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1 Markit iBoxx ALBI Indices

The Markit iBoxx Asian Local Bond Index family ("iBoxx ALBI") is designed to reflect the performance of local currency bonds from 11 Asian local currency bond markets. The index offers a broad coverage of the universe of internationally accessible bonds from China’s on- and offshore markets, Hong Kong, India, Indonesia, Korea, Malaysia, Philippines, Singapore, Taiwan and Thailand, whilst upholding minimum standards of investability and liquidity. The indices are an integral part of the global IHS Markit iBoxx index families, which provide the marketplace with accurate and objective benchmarks by which to assess the performance of bond markets and investments.

The iBoxx ALBI Index family comprises an overall index and indices for each currency. Sovereign and non-sovereign sub-indices are calculated for those markets where the index includes non-sovereign bonds. All iBoxx indices are priced based on multiple data inputs. The iBoxx ALBI indices use multi-source prices as described in the document “Markit iBoxx Pricing Rules” publicly available on the Methodology page of www.ihsmarkit.com.

This document covers the index family structure, rules and calculation methodology.

1.1 Index family structure

The table below provides an overview of the index family structure.

<table>
<thead>
<tr>
<th>Markit iBoxx Asian Local Bond Index Family</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
</tr>
<tr>
<td>• China Onshore</td>
</tr>
<tr>
<td>• China Offshore (IG, HY &amp; unrated)*</td>
</tr>
<tr>
<td>• Hong Kong</td>
</tr>
<tr>
<td>• India</td>
</tr>
<tr>
<td>• Indonesia</td>
</tr>
<tr>
<td>• Malaysia</td>
</tr>
<tr>
<td>• Philippines (Liquid &amp; Money Market)</td>
</tr>
<tr>
<td>• Singapore</td>
</tr>
<tr>
<td>• South Korea</td>
</tr>
<tr>
<td>• Taiwan</td>
</tr>
<tr>
<td>• Thailand</td>
</tr>
<tr>
<td>Non-Government</td>
</tr>
<tr>
<td>• Sovereigns &amp; Sub-sovereigns</td>
</tr>
<tr>
<td>• China Onshore</td>
</tr>
<tr>
<td>• China Offshore</td>
</tr>
<tr>
<td>• Hong Kong</td>
</tr>
<tr>
<td>• Malaysia</td>
</tr>
<tr>
<td>• Singapore</td>
</tr>
<tr>
<td>Corporates</td>
</tr>
<tr>
<td>• China Offshore</td>
</tr>
<tr>
<td>• Hong Kong</td>
</tr>
<tr>
<td>• Malaysia</td>
</tr>
<tr>
<td>• Singapore</td>
</tr>
</tbody>
</table>

*Available sub-indices

Country, Sector & Maturity Indices (1-3, 3-5, 5-7, 7-10 and 10+)

1.2 Publication of the index

For all indices, end-of-day closing values are calculated and distributed once daily after the close of trading in the market. The indices are calculated every day except on holidays common to all
Asian markets. In addition, the indices are calculated with the previous trading day’s close on the last calendar day of each month if that day is not a trading day. IHS Markit publishes an index calculation calendar which is available in the indices section on www.ihsmarkit.com under Calendar. The Markit iBoxx Asian Local Bond Index Family follows the ‘Asia’ holiday calendar.

Bond and index analytical values are calculated each trading day using the daily closing prices. Closing index values and key statistics are published at the end of each business day in the indices section on www.ihsmarkit.com for registered users.

Index data is also available from the main information vendors, including Bloomberg and Thomson Reuters.
2 Bonds selection rules

Bond selection criteria are applied consistently across all 11 currencies and markets. The constituents of the local currency indices are the basis for the aggregate Pan-Asia index.

The following selection criteria are used to determine the index constituents:

- Bond Type
- Issuer Type
- Credit Rating
- Time to Maturity
- Amount outstanding

2.1 Bond type

Only fixed coupon bonds whose cash flows can be determined in advance are eligible for the indices. In particular, the following bond types are eligible:

- Fixed Coupon bonds (“plain vanilla bonds”)
- Zero Coupon bonds

Exceptions:

- **Fixed Coupon Certificates of Deposit (Fixed Coupon CDs)** are only eligible for the China offshore and Hong Kong segments and are not eligible for the other 9 markets.
- **Zero Coupon Certificates of Deposit (Zero Coupon CDs)** are only eligible for the China offshore market and are not eligible for the other 10 markets.
- **Retail Bonds** are only eligible for the Philippines segment and are not eligible for the other 10 markets.

All other bond types are excluded from the ALBI Index including:

- Bonds with embedded call or put options (except make-whole, tax changes calls and poison puts which remain eligible)
- Other Certificates of Deposit
- Floating rate notes and other fixed-to-floater bonds
- Step-up coupon bonds
- Sinking funds and amortizing bonds
- Bonds with warrants
- Convertibles
- Undated bonds
• Inflation, Index-Linked and Credit-Linked Notes
• Dual-Currency Bonds: Bonds that are denominated in one currency but pay either the coupon or the principal in a different currency
• Loan Participation Notes
• Retail bonds. The list of retail bonds is updated every month and published on www.ihsmarkit.com under Indices News
• Private placements. The list of private placements is updated every month and published on www.ihsmarkit.com under Indices News.

For retail bonds and private placements, publicly available information is not always conclusive and the classification of a bond as a retail bond or a private placement will be made at IHS Markit’s discretion based on the information available at the time of determination. IHS Markit may consult with the specific Index Advisory Committees to review potential retail bonds or private placements. Any bond classified as retail or private placement is added to the list of excluded private placements and retail bonds. The list is published on www.ihsmarkit.com under Indices News for future reference and to ensure decision’s consistency.

In instances where a new bond type is not specifically excluded or included according to the published index rules, IHS Markit will analyse the features of such securities in line with the principles set out in 2.1 of this guide. IHS Markit may consult the specific Index Advisory Committees. Any decision as to the eligibility or ineligibility of a new bond type will be published and the index rules will be updated accordingly.

2.2 Time to Maturity

All bonds must have a remaining time to maturity of at least one year at rebalancing date. The time to maturity is calculated from the rebalancing date to the final maturity date of the bond by using the day count convention of the bond.

2.3 Credit Rating

Domestic central government debt does not require a rating. Requirements for other bond issues vary depending on the currency.

For those markets with a credit rating requirement, the rating approach considers international and domestic rating agencies separately. The iBoxx rating is the corresponding iBoxx international rating, or in the absence of an international rating the iBoxx domestic rating.

iBoxx international rating: Ratings from the following three credit rating agencies are considered for the calculation of the iBoxx Rating:

• Fitch Ratings
• Moody’s Investor Service
• S&P Global Ratings
The rating process is predominately based on bond ratings. If no rating agency provides a bond rating then issuer ratings are considered for otherwise unrated senior bonds. Subordinated bonds without bond ratings or senior bonds without any bond or issuer rating are considered unrated.

Bonds are considered to be split-rated if one or more of the agency ratings is A-/A3 or higher AND one or more of the agency rating is BBB+/Baa1 or lower.

If more than one agency rates a bond then the iBoxx international rating is determined as follows:

- For bonds that are not split-rated, the average rating determines the index rating
- For newly issued split rated subordinated debt, and for split rated senior bonds from issuers not currently in ALBI, the minimum rating is assigned to the bond
- For split-rated bonds already included in the index and for newly issued senior bonds from issuers currently represented within ALBI the maximum rating is assigned to the bonds

**iBoxx Domestic Rating:**

The iBoxx domestic rating is currently only used for MYR-denominated non-sovereign bonds. Only ratings from RAM are considered. The iBoxx domestic rating is the corresponding bond rating from RAM. For senior bonds, in the absence of a bond rating, the RAM issuer rating is used as the iBoxx domestic rating.

### 2.4 Bond selection rules for individual markets

#### 2.4.1 iBoxx ALBI China-Onshore

<table>
<thead>
<tr>
<th>Issuer Type</th>
<th>Sovereigns</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Eligible:</strong> Bonds Issued by the Ministry of Finance</td>
</tr>
<tr>
<td></td>
<td><strong>Not eligible:</strong> Bonds issued by the People's Bank of China Bonds issued by Local Governments but backed by the central government</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Non-Sovereigns</th>
<th>Policy Banks: Effective April 30, 2019 bonds issued by below 3 Chinese Policy Banks are included in the index</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>&gt; Agricultural Development Bank of China</td>
</tr>
<tr>
<td></td>
<td>&gt; China Development Bank</td>
</tr>
<tr>
<td></td>
<td>&gt; Export-Import Bank of China</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Amount Outstanding</th>
<th>CNY 10bn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Listing / Clearing Venue</td>
<td>Bonds listed on the Interbank Market</td>
</tr>
</tbody>
</table>

The inclusion of policy bank bonds is made over a three month period, with one-third of their full weight added to the index in the 30 April 2019, 31 May 2019 and 30 June 2019 rebalances.
2.4.2 iBoxx ALBI China Offshore

<table>
<thead>
<tr>
<th>Issuer Type</th>
<th>Sovereigns</th>
<th>Non-Sovereigns</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligible</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Credit Rating     | None       |

| Amount Outstanding| CNY 500m   |

<table>
<thead>
<tr>
<th>Listing / Clearing Venue</th>
<th>Bonds issued in Hong Kong, Macau, or outside of the People’s Republic of China</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Bonds solely listed/registered in Taiwan are not eligible</td>
</tr>
<tr>
<td></td>
<td>Bonds need to be clearable through one of the following venues:</td>
</tr>
<tr>
<td></td>
<td>&gt; Clearstream</td>
</tr>
<tr>
<td></td>
<td>&gt; Euroclear</td>
</tr>
<tr>
<td></td>
<td>&gt; Hong Kong CMU</td>
</tr>
</tbody>
</table>

2.4.3 iBoxx ALBI Hong Kong

<table>
<thead>
<tr>
<th>Issuer Type</th>
<th>Sovereigns</th>
<th>Non-Sovereigns</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligible</td>
<td></td>
<td>Not Eligible</td>
</tr>
<tr>
<td>Sukuk Bonds are not eligible</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Credit Rating     | A- or above |

| Amount Outstanding| HKD 300m    |

2.4.4 iBoxx ALBI India

<table>
<thead>
<tr>
<th>Issuer Type</th>
<th>Sovereigns</th>
<th>Non-Sovereigns</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligible</td>
<td></td>
<td>Not Eligible</td>
</tr>
</tbody>
</table>

| Amount Outstanding| INR 50bn    |

2.4.5 iBoxx ALBI Indonesia

<table>
<thead>
<tr>
<th>Issuer Type</th>
<th>Sovereigns</th>
<th>Non-Sovereigns</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligible</td>
<td></td>
<td>Not eligible</td>
</tr>
<tr>
<td>Sukuk Bonds are not eligible</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

| Amount Outstanding| IDR 2trn   |
2.4.6 iBoxx ALBI Malaysia

<table>
<thead>
<tr>
<th>Issuer Type</th>
<th>Sovereigns</th>
<th>Non-Sovereigns</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Conventional bonds and Sukuk are eligible</td>
<td>Conventional bonds and Sukuk are eligible</td>
</tr>
</tbody>
</table>

**Credit Rating**

A- or above

Bonds issued or guaranteed by Malaysian Central Government do not require a rating.

**Amount Outstanding**

Sovereigns: MYR 2bn
Non-Sovereigns: MYR 500m

**Liquidity Criteria**

The liquidity criteria only apply to non-sovereigns. Government bonds are not subject to the criteria.

Bonds need to be actively traded in order to become eligible for the indices. Bonds are included in the index if they show the following trading activity at the first, second or third rebalancing following their issue date.

For re-opened bonds the bonds are included in the index if they show the trading activity at first three month of the rebalancing following their re-opened dates.

5 days with trading volumes of at least MYR 5m during the rebalancing month.

Bonds that do not pass the trading activity rule during the initial three rebalancing will not be considered for the indices at future rebalancings.

2.4.7 iBoxx ALBI Philippines

<table>
<thead>
<tr>
<th>Issuer Type</th>
<th>Sovereigns</th>
<th>Non-Sovereigns</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Domestic Philippine Government Bonds</td>
<td>Retail Bonds are eligible</td>
</tr>
</tbody>
</table>

**Amount Outstanding**

PHP 3bn

2.4.8 iBoxx ALBI Singapore

<table>
<thead>
<tr>
<th>Issuer Type</th>
<th>Sovereigns</th>
<th>Non-Sovereigns</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Eligible</td>
<td>Eligible</td>
</tr>
</tbody>
</table>

**Credit Rating**

None

**Amount Outstanding**

Sovereigns: SGD 1.5bn
Non-Sovereigns: SGD 300m
2.4.9 iBoxx ALBI South Korea

<table>
<thead>
<tr>
<th>Issuer Type</th>
<th>Sovereigns</th>
<th>Eligible: Korean Treasury Bonds, Monetary and FX Stabilisation Bonds</th>
<th>Not eligible: Korea National Housing Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Non-Sovereigns</td>
<td>Not eligible</td>
<td></td>
</tr>
<tr>
<td>Amount Outstanding</td>
<td>KRW 1 trn</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2.4.10 iBoxx ALBI Taiwan

| Issuer Type   | Sovereigns                           | Eligible                                                            |                                           |
|---------------|--------------------------------------|                                                                    |                                           |
|               | Non-Sovereigns                       | Not eligible                                                        |                                           |
| Amount Outstanding | TWD 30bn                          |                                                                    |                                           |

2.4.11 iBoxx ALBI Thailand

| Issuer Type   | Sovereigns                           | Eligible                                                            |                                           |
|---------------|--------------------------------------|                                                                    |                                           |
|               | Non-Sovereigns                       | Not eligible                                                        |                                           |
| Amount Outstanding | THB 20bn                         |                                                                    |                                           |

2.5 Special Philippine Government bond indices

In addition to the standard Markit iBoxx ALBI Philippines, two additional indices covering the Philippine fixed income market are calculated.

2.5.1 iBoxx ALBI Philippines Money Market Index

The index contains all Philippine government bonds and Treasury Bills with a remaining maturity of between 3m and 1 year and a minimum notional size of PHP 3 bn. Retail bonds are eligible for the index.

2.5.2 iBoxx ALBI Philippines Liquid Index

The iBoxx ALBI Philippines Liquid Index contains only the most liquid and actively traded Philippine government bonds. The index is rebalanced quarterly on 31 March, 30 June, 30 September and 31 December each year.
Index constituents are selected from the overall universe of Philippine government bonds in two steps:

1. **Determination of the eligible universe of bonds** In order to be eligible for the index, bonds need to fulfil the following criteria:
   - Fixed Coupon bullet bonds
   - Denominated in PHP
   - Retail bonds are eligible for the Index
   - Minimum time to maturity of 1.25 years for current index constituents and 2 years for potential inclusions
   - Minimum size of PHP 3bn

2. **Selection of index constituents from the eligible universe**

   Index constituents are selected from the universe of eligible bonds based on their quarterly trading volume. The thresholds required for inclusion in the index are set in relation to the total trading volume for all PHP denominated government bonds (excluding T-Bills) to reflect periods of high and low market liquidity. The following thresholds are used:
   - Inclusion Threshold: 2% of the total quarterly trading volume
   - Watch list Threshold: 1% of the total quarterly trading volume
   - Exclusion Threshold: 0.2% of the total quarterly trading volume

   The following rules are applied to select the index constituents:

   **New bonds are eligible if:**
   - Their adjusted trading volume is above the Inclusion Threshold and they have been issued in the current quarter; or
   - Their trading volume is above the Inclusion Threshold and they have been issued in the previous quarter; or
   - Their trading volume has been above the Inclusion Threshold for two consecutive rebalancings

   **Current index constituents remain in the index if:**
   - Their trading volume remains above the Watch list Threshold; or
   - Their trading volume remains above the Exclusion Threshold and they are not on the watch list
   - Current index constituents are put on the watch list if their quarterly trading volume falls below the Watch list Threshold and remains above the Exclusion Threshold

   **Current index constituents are removed from the index if:**
   - They are already on the watch list and their trading volume is below the Watch list Threshold; or
   - Their trading volume has fallen below the Exclusion Threshold
The adjusted trading volume for newly issued bonds is calculated as follows:

- Bonds issued in the first month of the quarter: No adjustment
- Bond issued in the second month of the quarter: Trading volume adjusted by the factor 1.5
- Bond issued in the last month of the quarter: Trading volume adjusted by the factor 3

2.5.3 iBoxx ALBI Philippines Domestic Indices

All iBoxx ALBI Philippines indices are also published in a domestic version. The bond eligibility criteria are identical to the iBoxx ALBI Philippines indices. Prior to October 2018, the domestic indices were calculated using the PDST-R2 rates published by the Philippine Dealing & Exchange Corp. Starting November 2018, the domestic version of the indices shares the same pricing as the iBoxx ALBI Philippines indices.
3 Bond classification

All bonds are classified based on the principal activities of the issuer and the main sources of the cash flows used to pay coupons and redemptions. In addition, a bond’s specific collateral type or legal provisions are evaluated. Hence, it is possible that bonds issued from different subsidiaries of the same issuer carry different classifications.

The issuer classification is reviewed regularly based on updated information received by IHS Markit, and status changes are included in the indices at the next rebalancing if necessary.

Where the sector classification of a specific entity is not very clear due to the diversified business of the entity, a decision will be made at IHS Markit’s discretion. IHS Markit will assign the IHS Markit classification according to its evaluation of the business risk presented in the security prospectus and annual reports, if available. IHS Markit will also compare the classification to peers in the potential sectors, and IHS Markit may consult with the Index Advisory Committees. Membership lists including bond classifications are published on the FTP server and in the indices section of www.ihsmarkit.com for registered users.

3.1 Government

Bonds issued by a central government and denominated in the respective local currency.

3.2 Other sovereigns

Bonds issued by a central government but denominated in a foreign currency.

3.3 Sub-Sovereigns

Bonds issued by entities with explicit or implicit government backing due to legal provision, letters of comfort or the public service nature of their business. The issuer requires a strong central government ownership/relationship if its bonds are not explicitly guaranteed by the central government.

The five main sub-sovereign sectors are:

- **Agencies**: Bonds issued by entities whose major business is to fulfill a government-sponsored role to provide public, non-competitive services (e.g. Kreditanstalt fuer Wiederaufbau). Often, such business scope is defined by a specific law, or the issuer is explicitly backed by the government.
• **Supranationals**: Bonds issued by supranational entities, i.e. entities that are owned by more than one central government (e.g. World Bank, EIB)

• **Public Banks**: Bonds issued by publicly owned and backed banks that provide regular commercial banking services (e.g. NV Bank Nederlandse Gemeenten)

• **Regions**: Bonds issued by local governments (e.g. Isle of Man)

• **Government Guaranteed**: All remaining bonds considered sub-sovereign. There are two main types of bonds and issuers falling into this category:
  > **Guaranteed Financials**: A specific bond issued by a private sector financial institution that is irrevocably guaranteed by a government. Most of these bonds are issued under programs set-up after the 2008 financial crisis
  > **Bonds issued by unguaranteed institutions with an irrevocable and explicit guarantee by a central government that covers amount and timeliness of all interest and principal payments until the maturity of the bond**

### 3.4 Corporates

Bonds issued by public or private corporations. Bonds secured by a ‘floating charge’ over some or all assets of the issuer are considered corporate bonds. Corporate bonds are further classified into Financials and Non-Financials bonds and then into their multiple-level economic sectors, according to the issuer’s business scope. The category Guaranteed & Wrapped is added under Financials for corporate bonds whose timely coupon and/or principal payments are guaranteed by a non-affiliated insurer or through a letter of credit from a non-affiliated bank. The sector overview is shown in the tables below.

*Table 1: Overview of Markit iBoxx Corporate Sectors*

<table>
<thead>
<tr>
<th>Economic Sector</th>
<th>Market Sector</th>
<th>Market Sub-Sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financials</td>
<td>Core Financials</td>
<td>Banks</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Insurance</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Life Insurance</td>
</tr>
<tr>
<td>Economic Sector</td>
<td>Market Sector</td>
<td>Market Sub-Sector</td>
</tr>
<tr>
<td>-----------------</td>
<td>---------------</td>
<td>------------------</td>
</tr>
<tr>
<td>Financial Services</td>
<td>Financial Services</td>
<td>General Financial</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Equity Investment Instruments</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Nonequity Investment Instruments</td>
</tr>
<tr>
<td>Insurance wrapped</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Guaranteed &amp; Wrapped</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Real Estate</td>
<td>Real Estate</td>
<td>Real Estate Investment &amp; Services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Real Estate Investment Trusts</td>
</tr>
<tr>
<td>Non-Financials</td>
<td>Oil &amp; Gas</td>
<td>Oil &amp; Gas Producers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Oil Equipment / Services &amp; Distribution</td>
</tr>
<tr>
<td>Basic Materials</td>
<td>Chemicals</td>
<td>Chemicals</td>
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<tr>
<td></td>
<td>Basic Resources</td>
<td>Industrial Metals</td>
</tr>
<tr>
<td></td>
<td>Mining</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Forestry &amp; Paper</td>
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</tr>
<tr>
<td>Industrials</td>
<td>Construction &amp; Materials</td>
<td>Construction &amp; Materials</td>
</tr>
<tr>
<td></td>
<td>Industrial Goods &amp; Services</td>
<td>Aerospace &amp; Defense</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Electronic &amp; Electrical Equipment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>General Industrials</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Industrial Engineering</td>
</tr>
<tr>
<td></td>
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<td>Industrial Transportation</td>
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<tr>
<td></td>
<td></td>
<td>Support Services</td>
</tr>
<tr>
<td>Consumer Goods</td>
<td>Automobiles &amp; Parts</td>
<td>Automobiles &amp; Parts</td>
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<tr>
<td></td>
<td>Food &amp; Beverage</td>
<td>Beverages</td>
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<td>Personal &amp; Household Goods</td>
<td>Household Goods</td>
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<tr>
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<td></td>
<td>Leisure Goods</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Personal Goods</td>
</tr>
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<td></td>
<td></td>
<td>Tobacco</td>
</tr>
<tr>
<td>Health Care</td>
<td>Health Care</td>
<td>Pharmaceuticals &amp; Biotechnology</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Health Care Equipment &amp; Services</td>
</tr>
<tr>
<td>Consumer Services</td>
<td>Education</td>
<td>Academic &amp; Educational Services</td>
</tr>
<tr>
<td></td>
<td>Retail</td>
<td>Food &amp; Drug Retailers</td>
</tr>
</tbody>
</table>
3.5 Additional classification

Corporate debt is further classified into senior and subordinated debt.

Hybrid capital issued by banking and insurance institutions is further detailed into the respective tiers of subordination.

The market information on the tier of subordination for insurance capital is often less standardized and clear than the equivalent issues by banks. In these cases, the classification is based on the maturity, coupon payment and deferral provisions of the bond from the offering circulars of the bonds. Table below displays the seniority classification of debt issued by both financial and non-financial sectors.

Table 2: Overview of seniority levels for Markit iBoxx Senior & Subordinated indices

<table>
<thead>
<tr>
<th>Market Sector</th>
<th>Seniority Level 1</th>
<th>Seniority Level 2</th>
<th>Seniority Level 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>SEN</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td></td>
<td>SUB</td>
<td>T2 (post-Jan '13 issuances)</td>
<td>T2 callable</td>
</tr>
<tr>
<td></td>
<td></td>
<td>T2 (pre-Jan '13 issuances)</td>
<td>T2 non-callable</td>
</tr>
<tr>
<td></td>
<td></td>
<td>LT2 callable</td>
<td>LT2 non-callable</td>
</tr>
<tr>
<td></td>
<td></td>
<td>UT2</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>T1</td>
<td>T1 step</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>T1 non-step</td>
</tr>
<tr>
<td>Insurance</td>
<td>SEN</td>
<td>*</td>
<td>*</td>
</tr>
<tr>
<td></td>
<td>SUB</td>
<td>T1</td>
<td>*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>T2 perpetual</td>
<td>*</td>
</tr>
<tr>
<td></td>
<td></td>
<td>T2 dated</td>
<td>T2 dated callable</td>
</tr>
</tbody>
</table>
** Bonds will be required to fulfil the following criteria to be considered hybrids:

- Subordinated
- Deferrable coupons
- First non-call period >= 5 years
- Either perpetual or ‘long-dated’, where ‘long-dated’ is defined as > 25 years of the time to maturity at issuance

### 3.6 Classification review procedure

The issuer classification is reviewed regularly and status changes are included in the indices at the next rebalancing.
4 Market Weights

4.1 Background
The iBoxx ALBI indices cover a variety of markets of different sizes. Simply weighting by market capitalization would skew the index profile heavily in favour of the two biggest markets (China and Korea) and result in a very low weight of smaller debt markets (e.g. Hong Kong or Singapore), which are more developed, more liquid and accessible for investment. Therefore a pure market capitalization weighting is unsuitable for Pan-Asian local currency debt and would prevent investors from obtaining a balanced exposure to the underlying bond markets.

For the period from 31 December 2012 to 30 November 2016, the weights assigned to the 11 markets are those determined by HSBC for the calculation of the HSBC Asian Local Bond Index. As part of the 2016 Annual Index Review, IHS Markit updated the methodology to calculate the weights for each market in the iBoxx ALBI index.

In addition, with effect from 30th November 2016, the annual fundamental target weight of Taiwan has been set to 0% and the weight of Taiwan in the iBoxx ALBI Index will be gradually reduced to 0 in line with the adjustment procedure set out below to reflect the current capital control regulations affecting foreign investors into the Taiwan bonds market. The capital control and their impact on the accessibility of Taiwan will be monitored as part of the regular annual index reviews.

4.2 Market weight composition
For the indices are fundamentally weighted with the weight of each market determined from baseline weight (BW) and a number of factors:

- Local bond market size (S)
- Bond market accessibility – GEMLOC Investability Indicator (G)

1. Baseline weight
The baseline for the fundamental weighting assumes an equal weight allocated to each market subject to market size considerations. The baseline weight for medium-sized markets is set at 50% of the weight allocated to large markets. For this purpose, the size of each market is defined as the size of the domestic government bond market comprising all government bonds with a remaining time to maturity of 1 year or more. Markets with a size of less than US$ 50bn are considered medium-sized.
<table>
<thead>
<tr>
<th>Type</th>
<th>Baseline weight (BW) Markets as of 31st Nov 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large (8 markets)</td>
<td>11.11%</td>
</tr>
<tr>
<td>China onshore, India, Indonesia, Malaysia, Philippines, Singapore, South Korea, Thailand</td>
<td></td>
</tr>
<tr>
<td>Medium-sized (2 markets)</td>
<td>5.56%</td>
</tr>
<tr>
<td>China offshore, Hong Kong</td>
<td></td>
</tr>
<tr>
<td>Non-investable (1 market)</td>
<td>0%</td>
</tr>
<tr>
<td>Taiwan</td>
<td></td>
</tr>
</tbody>
</table>

2. Adjustment factors

Local bond market size

Local bond market size is defined as the USD market capitalization of all qualifying bonds for the respective single currency iBoxx ALBI sub-index. The annual target weights calculation uses the September iBoxx ALBI index composition with data as of 31 August. The forecasts use the data as of 28/29 February and 31 May respectively.

GEMLOC Investability Indicator

The GEMLOC Investability Indicator is a transparent measure of investability based on a methodology developed by the World Bank. The GEMLOC Investability Indicator scores markets on a set of 14 subfactors that are aggregated to the overall score. GEMLOC details can be accessed on IHS Markit website at following path


Moody’s Analytics Knowledge Services acts as a third party in this process and provides IHS Markit with the GEMLOC Investability Indicators updated quarterly every year.

Calculation of the adjustment

Each factor is normalized using the following method:

\[ F_{i,j} = \frac{f_{i,j}}{\sum_{m=1}^{n} f_{m,j}} - \frac{1}{n} \]

Where:

- \( f_{i,j} \) is the original value of factor j in market i
- \( F_{i,j} \) is the normalized value of factor j in market i

n is the number of markets with a baseline weight greater than 0.

3. Combined adjustment factor
Each markets’ adjustment factor (AF) is the weighted sum of the two factors:

\[ AF_i = \frac{1}{3} S_i + \frac{2}{3} G_i \]

Where:

- \( AF_i \) is the adjustment factor of market i
- \( S_i \) is the normalized value of bond market size of market i
- \( G_i \) is the normalized value of the GEMLOC Indicator i

Each market’s theoretical target weight is the sum of the baseline weight and the adjustment factor:

\[ W_i = BW_i + AF_i \]

Where:

- \( AF_i \) is the adjustment factor of market i
- \( BW_i \) is the base market weight of market i
- \( W_i \) is the weight of market i in the index

4. Additional restrictions for markets with high access restrictions

To reflect additional constraints facing investors in local currency bond markets, markets with high capital access restrictions will be further capped. The degree of market access is measured by the GEMLOC Securities Market Access Score:

- Weight of markets with a securities market access score of 0: 0% (excluded from the indices)
- Weight of markets with a securities market access score between 1 and 50: 50% of the theoretical target weight

The excess weight from the capping is redistributed to the remaining markets in proportion to their theoretical weight, subject to a maximum of 20% in any market. The market weights are rounded to four decimal places (1 basis point). The final target weights are rounded to the fourth decimal (i.e. 1 basis point). In case that the sum of the rounded weights are above or below 100%, the weight(s) of the largest market(s) are adjusted by ±.01% each until the sum of the weights is exactly 100%

5. Review process and Implementation of the target market weights

The review process distinguishes between regular and extraordinary reviews. In order to enhance the stability of the indices and to capture long-term trends within the 11 markets, the target market weights are reviewed annually for the 30 November re-balancing. The target market weights are not changed between review dates unless an extraordinary review is conducted.
The implementation of the new target weights starts on 30 November each year. The maximum change to the weight of a market for the target weight implementation is 0.5%. If the difference between the current weights and the new target weights is larger than 0.5% for any market, then the weights will be implemented over several quarters (30 November, 28/29 February, 31 May and 31 August) subject to a maximum change of 0.5%.

The iBoxx Asian Oversight Committee or IHS Markit may decide to undertake an extraordinary review of market weights at any monthly re-balancing, if profound changes in one or more of the eleven markets suggest that the weights of the markets would change significantly during the review. Examples of such events are a major increase in bond issuance or liquidity, or major regulatory changes that impact the GEMLOC Investability Indicators significantly.

IHS Markit will also publish a forecast for the upcoming annual review at the beginning of March and June each year. The forecast will be based on the updated index market capitalization and GEMLOC Investability Indicator for each market.

6. Current and historical weights

The file containing current and historical weights for the index is available in the indices section on the Rules Benchmark page of www.ihsmarkit.com
5 Index calculation

5.1 Static data

Information used in the index calculation is sourced from offering circulars and checked against standard data providers.

FX spot and forward rates are sourced from WM Company. The daily index calculation uses the FX rates from 8am London time.

5.2 Bond prices

For more details please refer to the Markit iBoxx Pricing Rules document, available in the Methodology section of the iBoxx Documentation page on www.ihsmarkit.com.

5.3 Withholding tax treatment

Withholding taxes are not taken into account the calculation of the iBoxx ALBI indices with the exception of PHP-denominated bonds. For PHP-denominated bonds, the 20% final withholding tax is applied to the iBoxx ALBI Philippines index and the PHP-denominated component of the iBoxx ALBI Overall and other aggregate indices containing PHP denominated bonds.

5.4 Rebalancing process

All iBoxx ALBI indices are rebalanced monthly on the last calendar day of the month after the close of business.

Daily forward files are published each day shortly after the standard index files. The forward files provide a view of index composition and the weightings of each constituent security after the upcoming rebalancing.

The list of eligible index securities is reviewed three times a month in preparation for the upcoming rebalancing. These reviews occur ten (t-10), four (t-4) and (t-3) trading days before month end. The forward files reflect all anticipated changes to the index constituents that come as a result of these reviews.

The cut-off for amount outstanding and rating information is three business days before the last trading day of the month. Any changes after the index cut-off day (t-3) will not be considered in the rebalancing process, but will become effective at the end of the following month. The cut-off for the first settlement date for new bonds is the last calendar day of the month. Bonds with a first settlement date later than three days before month-end can only be included in the indices if their amount outstanding, rating and other relevant information is known on t-3.
The final index membership list for the following month is published at the close of business three trading days before the end of the month. On the last trading day of the month after the close of business, the final membership list is republished together with the closing bid and offer prices for each bond.

5.5 Index data

The calculation of the index is based on bid prices. New securities are included in the index at their respective ask prices when they enter the index family. In the event that no price can be established for a particular security, the index continues to be calculated based on the last available price. This might be the case in periods of market stress, or disruption as well as in illiquid or fragmented markets. If the required inputs become impossible to obtain, IHS Markit may consult market participants prior to the next rebalancing date. Decisions are made publicly available on a timely basis and IHS Markit may refer back to previous cases.

A sub-index of the iBoxx ALBI index family is calculated if at least one bond matches all inclusion criteria. If no more bonds qualify for an index, then its level will remain constant. If at least one bond becomes available again, the index calculation will be resumed and chained to the last calculated level. All bonds are assigned to sub-indices according to their classification. The assignment of a bond to a certain maturity bucket is based on its expected remaining life. All bonds remain in their maturity bucket for the entire month. Calculation occurs on a daily basis as soon as the prices become available. The indices are calculated on each trading day (Monday to Friday), unless this day is a holiday in each of the 11 markets. The indices are also calculated on the last calendar day of each month irrespective of holidays and weekends. If the indices are calculated on a day that is a non-business day in one or more of the markets, then the prices for bonds denominated in the currency of those markets will be carried forward from the previous trading day and the index will be calculated using those prices and the current accrued interest and coupon payment data.

The rebalancing takes place after close of market on the last trading day of a rebalancing month.

5.6 Index calculus

For specific index formulas please refer to the Markit iBoxx Bond Index Calculus document, available in the Methodology section of the iBoxx Documentation page on www.ihsmarkit.com.

5.7 Treatment of the special intra-month events

Data for the application of corporate actions in the index may not be fully or timely available at all times, e.g. the final call prices for make-whole calls or the actual pay-in-kind percentage for PIK-payment options. In such cases, IHS Markit will estimate the approximate value based on the available data at the time of calculation.
5.8 Index and analytics weightings

The individual single currency iBoxx ALBI indices are volume-weighted indices, with a bond’s base market value as the weighting factor. The base market value and amount outstanding of a bond are only adjusted within the monthly re-balancing process at the end of each month. However, scheduled redemption payments for amortizing bonds and sinking funds are taken into account when they occur, as they are affecting the index return and analytical values. In addition, bonds that are fully redeemed intra-month are also taken into account immediately. Therefore, the indices are calculated using the amount outstanding adjusted for increases as well as repurchases that took place during the month.

All calculations are based on the adjusted amount outstanding that reflects the outstanding bond notional at the last rebalancing.

5.9 Scheduled partial redemptions: sinking funds and amortizing bonds

*Amortizing bonds* are bonds whose face value is redeemed according to a schedule at more than one redemption date. Interest payments are made on the basis of the remaining outstanding amount of the bond. *Sinking funds* are bonds, where money is applied periodically to redeem part of the outstanding before maturity. At the redemption dates, the appropriate amount of bonds may either be retired randomly from the outstanding bonds, or may be purchased on the open market and thus retired. Interest payments are made on the remaining outstanding bonds.

For the two bond types above, price and accrued interest are quoted and calculated to the actual amount outstanding (par). Scheduled redemptions within the period are taken into account immediately. Coupon payments, however, refer to the scheduled amount outstanding over the last coupon period; scheduled redemptions within the month are not taken into account.

5.10 Full redemptions: exercised calls, puts and buybacks

If a bond is fully redeemed intra-month, the bond effectively ceases to exist. In all calculations, the redeemed bond is treated as cash based on the last price, the call price or repurchase price, as applicable. The redemption factor, redemption and the redemption price are used to treat these events in the index and analytics calculation. In addition, the clean price of the bond is set to the redemption price, and the interest accrued until the redemption date is treated as an irregular coupon payment.

5.11 Bonds trading flat of accrued

If a bond is identified as trading flat of accrued, the accrued interest of the bond is set to 0 in the total return index calculation and is excluded from the calculation of all bond and index analytical values.
Bonds will be considered trading flat of accrued in any of the following situations:

- a bond has been assigned a default rating and/or
- issuer has announced a failure to pay a coupon and/or
- issuer has announced an intention not to make a payment on an upcoming coupon (grace period).

5.12 Multi-coupon bonds

Some bonds have pre-defined coupon changes that lead to a change in the annual coupon over the life of the bond. In all instances, the coupon change must be a fixed amount on top of a fixed coupon, i.e. floating coupon bonds are not eligible for the indices. The two main categories of bonds are step-up bonds and event-driven bonds.

- **Step-up bonds**: These are bonds with a pre-defined coupon schedule that cannot change during the life of the bond. The coupon schedule is used in all bond calculations.

- **Event-driven bonds**: These are bonds whose coupon may change upon occurrence (or non-occurrence) of pre-specified events, such as rating changes, e.g. rating-driven bonds, failure to register (register-driven bonds), or failure to complete a merger (merger-driven bonds). In the calculation of the indices and the analytics, the coupon schedule as of the calculation date is used. That is to say, any events occurring after the calculation date are ignored in the determination of the applicable coupon schedule. *Example of an event-driven bond*: A bond’s rating changes on 31 December 2003 from A- to BBB+ and the coupon steps up from 6% to 6.25% from 1 March 2004 onward. The coupon dates are 1 October and 1 April each year. The correct coupon schedule for the bond and index calculations is date dependent. The index calculation on 20 December 2003 uses the 6% coupon for the whole life of the bond, while the calculation on 31 January 2004 uses a 6% coupon for the current coupon period to 29 February 2004, and a 6.25% coupon for all later interest payments. The index calculation on 20 March uses a 6% coupon until 29 February, a 6.25% coupon for the remainder of the current coupon period and a 6.25% coupon for all future coupon payments. The index calculation after 1 April uses a 6.25% coupon.

5.13 Ex-dividend conventions

Some markets have ex-dividend conventions. Ex-dividend means that the next coupon is detached from the bond several days in advance of the coupon payment date. The date on which the next coupon is detached is the ex-dividend date and the period between the ex-dividend date and the coupon payment date is the ex-dividend period. If a bond is in the ex-dividend period, the next coupon payment will not be paid to a buyer of this bond, but will be paid to the original bond holder.

The indices and analytics calculations take ex-dividend conventions into account. During the ex-dividend period, the accrued interest of the bond is negative, while the next coupon payment is held separate in the variable coupon adjustment. If the bond enters the index during the ex-dividend period, then the next coupon payment and the coupon adjustment will not accrue to the index. However, if the bond was already in the index, the next coupon payment needs to be included in the total return calculations. This is controlled via the ex-dividend indicator which is 0 if the bond enters the index during the current ex-dividend period and 1 if not. The same treatment is also applied to all analytics...
calculation, i.e. the first cash flow is excluded from the calculations if the bond enters during the current ex-dividend period.

5.14 Index history

The Index history starts on 31 December 2012. The index has a base value of 100 on that date.

5.15 Settlement conventions

All iBoxx indices are calculated using the assumption of T+0 settlement days.

5.16 Data publication and access

The table below summarizes the publication of Markit iBoxx Asian Local Bond Index Family in the Indices section of the IHS Markit website www.ihsmarkit.com for registered users and on the FTP server.

<table>
<thead>
<tr>
<th>Frequency</th>
<th>File Type</th>
<th>Access</th>
</tr>
</thead>
<tbody>
<tr>
<td>Daily</td>
<td>Underlying file – Bond level</td>
<td>FTP Server</td>
</tr>
<tr>
<td></td>
<td>Indices files – Index level</td>
<td>FTP Server / IHS Markit website / Bloomberg (index levels only)</td>
</tr>
<tr>
<td>Weekly</td>
<td>Preview components</td>
<td>FTP Server / IHS Markit website</td>
</tr>
<tr>
<td>Daily from T+1</td>
<td>Forwards</td>
<td>FTP Server</td>
</tr>
<tr>
<td>Monthly</td>
<td>End of month components</td>
<td>FTP Server / IHS Markit website</td>
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<tr>
<td></td>
<td>XREF files</td>
<td>FTP Server</td>
</tr>
</tbody>
</table>

Markit iBoxx indices are also published through number information service providers including Bloomberg and Thomson Reuters. Please contact IHS Markit for a list of current service providers that carry the iBoxx ALBI Index data. The Bloomberg ticker and Reuters RIC code for the main iBoxx ALBI indices are:

<table>
<thead>
<tr>
<th>ISIN</th>
<th>Market Index Name</th>
<th>BBG Ticker</th>
<th>RIC Code</th>
<th>BBG Ticker</th>
<th>RIC Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>GB00BYZW8M61</td>
<td>Markit iBoxx ALBI (USD Unhedged)</td>
<td>IBXXALBI</td>
<td>.IBXXALBI</td>
<td>IBXXALBC</td>
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<td>IBXXTHTR</td>
<td>IBXXTHTR</td>
<td>IBXXTHCP</td>
<td>IBXXTHCP</td>
</tr>
</tbody>
</table>

### 5.17 Index review

The rules for the index are reviewed once per year during the annual index review process to ensure that the index provides a balanced representation of the local currency debt markets of the economies covered by the indices. Decisions made following the Annual Index Review will be published on www.ihsmarkit.com under Indices News shortly committee has been held. The publication will contain a detailed overview and timelines for implementation of the rules changes.
6 Governance and regulatory compliance

IHS Markit Benchmark Administration Limited (IMBA UK) is the Index Administrator of iBoxx indices. Information on IMBA UK’s governance and compliance approach can be found here. This document covers:

• Governance arrangements, including external committees
• Input data integrity
• Conflicts of interest management
• Market disruption and Force Majeure
• Methodology changes and cessations
• Complaints
• Errors and restatements
• Reporting of infringements and misconduct
• Methodology reviews
• Business continuity

More details about IMBA UK can be found on the Administrator’s website.
# 7 Changes to the Markit iBoxx Asian Local Bond Index Family

<table>
<thead>
<tr>
<th>Date</th>
<th>Event Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>31 Mar 2022</td>
<td>Annual Index Review 2021</td>
</tr>
<tr>
<td></td>
<td>- Introduction of new market sector classification &quot;Education&quot; with market sub-sector classification &quot;Academic &amp; Educational Services&quot;</td>
</tr>
<tr>
<td>31 Mar 2021</td>
<td>Governance and Regulatory Compliance section added</td>
</tr>
<tr>
<td>01 Nov 2021</td>
<td>Annual Index Review 2021</td>
</tr>
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<td>- iBoxx ALBI Indices - Update of 2021 Market Weights</td>
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<tr>
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<td>- iBoxx ALBI Indices - Update of 2020 Market Weights</td>
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<tr>
<td>31 July 2020</td>
<td>Implementation of Annual Index Review 2019</td>
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<tr>
<td></td>
<td>- Introduction of updated corporate classification schema</td>
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<td>- Implementation of updated Tier Classification</td>
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<td>- Updates as part of the changes in definition and treatment of hybrid bonds</td>
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<tr>
<td>27 February 2020</td>
<td>Update to Index family structure</td>
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<td>- iBoxx ALBI Indices - Update of 2019 Market Weights</td>
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<tr>
<td>30 April 2019</td>
<td>Inclusion of Chinese Policy Bank bonds in iBoxx ALBI China onshore index, effective 30 April 2019</td>
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<tr>
<td>07 Mar 2019</td>
<td>Update to pricing source of iBoxx ALBI Philippines Domestic Indices</td>
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<tr>
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<td>- iBoxx ALBI Indices - Update of 2018 Market Weights</td>
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<td>- iBoxx ALBI Indices - Update of 2017 Market Weights</td>
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<tr>
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<td>Update to the Liquidity requirement and monitoring period for MYR denominated non-government bonds</td>
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<td>- Methodology Update – ALBI annual weights assessment</td>
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<td>- Exclusion of Taiwan from the iBoxx ALBI Indices</td>
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<td>- Bond selection rules change – iBoxx ALBI India</td>
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<td>- Launch of new sub-indices by sector and maturity for iBoxx ALBI and all single currency indices</td>
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<tr>
<td>25 Aug 2016</td>
<td>Update to the Sukuk eligibility for ALBI HKD</td>
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<tr>
<td>7 Jun 2016</td>
<td>Updates on publication timelines and preview schedules</td>
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<td>30 Apr 2016</td>
<td>Launch of the Markit iBoxx ALBI Philippines Domestic indices</td>
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<tr>
<td>3 Mar 2016</td>
<td>Clarification on the index holiday schedule</td>
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<td>Date</td>
<td>Event Description</td>
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<td>------------</td>
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<tr>
<td>19 Feb 2016</td>
<td>Update to the rebalancing process and preview schedule</td>
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<tr>
<td>20 Jan 2016</td>
<td>Launch of the Markit iBoxx ALBI index family</td>
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8 Further information

Glossary of key terms

The Markit iBoxx Glossary document of key terms is available in the Methodology section of the iBoxx Documentation page on www.ihsmarkit.com.

Contractual and content issues

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<thead>
<tr>
<th>E-mail:</th>
<th><a href="mailto:indices@ihsmarkit.com">indices@ihsmarkit.com</a></th>
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9 Appendix

9.1 Annotations

<table>
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<tr>
<th>Symbol</th>
<th>Description</th>
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<tr>
<td>$f_{i,j}$</td>
<td>denotes the original value of factor $j$ in market $i$</td>
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<tr>
<td>$P_{i,j}$</td>
<td>denotes the normalized value of factor $j$ in market $i$</td>
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<tr>
<td>$n$</td>
<td>denotes the number of markets with a baseline weight greater than 0</td>
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<tr>
<td>$AF_i$</td>
<td>denotes adjustment factor of market $i$</td>
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<tr>
<td>$S_i$</td>
<td>denotes normalized value of bond market size of market $i$</td>
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<tr>
<td>$G_i$</td>
<td>denotes normalized value of the GEMLOC Indicator $i$</td>
</tr>
<tr>
<td>$BW_i$</td>
<td>denotes base market weight of market $i$</td>
</tr>
<tr>
<td>$AF_i$</td>
<td>denotes weight of market $i$ in the Markit iBoxx Asian Local Bond Index Family</td>
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</tbody>
</table>