index Watch (GIW) website at <https://indexes.nasdaqomx.com/> as well as the Nasdaq Global Index FlexFile Delivery Service (GIFFD) and Global Index Dissemination Services (GIDS). Similar to the GIDS offerings, Genium Consolidated Feed (GCF) provides real-time Index values and weightings for the Nordic Indexes.

For more detailed information regarding Index Dissemination, see the **Nasdaq Index Methodology Guide**.

Index calculation and dissemination schedule

The Indexes are calculated during the trading day based on the Last Sale Price and are disseminated at the end of the day (EOD). The closing value of the indexes may change up until 17:15:00 ET due to corrections to the Last Sale Price of the Index Securities.

Website

For further information, please refer to Nasdaq GIW website at <https://indexes.nasdaqomx.com/>.

FTP and dissemination service

Index values and weightings are available via FTP on the Nasdaq Global Indexes FlexFile Delivery Service (GIFFD). Index values are available via Nasdaq's Global Index Dissemination Services (GIDS).

GOVERNANCE

Index governance

All Nasdaq Indexes follow the same governance structure. For a detailed list of this information, please see the **Nasdaq Index Methodology Guide**.

Nasdaq Index Management Committee

The Nasdaq Index Management Committee approves all new Index Methodologies. This committee is comprised of full-time professional members of Nasdaq. The committee meets regularly, and reviews

items including, but not limited to, pending corporate actions that may affect Index constituents, statistics comparing the composition of the indexes to the market, companies that are being considered as candidates for addition to an Index, and any significant market events.

For a detailed overview of the Index Management Committee, please see the **Nasdaq Index Methodology Guide**.

Internal reviews of methodology

For a detailed description on internal reviews of the Methodology, please see the **Nasdaq Index Methodology Guide**.

Communication with stakeholders and consultations

For a detailed description on Consultations and Communications with Stakeholders, please see the **Nasdaq Index Methodology Guide**.

Index cessation

Nasdaq has a documented procedure that is followed for Index Cessation that includes termination/retirement of an Index or Index Family.

For more information, please refer to the **Nasdaq Index Cessation Policy**.

Discretionary adjustment

This Index Methodology was created by Nasdaq to achieve the aforementioned objective of measuring the underlying purpose of each Index governed by this methodology document. Any deviations from this methodology are made in the sole judgment and discretion of Nasdaq so that the Index continues to achieve its objective.

For more information on potential adjustments including Calculation and Pricing Disruptions, Expert Judgment, and Unexpected Reconstitution/Rebalances, please refer to the **Nasdaq Index Methodology Guide**.

GLOSSARY OF TERMS AS USED IN THIS DOCUMENT

For the glossary of key terms, please refer to the **Nasdaq Index Methodology Guide**.

DISCLAIMER

Nasdaq may, from time to time, exercise reasonable discretion as it deems appropriate in order to ensure Index integrity, including but not limited to, quantitative inclusion criteria. Nasdaq may also, due to special circumstances, if deemed essential, apply discretionary adjustments to ensure and maintain the high quality of the index construction and calculation. Nasdaq does not guarantee that any Index accurately reflects future market performance.

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