

# NASDAQ Hong Kong Banks™ Index Methodology

## Index Description

The NASDAQ Hong Kong Banks Index is comprised of securities that are listed on the Hong Kong Stock Exchange and classified as Banks by the Industry Classification Benchmark (ICB).

## Index Calculation

The NASDAQ Hong Kong Banks Index is a float adjusted modified market capitalization weighted index. The value of the Index equals the aggregate value of the Index share weights, also known as the Index Shares<sup>1</sup>, of each of the Index Securities multiplied by each such security's Last Sale Price<sup>2</sup>, and divided by the divisor of the Index. The divisor serves the purpose of scaling such aggregate value to a lower order of magnitude which is more desirable for Index reporting purposes. The Index began on July 21, 2014 at a value of 1000.00.

The formula for index value is as follows:

$$\text{Aggregate Adjusted Market Value/Divisor}$$

The formula for the divisor is as follows:

$$(\text{Market Value after Adjustments/Market Value before Adjustments}) \times \text{Divisor before Adjustments}$$

Six versions of the Index are calculated – a price return index, a total return index and a net total return index.

- The price return Index in USD (Nasdaq: NQHKBANK) is ordinarily calculated without regard to cash dividends on Index Securities.
- The total return Index in USD (Nasdaq: NQHKBANKT) reinvests cash dividends on the ex-date.
- The net total return Index in USD (Nasdaq: NQHKBANKN) reinvests cash dividends on the ex-date and adjusts for an Index security's country of incorporation withholding rate.
- The price return Index in HKD (Nasdaq: NQHKBANKHKD) is ordinarily calculated without regard to cash dividends on Index Securities.
- The total return Index in HKD (Nasdaq: NQHKBANKHKDT) reinvests cash dividends on the ex-date.

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<sup>1</sup> Index Shares are the free float shares outstanding determined by multiplying the total shares outstanding by the free float factor provided by Thomson Reuters.

<sup>2</sup> For purposes of this document, Last Sale Price refers to the last regular way trade reported on such security's Index Market. The Index Market is the listing market for which prices are received and used by Nasdaq in the Index calculation and generally will represent the most liquid trading market of the Index Security. If a security does not trade on its Index Market on a given day or the Index Market has not opened for trading, the most recent last sale price from the Index Market (adjusted for corporate actions, if any) is used. For securities where Nasdaq is the Index Market, the Last Sale Price may be the Nasdaq Official Closing Price (NOCP) when Nasdaq is closed.

- The net total return Index in HKD (Nasdaq: NQHKBANKHKDN) reinvests cash dividends on the ex-date and adjusts for an Index security's country of incorporation withholding rate.

All Indexes reflect extraordinary cash distributions.

The Indexes are calculated during the trading day and are disseminated once per second. The Indexes are calculated five (5) days a week, Monday through Friday during Hong Kong hours.

## **Eligibility**

Index eligibility is limited to specific security types only. The security types eligible for the Index include common stocks, limited partnership interests, and shares or units of beneficial interest.

## **Eligibility Criteria**

To be eligible for inclusion in the NASDAQ Hong Kong Banks Index, a security must meet the following criteria:

- be listed on the Hong Kong Stock Exchange;
- be classified as a Bank at the Super Sector level, as defined by the Industry Classification Benchmark (ICB);
- have a minimum float adjusted market capitalization of USD 500 million;
- have a minimum three month average daily dollar trading value of USD 3 million;
- may not have entered into a definitive agreement or other arrangement which would likely result in the security no longer being Index eligible; and
- may not be issued by an issuer currently in bankruptcy proceedings.

## **Continued Eligibility Criteria**

To be eligible for continued inclusion in the Index a security must meet the following criteria:

- have a minimum float adjusted market capitalization of USD 300 million; and
- have a minimum three month average daily dollar trading value of USD 1 million.

## **Index Evaluation**

The Index Securities are evaluated annually in March. The above Eligibility Criteria are applied using market data through the end of January. Securities meeting the criteria are included in the Index. Security additions and deletions are made effective after the close of trading on the third Friday in March.

In addition to the Annual Evaluation, the Index at each quarterly rebalance (June, September and December) will be reviewed for recent Initial Public Offerings (IPO) for fast-entry into the Index, using market data through the end of April, July, and October, respectively. If an IPO security meets all the above Eligibility Criteria, the security will be added to the Index at the next calendar quarter (June, September and December) corresponding with the Quarterly Rebalancing.

The existing Index Securities not meeting the minimum float adjusted market capitalization and/or the minimum three month average daily dollar trading value will not be removed from the Index at the quarterly rebalance.

Additionally, if at any time during the year other than the Evaluation, an Index Security no longer meets the Eligibility Criteria, or is otherwise determined to have become ineligible for inclusion in the Index (other than failing to meet the minimum float adjusted market capitalization and/or the minimum three month average daily dollar trading value), the security is removed from the Index and is not replaced. In all cases, a security is removed from the Index at its Last Sale Price. If, however, at the time of its removal the Index Security is halted from trading on its primary listing market and an official closing price cannot readily be determined, the Index Security may, in Nasdaq's discretion, be removed at a zero price. The zero price will be applied to the Index Security after the close of the market but prior to the time the official closing value of the Index is disseminated, which is ordinarily 17:16:00 ET.

### **Index Maintenance**

Index Share changes are not made during the quarter however changes arising from stock dividends and stock splits are made to the Index on the evening prior to the effective date of such corporate action.

A special cash dividend announced by the listing exchange will result in an adjustment to the Last Sale Price of an Index Security prior to market open on the ex-date for the special amount distributed. A special dividend may also be referred to as extra, extraordinary, non-recurring, one-time, unusual, etc.

Ordinarily, whenever there is a change in Index Shares, a change in an Index Security or a change to the price of an Index Security due to spin-offs, rights issuances or special cash dividends as mentioned above, the divisor is adjusted to ensure that there is no discontinuity in the value of the Index which might otherwise be caused by any such change. All changes are announced in advance and are reflected in the Index prior to market open on the Index effective date.

### **Index Rebalancing**

#### **Quarterly**

The Index employs a float adjusted modified market capitalization weighting methodology. Float takes into account strategic and government holdings, as well as foreign ownership limits.

At each quarter, the Index is rebalanced sequentially such that:

1. The largest group entity will be capped at 33% with excess weight being redistributed to all non-capped entities.
  - a. Weights for group entities that have more than one security are proportionally distributed in accordance to their float market cap weights.
2. Second biggest group entity and all others are capped at 18% with the excess weight being redistributed to all non-capped entities.
  - a. Weights for group entities that have more than one security are proportionally distributed in accordance to their float market cap weights.

3. The top five (5) securities are capped at 70%, if the aggregate weight of the top five (5) securities is greater than 70%.
4. Any security with a weight greater than 18% is capped at 18% and the weight is proportionally redistributed to those securities in the top five (5) that are not capped such that the top five (5) securities weight totals capped at 70% (if they were above 70%). The remaining weight is proportionally redistributed such that the remaining securities have a total weight of 30% (if the top five (5) were capped at 70%).

The modified market capitalization weighting is applied to the float capitalization of each Index Security, using the Last Sale Price and spot rate of the security at the close of trading on the last trading day in February, May, August and November and after applying quarterly changes and free float factors to the total shares outstanding. Index Shares are then calculated by multiplying the weight of the security derived above by the new market value of the Index and dividing the float adjusted modified market capitalization for each Index Security by its corresponding Last Sale Price and spot rate. The changes are effective after trading on the third Friday in March, June, September and December.

### **Daily Rebalancing**

On a daily basis, the Index Security weights are reviewed to ensure the weights are not exceeding the threshold. If and when the weight of the top five (5) Index Securities meets 74% or greater, the Index is rebalanced immediately such that the maximum weight of the top five (5) securities does not exceed 70%.

The modified market capitalization weighting is applied to the float capitalization of each Index Security, using the Last Sale Price and spot rate of the security at the close of trading on the day the maximum weight of the top five (5) securities meets 74% or greater, using the free float factors and the latest total shares outstanding. Index Shares are then calculated by multiplying the weight of the security derived above by the new market value of the Index and dividing the float adjusted modified market capitalization for each Index Security by its corresponding Last Sale Price and spot rate.

Nasdaq may, from time to time, exercise reasonable discretion as it deems appropriate in order to ensure Index integrity.

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