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**«Approved» by
“Baku Stock Exchange” CJSC
Board of Directors
Protocol № 08
December “30”, 2015**

Chairman of the Board

_____ **F.Azizov**

**BAKU STOCK EXCHANGE CJSC
CALCULATION OF FUND INDEXES
RULES**

PART I: GENERAL PROVISIONS AND CONCEPTS

1. General Provisions

1.1. These Rules have been prepared in accordance with the Law “On Securities Market of the Republic of Azerbaijan”, normative-legal acts adopted by the State Committee on Securities of the Republic of Azerbaijan, the charter and internal rules of “Baku Stock Exchange” CJSC (hereinafter - the Exchange).

1.2. These Rules determine the rules for calculating official exchange indices on the Exchange.

1.3. These Rules apply to securities listed on the Exchange.

1.4. Indices calculated in accordance with these Rules shall be disclosed in accordance with the Exchange Disclosure Rules, unless otherwise provided by these Rules.

1.5. Based on these Rules, the Exchange makes decisions on exchange indices, including the creation of indices, any amendments to them by the decision of the Exchange's Management Board. The Board of Directors of the Exchange may delegate these powers to the Index Committee established on the basis of the regulations.

2. Basic Concepts

2.1. **Issuer** - a person who issues investment securities, the state (through a duly authorized state body) or municipality.

2.2. **The stock exchange index** is a statistical indicator of changes in trading results on securities included in the index basket created in accordance with these Rules.

2.3. **An index basket** is a classified list of securities selected in accordance with the requirements of these Rules, on which the stock exchange index is calculated.

2.4. **The base value of the index** is the first indicator on the date of calculation of the stock exchange index.

2.5. **Volume of free circulation** - is the volume of shares representing the authorized capital of the Issuer, excluding shares owned by related parties. The volume of free circulation is calculated on the basis of the information provided by the Issuer in accordance with the listing rules of the Exchange. The volume of free circulation is expressed as a percentage of the authorized capital.

2.6. Related Person - one of the following persons:

- a) Member of the issuer's board of directors (supervisory board) and executive body;
- b) Head of issuer's structural unit (branch, department, division, etc);
Relatives of the persons referred to in subparagraphs (a) and (b) of this paragraph, is husband / wife, parents, including the husband's / wife's parents, grandparents, children, including adopted children, brothers and sisters, brides and grooms;
- c) Any natural or legal person who directly or indirectly owns at least 10 (ten) percent of shares in the issuer;
- d) a legal entity in which the Issuer owns at least 20 (twenty) percent participation share in the authorized capital;
- e) any person holding at least 20 (twenty) percent shares (stakes) in the legal entities specified in sub-paragraphs "d" and "d" of this paragraph;
- f) heads of executive bodies and supervisory boards of legal entities specified in subparagraphs "d", "d" and "e" of this paragraph.

PART II: EXCHANGE MARKET CAPITALIZATION INDEX

3. General features of the exchange's total market capitalization index

3.1. Name of the index in the Azerbaijani language: "BSE Aggregate Market Capitalization Index";

3.2. The name of the index in English: "BSE Market Capitalization Composite Index";

3.3. Abbreviated name of the index: BAX (indicating the number of shares included in the index at the end of the index);

3.4. Base value of the index: 1,000 (one thousand) conventional units;

3.5. Base capitalization: xxxxxxxx manats (as of xx.xx.xxxx).

4. The structure of the exchange's total market capitalization index

- 4.1. The index is compiled for shares listed on the Exchange;
- 4.2. Each issuer is represented by only one share issue in the index basket;
- 4.3. Dividends paid on shares included in the index basket are taken into account assuming that these dividends will be reinvested in the company's shares as a whole;
- 4.4. The changes to the index basket are based on the assumption that investors with a portfolio in accordance with the structure of the index basket will sell all the shares in their portfolio and reinvest all proceeds in accordance with the new basket structure.;
- 4.5. The new structure of the index may include a minimum of 5 and a maximum of 25 shares;
- 4.6. An exchange can create one or more aggregate market capitalization indices with different structures.

5. Selection criteria for the total market capitalization index of the stock exchange

- 5.1. Shares that meet the following requirements may be included in the index:
 - 5.1.1. The issuer of securities must be registered in the Republic of Azerbaijan;
 - 5.1.2. Securities must be traded at least 15 (fifteen) business days before they are included in the index basket;
 - 5.1.3. The issuer of securities should not be subject to bankruptcy, liquidation proceedings or periodic financial instability.;
 - 5.1.4. The securities must be listed in the Main Market or Standard Market segments of the Exchange;
 - 5.1.5. The shares must be fully placed;
 - 5.1.6. Targeted deals are not taken into account when calculating the index;
 - 5.1.7. Securities must meet at least one of the following criteria:
 - 5.1.7.1. According to the deals concluded on the Exchange during the last 6 (six) months, the turnover on each security (except for placements and targeted deals) should not be less than 20% of the amount of these securities issued for trading (circulating).;
 - 5.1.7.2. The volume of securities deals concluded on the Exchange during the last 6 (six) months (excluding placements and targeted deals) must be at least 5% of the volume of deals concluded on shares (excluding placements and targeted deals). In this case, at least 5 (five) securities deals must be concluded;
 - 5.1.7.3. At least one market maker must be appointed on the Securities Exchange.

5.2. The number of securities that meet the requirements of paragraph 5.1 of these Rules shall be determined by these Rules 4.5 the securities to be included in the index basket shall be determined by the Exchange's Management Board if they exceed the maximum number specified in item.

5.3. Securities that do not comply with the provisions of paragraph 5.1 of these rules shall be removed from the index basket. In other cases, securities may be removed from the index basket by the decision of the Exchange's Management Board.

6. Calculation of the exchange's total market capitalization index

6.1. The total market capitalization index of the stock exchange is calculated as follows:

$$I_t = \frac{\sum_{i=1}^N (P_{i,t} \times q_i \times FF_i \times WF_{i,t})}{\text{base capitalization}} \times CF_t \times 1000$$

Here,

I_t – is the value of the index calculated for time t ;

i – is the issue of certain shares included in the index basket;

N – is the number of share issues included in the index basket

T – is the time to calculate the index;

$P_{i,t} - i$ is the price of the most recently concluded deal on the issue of shares at time t (excluding placements and targeted deals);

q_i – is the number of i shares listed;

$FF_i - i$ is the volume of free circulation on shares;

$WF_{i,t} - i$ is the weighted factor calculated for t time on shares;

CF_t – is an adjustment factor to ensure the sustainability of the index.

6.2. The calculations specified in paragraph 6.1 of these Rules may be changed in accordance with these Rules when conducting global transactions with securities.

6.3. The weight factor of the stock ($WF_{i,t}$) is calculated as follows:

$$WF_{i,t} = \frac{CAP_i \times FF_i}{\sum CAP_i \times FF_i} = \frac{CAP_{iFF}}{\sum CAP_{iFF}}$$

Here,

$WF_{i,t}$ – is the weight factor of the share issue;

CAP_{iFF} – the ratio of the share issue to the stock market capitalization, the volume of free circulation of that issue.

6.4. Stock market capitalization is calculated as follows:

$$CAP_i = q_{i,t} \times p_{i,t}$$

Here,

$q_{i,t}$ – t is the number of i shares outstanding on the Exchange as of date;

$p_{i,t}$ – t is the closing price on the Exchange for shares i to date.

6.5. The weight factor for each issue of shares included in the index basket should not exceed 20%. When the weight factor on any issue of shares included in the index basket exceeds 20%, this figure should be reduced by 1% until the appropriate level is reached (at the same time adjusting the participation rates of other shares in the basket).

6.6. The adjustment factor of the index (**CF**) is calculated in the following order, based on the closing price of the day on which the adjustment factor is calculated:

$$CF_{new} = \frac{\sum_{i=n}^N (p_{i,t} \times q_{i,t} \times FF_i \times WF_{i,t})_{old}}{\sum_{i=n}^N (p_{i,t} \times q_{i,t} \times FF_i \times WF_{i,t})} \times CF_{old}$$

7. Review and adjustment of the stock market's total market capitalization index

7.1. The list of securities included in the index basket is reviewed at least twice a year, on the first working day of March and the first working day of September, in order to verify their compliance with the requirements of these Rules. The review period covers a period of six months prior to the review date.

7.2. The list of securities included in the index basket is reviewed in the following cases in order to verify their compliance with the requirements of these Rules:

7.2.1. When shares included in the index basket are delisted on the Exchange;

7.2.2. When the issuer of shares included in the index basket ceases to exist, is liquidated or faces bankruptcy;

7.2.3. When the number of shares included in the index basket changes as a result of global transactions;

- 7.2.4. When the issuer of shares included in the index basket merges with other companies, when the issuer's controlling stake is acquired by other companies, when the issuer's subsidiary is established;
- 7.2.5. When dividends are paid on shares included in the index basket;
- 7.2.6. In case of suspension of trading on the Exchange included in the index basket for 10 (ten) or more business days;
- 7.2.7. In other cases deemed necessary by the Management Board of the Exchange in order to protect the market;
- 7.3. The Exchange makes adjustments to the index in order to ensure compliance of the index with the requirements of these Rules. Adjustments to the index are made based on the results of the index review.
- 7.4. A new adjustment factor is determined after the closing of trading on the last trading day before the first calculation of the new index.
- 7.5. The new adjustment factor is calculated based on the closing price of the last trading day to the date preceding the date of calculation of the index on the basis of the new basket structure.
- 7.6. Changes to the index basket, including the new composition of the index basket, shall be announced by the Exchange within 1 (one) business day from the date of making changes.

PART III: MARKET INDEX OF MARKET SMALL AND MEDIUM COMPANIES

8. General features of the stock market index of small and medium-sized companies

- 8.1 Name of the index in the Azerbaijani language: "BSE Small and Medium Market Capitalization Index";
- 8.2. Name of the index in English: "BSE Medium and Small Capitalization Composite Index";
- 8.3. Abbreviated name of the index: **BAMIX** (indicating the number of shares included in the index at the end of the index);
- 8.4. Base value of the index: 1,000 (one thousand) conventional units;
- 8.5. Base capitalization: xxxxxxxx manats (as of xx.xx.xxxx).

9. The structure of the stock market index of small and medium-sized companies

- 9.1. The index is compiled for shares listed on the Exchange;
- 9.2. Each issuer is represented by only one share issue in the index basket;
- 9.3. Dividends paid on shares included in the index basket are taken into account assuming that these dividends will be reinvested in the company's shares as a whole;
- 9.4. The changes to the index basket are based on the assumption that investors with a portfolio in accordance with the structure of the index basket will sell all shares in their portfolio and reinvest all proceeds in accordance with the new basket structure;
- 9.5. The new structure of the index may include a minimum of 5 and a maximum of 100 shares;

9.6. The stock exchange can create a market capitalization index of one and several small and medium-sized companies with different structures.

10. Selection criteria for the market capitalization index of small and medium-sized companies

10.1. Shares that meet the following requirements may be included in the index:

10.1.1. The issuer of securities must be registered in the Republic of Azerbaijan;

10.1.2. Securities must be traded at least 15 (fifteen) business days before they are included in the index basket;

10.1.3. The issuer of securities should not be subject to bankruptcy or liquidation proceedings, or it should not be subject to periodic financial instability problems;

10.1.4. The securities must be listed in the Standard Market or Alternative Market segments of the Exchange;

10.1.5. The shares must be fully placed;

10.1.6. Targeted deals are not taken into account when calculating the index;

10.1.6. Securities must meet at least one of the following criteria:

10.1.6.1. Turnover on each security (excluding placements and targeted deals) based on deals concluded at the Exchange during the last 6 (six) months, should not be less than 10% of the amount of these securities traded (circulating);

10.1.6.2. At least one market maker must be appointed on the Securities Exchange.

10.2. If the number of securities that meet the requirements of paragraph 10.1 of these Rules exceeds the maximum number specified in paragraph 9.5 of these Rules, the securities to be included in the index basket shall be determined by the Exchange's Management Board.

10.3. Securities that do not comply with the provisions of paragraph 10.1 of these Rules shall be removed from the index basket. In other cases, securities may be removed from the index basket by the decision of the Exchange's Management Board.

11. Calculation of the market index of small and medium-sized companies of the stock exchange

11.1. The index is calculated in accordance with paragraph 6 of these Rules.

12. Review and adjustment of the stock market index of small and medium companies

12.1. Indexes shall be reviewed and amended in accordance with paragraph 7 of these Rules.