



SHUAA CAPITAL_{PSC}

SHUAA Capital Index Guide

September 1st, 2009

Ahmad M. Shahin

+9714 3199 742

ashahin@shuaacapital.com

Nicole Chamat

+961 1 974 479

nchamat@shuaacapital.com

Introduction to SHUAA Capital Indices

The case for SHUAA Capital Indices

As an investment bank primarily focused on capital markets of the Arab region, SHUAA Capital realized back in 2002 the need for a standardized method for the measurement of the performance of regional capital markets both individually and collectively as a single asset class, in order to be able to more accurately compare market performances as well as benchmark the performance of regionally focused investment funds. The adopted methodology for the construction of the indices catered for different users, hence the adoption of both local currency and US Dollar denominated indices. As a standard for the construction of the SHUAA Capital family of equity indices, the International Finance Corporation's (IFC) methodology was adopted due to its highly respected and widely followed emerging market indices that are considered by many emerging market specialists to be an accurate benchmark.

Contents

INTRODUCTION TO SHUAA CAPITAL INDICES	1
THE CASE FOR SHUAA CAPITAL INDICES.....	1
THE SHUAA CAPITAL INDICES	3
EQUITY INDICES	4
MAIN CHARACTERISTICS:	4
STOCK SELECTION GUIDELINES:.....	5
ELIGIBLE SECURITIES	5
TRADING ACTIVITY	5
MARKET CAPITALIZATION TARGET COVERAGE	5
ADDITIONS OUTSIDE THE ANNUAL REVIEW	5
DELETIONS OUTSIDE THE ANNUAL REVIEW	5
ADJUSTMENTS TO MARKET CAPITALIZATION	5
GENERAL METHODOLOGY:.....	6
ADJUSTMENTS AT THE STOCK LEVEL	6
ADJUSTMENTS AT THE INDEX LEVEL	6
THE SHUAA CAPITAL ARAB ISLAMIC INDEX	7
THE CASE FOR THE SC ARAB ISLAMIC INDEX	7
INDEX CONSTRUCTION & METHODOLOGY	7
PROHIBITED INDUSTRIES	7
LEVERAGE RATIO	7
INTEREST INCOME RATIO	7
PRODUCTIVE ASSET RESTRICTION	7

The SHUAA Capital Indices

The most important feature of the SHUAA Capital indices is their flexibility. Any number of equity indices can be created based on the background data contained within the SHUAA Capital Arab Composite Index, which contains listed companies in all 14 Arab markets along with the associated periodic adjustments for corporate actions etc. (For example, a Dollar denominated equity index for cement companies in Egypt and Jordan can be created, or an index of all financial services companies in the Arabian Gulf ex-Saudi Arabia.)

The main SHUAA Capital indices are the following:

SHUAA Capital Arab Composite Index

REUTERS: (.SCAI)

The SC Arab Composite Index is a value weighted US Dollar denominated composite of the 14 Arab equity markets of Saudi Arabia, UAE, Kuwait, Bahrain, Qatar, Oman, Jordan, Palestine, Lebanon, Egypt, Tunisia and Morocco. The selection criteria for stocks included in the index is the representation of at least 75% of the total market capitalization and no less than six listed companies in each market.

SHUAA Capital GCC General Index

REUTERS: (.SCGCC)

The SC GCC General Index is a value weighted index that tracks the collective performance of the six GCC equity markets in Saudi Arabia, UAE, Kuwait, Bahrain, Qatar and Oman. The same selection criteria as the SC Arab Composite Index apply.

SHUAA Capital Levant General Index

REUTERS: (.SCLEV)

The SC Levant General Index is a value weighted index that tracks the collective performance of the three Levant equity markets in Lebanon, Jordan and Palestine.

SHUAA Capital North Africa General Index

REUTERS: (.SCNAF)

The SC North Africa General Index is a value weighted index that tracks the collective performance of the three North African equity Markets in Egypt, Tunisia and Morocco.

SHUAA Capital UAE General Index

REUTERS: (.SCUAE)

The SC UAE General Index is a value weighted index that tracks the performance of the UAE market. The index is made up of companies listed on the Dubai Financial Market, NasdaqDubai and the Abu Dhabi Securities Market.

SHUAA Capital Arab Islamic Index

REUTERS: (.SCISL)

The SC Arab Islamic Index is a value weighted US Dollar denominated index that tracks the performance of Islamic Sharia compliant companies listed in the 12 Arab markets. The index constitutes 61 Sharia-compliant companies, which are revised annually for Sharia compliance.

Equity Indices

Main characteristics:

All the SHUAA Capital Equity indices share the following characteristics:

- Cover all the Arab markets that have active stock exchanges, currently twelve: Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Palestine, Qatar, Saudi Arabia, Tunisia and UAE.
- The indices are calculated in US dollars, and local currency where applicable, to better reflect the fluctuations in the local currencies.
- Each index is market capitalization weighted.
- A variety of indices: 12 country indices, 1 Arab Index, 3 Regional indices, 1 Arab Islamic, and various sector indices.
- The inclusion criterion of a company in the index is not only based on size but also on liquidity.
- The indices are adjusted for corporate actions, which include bonus issues, stock splits, rights issues and new issues.
- The indices are published daily.
- The base date for all our indices is Dec.31, 1999 at which time they were all at 1,000.

Stock Selection Guidelines:

SHUAA Capital Indices are intended to represent the performance of the largest and 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 a minimum of 75% of total market capitalization is met. In the case where one or two stocks make up the target coverage, a minimum of six stocks should be included from each 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.

General Methodology:

The SHUAA Capital Indices are market capitalization weighted and calculated in U.S. dollar terms. In order for the index to be accurate a number of periodic and case specific adjustments have to be applied both on the stock level and the index level. The adjustments are the following:

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.

1. 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.

2. 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.

3. Splits

Because prices drop by the split ratio, total capitalization does not change at the time of the split and no adjustment is needed.

4. 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 capitalization 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.

The SHUAA Capital Arab Islamic Index

The Case for the SC Arab Islamic Index

Companies that adhere to a number of qualitative, and quantitative financial standards are considered to be Sharia compliant. The SHUAA Capital Arab Islamic Index was created to be the benchmark for investments in listed Sharia compliant companies in the Arab region, and hence monitors the performance of Sharia compliant companies listed on the 14 Arab markets.

Index Construction & Methodology

The SC Arab Islamic Index is constructed and maintained in the same way as all SHUAA Capital equity indices, with the addition of a number of stock selection criteria associated with Sharia compliance. The Dow Jones Islamic criteria were adopted. The mentioned criteria are detailed below:

Prohibited Industries

Companies whose core business or major source of revenue is based upon the following are excluded:

- Manufacturing, packing, or distribution of tobacco, alcohol or pork products for human consumption.
- Manufacture and/or sale of weapons.
- Operating gambling casinos, or manufacturing gambling machines or equipment.
- Operating movie theaters creating, publishing or distributing pornography.
- Conventional interest based financial services, including banks and insurance companies.
- Conventional brokerage houses dealing in all types of conventional securities.
- Restaurants that derive over 10% of their core revenues from the sale of alcohol.
- Conglomerates that derive over 10% of their revenues from non-halal activities as mentioned above.

Leverage ratio

The ratio of total debt (all interest bearing debt, including short-term and long-term conventional debt, convertible bonds, preference share, off balance sheet debt etc.) to total company assets may not exceed 33%.

Interest Income ratio

Interest-bearing securities plus cash should be less than 33% of the trailing 12-month market capitalization average.

Productive Asset Restriction

Accounts receivable have to be less than 45% of total assets.

Adherence to the above criteria is revised once a year based on year-end financial statements of the constituents, and stocks are added or removed accordingly from the index.

Research

Head of Research / Chief Economist

Mahdi H. Mattar, Ph.D.
+9714 3199 839
mmattar@shuaacapital.com

Strategy and Economics

Ahmad M. Shahin
+9714 3199 742
ashahin@shuaacapital.com

Jafar Shami
+9714 3199 522
jshami@shuaacapital.com

Commercial Banks and other Financial Services

Mahdi H. Mattar, Ph.D.
+9714 3199 839
mmattar@shuaacapital.com

Sofia El Boury
+9714 4283 533
selboury@shuaacapital.com

Ghida Obeid
+9714 4283 536
gobeid@shuaacapital.com

Data

Ahmad M. Shahin
+9714 3199 742
ashahin@shuaacapital.com

Nicole Chamat
+961 1 974 479
nchamat@shuaacapital.com

Heavy Industries and Utilities

Mahdi H. Mattar, Ph.D.
+9714 3199 839
mmattar@shuaacapital.com

Hala Fares
+9714 4283 539
hfares@shuaacapital.com

Telecommunications, Media and Technology

Simon Simonian, CFA
+9714 3199 763
ssimonian@shuaacapital.com

Jessica Estefane
+9714 3199 834
jestefane@shuaacapital.com

Consumer, Retail and Pharma

Laurent-Patrick Gally
+9714 4283 544
lgally@shuaacapital.com

Transportation and Logistics

Kareem Z. Murad
+9714 3199 757
kmurad@shuaacapital.com

Real Estate, Construction and Construction Materials

Roy Cherry
+9714 3199 767
rcherry@shuaacapital.com

Taher Safieddine
+9714 4283 543
tsafieddine@shuaacapital.com

Technical Analysis

Adel Merheb
+9714 3199 793
amerheb@shuaacapital.com

Design

Jovan Ruseski
+9714 3199 759
jruseski@shuaacapital.com

Client Services:

+971 (4) 319-9603
UAE toll free 800 4665
clientservices@shuaacapital.com

Sales Trading Desk:

+971 (4) 319-9700
+971 (2) 409-0777
tradingdesk@shuaacapital.com

This document has been issued by SHUAA Capital for informational purposes only. This document is not and should not be construed as an offer or the solicitation of an offer to purchase or subscribe or sell any investment or subscribe to any investment management or advisory service. This document is not intended as investment advice as to the value of any securities or as to the advisability of investing in, purchasing, or selling any security. SHUAA Capital has based this document on information obtained from sources it believes to be reliable. It makes no guarantee, representation or warranty as to its accuracy or completeness and accepts no responsibility or liability in respect thereof or for any reliance placed by any person on such information. All opinions expressed herein are subject to change without notice. This document may not be reproduced or circulated without the prior written consent of SHUAA Capital psc.