S&P DOW JONES INDICES

S&P SHARIAH INDICES METHODOLOGY

FREQUENTLY ASKED QUESTIONS

1. What are the S&P Shariah Indices?
2. Is screening sector- or stock-based?
3. Are advertising and media companies considered Shariah-compliant?
4. Are embryonic and stem cell research and production companies considered Shariah-compliant?
5. Are all financial companies considered Shariah-non-compliant according to the S&P Shariah Indices Methodology?
6. Why are defense stocks included?
7. How are companies with a large percentage of income generated through interest judged to be compliant?
8. How are investments in mutual funds by companies treated? Is the income derived from these investments considered compliant?
9. How does the S&P Shariah Indices Methodology define debt? How is it calculated?
10. How is the average market capitalization of stocks calculated?
11. How is the dividend purification ratio calculated? What goes into the component of dividends to be purified?
12. How are consolidated statements used? Are any unconsolidated balance sheets used?
13. Do the S&P Shariah Indices use only audited results or are unaudited results used as well?
14. Are any interim or quarterly results used?
15. Are there any differences in treatment by market?
16. Why are the norms of standardized organizations such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) not used?
17. When does the monthly Shariah review process occur?
18. In the debt/36-month average market cap, which clauses are considered debt?
19. Accounts receivable/36-month average market cap: what is included in accounts receivable?
20. Do cash and interest-bearing securities include short-term investments, cash equivalents, deposits and bonds?
21. Are companies that are fully Shariah-compliant subject to accounting-based screens?
22. How can I find out more information about the S&P Shariah Indices?

1. What are the S&P Shariah Indices?

Our Shariah indices provide investors with a comprehensive set of Shariah-compliant investment solutions. Representative of each market, with high correlations to their underlying indices, each index offers a comparable investable portfolio while adopting explicit, transparent selection criteria as defined by Islamic law.

2. Is screening sector- or stock-based?

Stocks that are considered for inclusion in the S&P Shariah Indices are screened using a sector-based screening regime supplemented by a stock-based screening scheme. As a result, although certain sectors (e.g., hotels) are often classified as non-compliant, each stock is individually screened and the non-permissible revenues are determined using various methods that include consulting company statements, third-party sites (e.g., Bloomberg and Google Finance), and contacting the companies themselves. This method has the benefit of being more accurate than a simple sector-based screening, particularly in the case of conglomerates, where a single sector-based classification is unlikely to be representative of all the activities of the conglomerate.

3. Are advertising and media companies considered Shariah-compliant?

The S&P Shariah Indices Methodology states that companies in the advertising and media sector are generally not Shariah-compliant with the exception of:

- Newspapers
- News channels
- Sports channels
- Media and advertising companies generating revenues in excess of 65% of total income from GCC countries (also see question 15).

4. Are embryonic and stem cell research and production companies considered Shariah-compliant?

Companies engaged in genetic cloning activities are generally excluded from inclusion in any S&P Shariah Index with the following exception: embryonic/adult stem cell research is permissible only if it is used for therapeutic/healing purposes and not for duplication of tissues or organs of humans and animals.

5. Are all financial companies considered Shariah-non-compliant according to the S&P Shariah Indices Methodology?

All companies in the financial sector such as conventional banks and insurance companies are considered Shariah-non-compliant with the exception of Islamic banks, Islamic financial institutions and Islamic insurance companies. Such financial companies are defined as:

- Having a Shariah Committee to supervise all activities
- Having only Islamic products
- Investing in only Islamic products or companies
- Passing accounting-based screens.

6. Why are defense stocks included?

The Ratings Intelligence/S&P Shariah Control Committee[1] takes the view that weapons can be used for both permissible (e.g., self-defense) and non-permissible (e.g., unprovoked aggression) purposes. The weapons themselves are neutral. Hence, the manufacturing of weapons is considered permissible.

[1] The Ratings intelligence/S&P Shariah Control Committee is made up of prominent scholars who are very experienced in the application of Shariah to financial products and services. Ratings Intelligence is a consulting firm focused on Islamic Finance.

7. How are companies with a large percentage of income generated through interest judged to be compliant?

The S&P Shariah Indices Methodology does not use interest income (as a percentage of total income) as a screening filter. The S&P Shariah Indices Methodology filters out non-permissible income excluding interest income as a percentage of the total revenues. Non-permissible income includes such things as alcohol sales, sales of products containing pork, etc.

The reason for this is to allow for investment in the shares of companies who are in the research and development phase (e.g., mining or energy companies). These companies often do not generate a sizable revenue (during the R&D phase) from operations, but have a market capitalization well in excess of the cash on their balance sheet[2] based on the expectation of high future revenue and profits.[3] However, they usually have a high dividend purification ratio (requiring purification at a high level) because any interest they may have received during the R&D phase appears exaggerated due to the small or non-existing revenue from operations.

Such stocks, if they pass all other Shariah screens, and if the cash balances plus any interest-bearing marketable securities (these are the sources of interest income) are within the Shariah limits with respect to the average market capitalization, are allowed for investment.

8. How are investments in mutual funds by companies treated? Is the income derived from these investments considered compliant?

Investments in mutual funds are generally considered to be non-compliant unless the funds in question are Shariah-compliant Islamic funds. There are, however, occasions where regional or circumstantial assumptions may be employed (e.g., having observed that around 50% of the investible universe in India comprises Shariah-compliant stocks, 50% of the income from a mutual fund based in India may be considered compliant).

9. How does the S&P Shariah Indices Methodology define debt? How is it calculated?

Debt, as defined by the S&P Shariah Indices Methodology, is the sum of all short- and long-term *interest-bearing* borrowings and liabilities. It is calculated by summing all such items reported in constituent companies' statements.

10. How is the average market capitalization of stocks calculated?

The average market capitalization of X over n months is calculated by multiplying the moving average daily closing price of X over n months (must be adjusted for corporate actions) (P_{avg}) with the total number of shares outstanding for X.

For stocks that have multiple share classes, this is estimated as $P_{avg}/P_{last} * M$, where M is the current market capitalization and P_{last} is the last closing price of X (for P_{avg} and P_{last}, the figures for the main share class are used).

For companies that do not have a sufficiently long price history (e.g., recent IPOs), the figure P_{avg} is calculated as the moving average daily closing price of X over n days where n is the number of days X has been trading or the number of days that a daily closing price for X has been available.

11. How is the dividend purification ratio calculated? What goes into the component of dividends to be purified?

The dividend purification ratio is calculated as:

[2] Shariah law promotes the development of businesses and fair trade.
[3] If a company only has cash on its balance sheet, with no prospect of future revenues, the equity market will likely see through this, ensuring that its market capitalization will generally be less than the value of its cash holdings. As a result, the stock will fail the cash compliance screens and so be non-compliant.

DP ratio = Non-Permissible Revenue/Total Revenue

Non-permissible revenue, in this context, includes all forms of revenue or income that are considered non-permissible from a Shariah perspective (e.g., alcohol sales, gambling revenue, etc.) and includes any income generated from interest.

The DP ratio determines what portion of the dividends received must be purified (i.e., given to charity). As an example, a DP ratio of 0.10 (i.e., 10%) implies that 10% of the dividends need to be given to charity, while a DP ratio of 1.0 (i.e., 100%) requires all of the dividends received to be purified.

12. How are consolidated statements used? Are any unconsolidated balance sheets used?

In certain regions (e.g., Japan and India), companies often publish separate consolidated and unconsolidated balance sheets and income statements. However, Ratings Intelligence (S&P's Shariah screening partner) has observed that these companies usually are large conglomerates having a large number of subsidiaries, often with a less than 100% holding in each subsidiary. In such cases, using a consolidated company statement often results in the Shariah ratios being distorted (e.g., debt/equity ratios of 200% or above). Because of this, Ratings Intelligence and S&P Dow Jones Indices have sought and obtained Shariah Committee authorization to use unconsolidated balance sheets by default and calculate pro-rata figures by taking into account the parent company's holding in each subsidiary.

13. Do the S&P Shariah Indices use only audited results or are unaudited results used as well?

In determining Shariah compliance for inclusion in the S&P Shariah Indices, we use the latest financial statement regardless of whether the latest statement is a quarterly, semi-annual, or annual statement. Annual statements are typically audited while quarterly and semi-annual statements are often unaudited.

14. Are any interim or quarterly results used?

We use the latest statement regardless of whether the latest statement is a quarterly, semi-annual, or annual one. If the latest statement is available in all of these three formats, the annual statement will be preferred, since it is more likely to be audited and often more complete.

15. Are there any differences in treatment by market?

The properties of the S&P Shariah Indices Methodology are market-independent in that stocks in all markets are treated with the same rules.[4]

16. Why are the norms of standardized organizations such as the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) not used?

The S&P Shariah Indices' screening methodology reflects the latest thinking of the Shariah Control Committee. This may differ from the norms of organizations like AAOIFI for two reasons. Firstly, different Shariah committees can come to different conclusions. Secondly, these "consensus" organizations tend to be less dynamic in their thinking. We do expect screening norms to converge on the S&P Shariah Indices' criteria over time.

17. When does the monthly Shariah review process occur?

- During the week of the first and second Fridays of the month, the Shariah screening of the underlying index members occurs. Values may be fixed (subject to Shariah Control Committee approval) at any point during this time, but this usually happens on the Tuesday of the week of the second Friday of the month, with the

[4] During the meeting held on March 31, 2010 in Dubai, the Shariah Committee recommended that media and advertising companies generating revenues in excess of 65% of total income from the GCC (Gulf Cooperation Council) countries may be allowed for investment while most other advertising and media companies are not allowed (except for newspapers, news channels and sports channels, also see question 3). However, this rule applies to companies originating from any market (i.e., it is not limited to the GCC region). The rule itself is related to the fact that globally-used media (versus that media used only in the GCC region) typically includes images and/or advertising/media language that is inappropriate from a Shariah perspective.

three-year moving average market capitalizations corresponding to the three years immediately preceding the Tuesday of the week of the second Friday of the month.

- During the week of the second and third Fridays of the month, Shariah committee authorization is obtained.

S&P Dow Jones Indices announces changes to the S&P Shariah Indices on the third Friday of the month.

Changes to the Shariah indices take effect at the start of business on the Monday immediately following the third Friday of the month.

18. In the debt/36-month average market cap, which clauses are considered debt?

Our definition of debt includes the following (this list is non-exhaustive):

- Long-term interest-bearing debt as disclosed by the company's management
- Short-term interest-bearing debt as disclosed by the company's management
- Current portion of long-term interest-bearing debt as disclosed by the management
- Interest-bearing short-term liabilities such as overdrafts, bridge loans, etc.

We exclude:

- Short-term non-interest-bearing operational payables/liabilities such as gratuity payable, creditors for goods and services, provisions, etc.
- Long-/short-term Islamic debt
- Long-/short-term non-interest-bearing debt

19. Accounts receivable/36-month average market cap: what is included in accounts receivable?

Our definition of accounts receivables includes the business/operational/trade and non-trade receivables.

20. Do cash and interest-bearing securities include short-term investments, cash equivalents, deposits and bonds?

Our definition of cash and interest-bearing securities includes the following (this list is non-exhaustive):

- Cash in hand
- Cash at bank
- Term deposits (three months)
- Short-term investments held for sale/trading
- Government bonds (if classified as short-term investments)
- Investments in mutual funds, other equity funds held for sale/trading

We exclude:

- Islamic investments

21. Are companies that are fully Shariah-compliant subject to accounting-based screens?

Companies that are fully Shariah compliant are not subject to accounting-based screens, subject to Shariah Board approval. Such companies are classified as Shariah-compliant irrespective of their leverage ratios. While the subsequent list is non-exhaustive and companies are reviewed on a case-by-case basis, companies are typically characterized by the following:

- Presence of a Shariah Supervisory Board
- All transactions (business and financial) are in accordance with Shariah principles.
- Incorporated and managed in a fully Shariah-compliant manner

22. How can I find out more information about the S&P Shariah Indices?

For more information, please contact index_services@spdji.com or call one of the following phone numbers.

Americas	+1.212.438.2046
EMEA	+44.207.176.8888
Asia Pacific	+86.10.6569.2905
Australia	+61 2 9255 9802
Japan	+81 3-4550-8564

About S&P Dow Jones Indices

S&P Dow Jones Indices LLC, a subsidiary of The McGraw-Hill Companies is the world's largest, global resource for index-based concepts, data and research. Home to iconic financial market indicators, such as the S&P 500® and the Dow Jones Industrial Average℠, S&P Dow Jones Indices LLC has over 115 years of experience constructing innovative and transparent solutions that fulfill the needs of institutional and retail investors. More assets are invested in products based upon our indices than any other provider in the world. With over 830,000 indices covering a wide range of assets classes across the globe, S&P Dow Jones Indices LLC defines the way investors measure and trade the markets. To learn more about our company, please visit [www.spdji.com www.spdji.com].

Disclaimer

It is not possible to invest directly in an index. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Dow Jones Indices does not sponsor, endorse, sell, promote or manage any investment fund or other investment vehicle that is offered by third parties and that seeks to provide an investment return based on the performance of any index. S&P Dow Jones Indices makes no assurance that investment products based on the index will accurately track index performance or provide positive investment returns. S&P Dow Jones Indices LLC is not an investment advisor, and S&P Dow Jones Indices makes no representation regarding the advisability of investing in any such investment fund or other investment vehicle. A decision to invest in any such investment fund or other investment vehicle should not be made in reliance on any of the statements set forth in this document. Prospective investors are advised to make an investment in any such fund or other vehicle only after carefully considering the risks associated with investing in such funds, as detailed in an offering memorandum or similar document that is prepared by or on behalf of the issuer of the investment fund or other vehicle. Inclusion of a security within an index is not a recommendation by S&P Dow Jones Indices to buy, sell, or hold such security, nor is it considered to be investment advice.

These materials have been prepared solely for informational purposes based upon information generally available to the public from sources believed to be reliable. No content contained in these materials (including index data, ratings, credit-related analyses and data, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse-engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Dow Jones Indices. The Content shall not be used for any unlawful or unauthorized purposes. S&P Dow Jones Indices and its third-party data providers and licensors (collectively "S&P Dow Jones Indices Parties") do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Dow Jones Indices Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON AN "AS IS" BASIS. S&P DOW JONES INDICES PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Dow Jones Indices Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

S&P Dow Jones Indices keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P Dow Jones Indices may have information that is not available to other business units. S&P Dow Jones Indices has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

In addition, S&P Dow Jones Indices provides a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.