

Introduction

Preamble to SXBANK

SXBANK is an Index created by Metropolitan Stock Exchange of India Limited (MSE) representing the banking sector of the Indian Economy. It is a capped free-float based index of 10 large cap liquid banking stocks. The Index will have 10 stocks from the banking sector. Weights of individual stocks in the index have been capped at 15% to reduce concentration and thereby provide a cost-effective support for investment/portfolio management and structured products such as index futures and options, index portfolio, exchange traded funds, Index funds, etc.

Guiding Features

Distinctive guiding features of SXBANK are as follows:

- Scientific, Transparent and Rule based – easily replicable
- Better reflection of the Banking sector in the economy
- Cap on weight of individual stocks at 15%
- Lower portfolio maintenance cost
- Superior risk adjusted return
- Global best practices and standards

Selection Criteria of Constituent Stocks

Selection Variables

SXBANK would comprise of securities that comply with below terms and conditions:

- Only common shares which are of equity in nature and are into the Banking sector will be eligible for inclusion in the index
- The stock must have a free float of at least 10%.
- The stock must have a positive net-worth.
- Stock must be within top 300 ranking when arranged in terms of average daily trading value for the preceding three months (henceforth termed as review period) on the Exchange and must have been traded on at least 90 percent of the trading days during the review period.
- Top 10 companies based on average free-float market capitalization during the review period will be chosen from the universe of banks stocks in terms of average trading value during the review period.

Capping Methodology

At the time of index creation and periodic review, the constituent weight of each incumbent stock of SXBANK is capped at 15%. Any constituent whose weight is greater than 15% will be capped at 15%. The weights of all lower ranking constituents are increased proportionately. This process is iterated until no constituent weight exceeds 15%. The Capping Factor for the constituent stocks arrived at the time of periodic review will be constant till the next periodic review and will be used for arriving at the capped shares during monthly rebalancing.

Periodic Review and Rebalancing

The Index will be reviewed twice in a calendar year, during April (review period: Jan – March) and October (review period: July – September) respectively. In case of a special situation dictated by corporate events or adverse market movements, necessary modification would be carried out.

Any Inclusion or Exclusion is carried out according to the below criteria: The rules for inclusion or exclusion of a stock in / from the index during the periodic review process has been designed to provide stability in selection while ensuring that the index would continue to be broad market representative of the banking sector traded in the market by including or excluding those companies whose free float market capitalization would have risen or fallen significantly.

Exclusion Criteria:

- An existing constituent will be excluded from the index during the semi-annual review
 - If it does not appear in top 300 securities in terms of liquidity criteria
 - If the average daily free-float market capitalization rank during the review period exceeds the rank of top 10 banks as per market capitalization.

Inclusion Criteria:

- A company appearing in top 10 in terms of average daily free float market capitalization (among stocks in the banking sector) during the review period will be considered for inclusion in the index.

Notice to Market about change in the Index: Except the special situations mentioned above, there shall be four weeks notice before any change is made in the Index.

Index Maintenance

Price Return Index

SXBANK would be initially computed on end of day basis. The Index is calculated based on Capped free-float market capitalization of all the constituents adjusted to the divisor. The divisor is adjusted to smoothen out effects of corporate actions or other change in the composition as warranted.

Total Returns Index

SXBANK Index does not consider the return from dividend payments of index constituent stocks. Only the capital gains and losses due to price movement are measured by a price return index. In order to get a true picture of returns, the dividends received from the index constituent stocks also need to be included in the index movement. Such an index, which includes the dividends received, is called the 'total return index'.

The total return index is being calculated by considering the returns on the index from stock price fluctuations plus dividend payments by constituent index stocks.

Index Maintenance

Base Date

The base date for the Index is 31 March 2010. The base value of the index is 5000.

Index Precision

- Index would be disseminated to the level of 2 decimal digits
- Share prices are rounded to two decimal places
- Capped Free-Float Shares are expressed in units

Currency of Calculation

All prices are in Indian rupees.

Adjustments to Corporate action

Corporate actions such as, but not limited to, share changes, stock splits, stock dividends, and stock price adjustments due to restructurings or spin-offs, right issues etc. affects the common shares outstanding and the stock prices of the companies in the index which may require a divisor adjustment to prevent the value of the index from changing due to corporate action. Divisor adjustments are made after the official closing of the market.

Outstanding issue size: Corporate action with respect to issuance of further shares of companies such as shares issuance/ buyback, ESOPs, QIPs, ADR/GDR issues, private placements, warrant conversions, and FCCB conversions etc. would be effected on a monthly basis. Where the impact in share changes is more than (+/-) 5% of the existing free-float shares of a company then the corporate action would be given effect after informing the market participants with a prior-notice of at least 5 working days.

Corporate Action: Corporate action in respect to Dividend, Rights, Bonus, Splits, Mergers would be incorporated on the ex-date as per the announcement. Partly paid up shares would not be considered for calculation of the index.

Free Float Shares for Index: Free float shares for each company in the index will be updated based on the shareholding pattern and related information submitted by companies to stock exchanges. Further, the following categories would also be excluded from the free float shares wherever identifiable separately:

- Strategic stakes by corporate bodies
- Central /State Government holding in the capacity of strategic investor
- FDI category of Investments
- Employee Welfare Trusts (ESOP)
- Equity held by associate companies
- Shares under lock-in category

Corporate action with respect to change in free float shares of companies would be effected on a monthly basis. If the Corporate action for a company changes freefloat shares by more than 5% of the company free float shares then such corporate actions would be given immediate effect after intimating the market participant with a prior-notice of at least 5 working days. At every rebalancing, the capped free-float shares for the index will be arrived by multiplying the free-float shares by the capping factor of the respective constituents arrived during the periodic review.

Divisor / Price Adjustment: The following corporate actions would lead to Divisor / Price adjustment as illustrated below.

| Sr. No | Corporate action Type | Price Adjustment | Divisor Adjustment |
|--------|-----------------------|------------------|--------------------|
| 1 | Dividend | Yes | Yes |
| 2 | Rights | Yes | Yes |
| 3 | Bonus | Yes | Yes |
| 4 | Splits | Yes | Yes |
| 5 | Warrants | No | Yes |
| 6 | New Issues | No | Yes |
| 7 | Spin-off | Yes | Yes |
| 8 | Merger | No | Yes |
| 9 | Buyback | No | Yes |
| 10 | Free Float | No | Yes |

Divisor Adjustments:

Adjusted market cap before adjustment = Adjusted market cap after adjustment

Adjusted market cap after adjustment (New Divisor) should be equal to the adjusted market cap before adjustment (old divisor) + change in market cap.

Adjustments to Constituents' Industry Classification

Where a constituent is the subject of a merger, restructuring or takeover which results in a constituent, or part of a constituent, being absorbed by another, the Industry classification, of the resulting constituent(s) will be determined by the Advisory Committee, at the same time that the constituent changes are implemented.

Index Data Dissemination

Daily Index Values are available on the MSE website

Index Calculation Formula

SXBANK is calculated as follows with Current Capped float adjusted Market Capitalization as the numerator and Index Divisor as the denominator.

$$SXBANK = \frac{\sum \text{Index free float shares}_i \times \text{Price}_i}{\text{Index Divisor}} \times \text{Index Base Value}$$

Index Governance

Index Advisory Committee

MSE has constituted an Index Advisory Committee (IAC) comprising of academicians, industry experts, and fund managers to evaluate, consult and examine the SXBANK rules to guarantee its scientific nature and transparency on a continuous basis. The Committee would also provide suggestions to other index operations issues.

Index Policy

All index-related Circulars by the exchange would be uploaded on the MSE Website. Changes impacting the constituent list are also posted on the Web site. Website: www.msei.in

Holiday Schedule

For the calculation of indices on a daily basis, please refer to the official holiday schedule. A complete trading

For more details

Index Team

Metropolitan Stock Exchange of India Limited

Building A, Unit 205A, 2nd Floor, Piramal Agastya Corporate Park, L.B.S Road,

Kurla West, Mumbai - 400 070

T: +91-22-6112 9000 | F: +91-22-6112 9009 | Website: www.msei.in | Email: index@msei.in



METROPOLITAN STOCK EXCHANGE OF INDIA LIMITED

Building A, Unit 205A, 2nd Floor, Piramal Agastya Corporate Park, L.B.S Road, Kurla West, Mumbai - 400 070 | T: +91-22-6112 9000 | F: +91-22-6112 9009

Disclaimer: All the information in the brochure, including, but not limited to, characters, data, charts and tables (hereinafter referred to as "information") are properties of Metropolitan Stock Exchange of India Limited (hereinafter referred to as "MSEI") except for the brand names and logos if any belonging to other persons or entities. The contents of this document are solely for informational purposes. It is not intended to be used as trading advice by anybody and should not in any way be construed as a recommendation to trade. While the information in the document has been compiled from various sources believed to be reliable and in good faith, recipients and audience of this document may note that the contents thereof including text, graphics, links or other items are provided without warranties of any kind and the content, accuracy, opinions expressed by these resources are not investigated, verified, monitored, or endorsed by MSEI. MSEI expressly disclaims any warranty as to the accuracy, correctness, reliability, timeliness, merchantability or fitness for any particular purpose and shall not be liable for any damage or loss of any kind or expenses arising in connection thereto including without limitation direct or indirect, special, incidental, or consequential damages, howsoever caused as a result (direct or indirect) of the use of the information or data contained in this document. The charts and graphs may reflect hypothetical historical performance. All information presented prior to the index inception date is back-tested. Back-tested performance is not actual performance, but is hypothetical. SX-40 and the SX40 logo are proprietary trademarks of MSEI.