
Emerging Markets Balance 20%

Index Rules v1.7
Version as of 19 October 2010

1. Index Descriptions

The Emerging Markets Balance 20% (the “Index”) measures the performance of a rules-based, quantitative investment strategy that reflects the relative return of the iShares® MSCI Emerging Markets Index (the “Underlying Share”) against the Over Night (O/N) interbank offered rate for deposits in USD (the “USD LIBOR Rate”), based on a 20% target volatility risk control mechanism for the Underlying Share. The Index Rules are quantitative.

The exposure to the Underlying Share is adjusted daily based on formulas outlined in the Index Rules which compare the volatility of the Underlying Share to the target volatility. The purpose of adjusting the exposure is to decrease the exposure to the Underlying Share when the volatility of the Underlying Share increases and to increase the exposure to the Underlying Share when its volatility decreases. The exposure to the Underlying Share is capped at 150%.

Emerging Markets Balance 20% (the “Index”) is the property of Svenska Handelsbanken AB (publ) (“Handelsbanken”).

2. Index Rules

2.1 Terms and definitions relating to the Index

$ACT(t-1, t)$	Number of calendar days between the Calculation Date ($t-1$) (included) and the Calculation Date (t) (excluded)
Calculation Date, " t "	any Scheduled Valuation Day on which no Index Disruption Event occurs (except as provided for in Section 3); Calculation Date ($t-1$) means the preceding Calculation Date to the Calculation Date (t)
Exposure, " E_t "	in respect of any Calculation Date (t), the Exposure to the Underlying Share is determined by the Index Calculator in accordance with the formula specified in Section 2.5
Exposure change Threshold " ΔE "	10%, the minimal amount that the exposure can be changed, i.e. if the indicated change of the exposure is less than the threshold it is kept unchanged as defined in Sections 2.5 and 2.8. As of the calculation date $t = 2010-10-25$ the threshold is 10%. Prior to that date it is zero.
Index	The Emerging Markets Balance 20%
Index Calculator	Handelsbanken Capital Markets
Index Currency	United States Dollar (“USD”)
Index Disruption Event	in respect of the Underlying Share, the occurrence or existence of an Underlying Share Disruption Event or, in respect of the USD LIBOR Rate, a USD LIBOR Disruption Event, which in any case the Index Calculator determines is relevant.
Index Base Date, " t_0 "	2005-01-20 (YYYY-MM-DD)
Index Launch Date	2009-11-18 (YYYY-MM-DD)
Index Level, " I_t "	in respect of any Calculation Date (t), the level of the Index calculated and announced by the Index Calculator on such date at the Valuation Time, in accordance with section 2.4
Index Owner	Svenska Handelsbanken AB (publ)
Index Sponsor	Svenska Handelsbanken AB (publ)

Initial value of the Index, " I_0 "	the value of the Index was set to 100 as of the Index Base Date
Maximum Exposure, " E_{\max} "	150% , maximum Exposure to the Underlying Share
$N(t_1, t_2)$	the number of Calculation Dates between the Calculation Date (t_1) (included) and the Calculation Date (t_2) (excluded). If the Calculation Date (t_1) occurs after the Calculation Date (t_2), $N(t_1, t_2) = -N(t_2, t_1)$ applies.
Scheduled Valuation Day	any day on which the Underlying Share Exchange is scheduled to be open for its regular trading sessions.
Target Exposure, " TE_t "	in respect of any Calculation Date (t), the Target Exposure to the Underlying Share is determined by the Index Calculator in accordance with the formula specified in Section 2.5
Target Volatility, " Vol^B "	20%
Valuation Time	the Scheduled Valuations Day closing time of the Underlying Share Exchange without regard to after hours or any other trading outside of the regular trading sessions.

2.2 Terms and definitions relating to the USD LIBOR Rate

USD LIBOR Disruption Event	in respect of the USD LIBOR Rate, the occurrence on a Scheduled Valuation Day of any event that prevents the Index Calculator from ascertaining the USD LIBOR Rate from the USD LIBOR Rate Source.
USD LIBOR Rate, " R_t "	in respect of the Calculation Date (t), the most recent percentage fixing rate of the USD London Interbank offered rate Over Night (O/N) which appears on the USD LIBOR Rate Source immediately following the time of regular fixing publications.
USD LIBOR Rate Source	Bloomberg Screen page "BBAM", or any successor page or service, as determined by the Index Calculator.

2.3 Terms and definitions relating to the Underlying Share

Underlying Share	the iShares® MSCI Emerging Markets Index (Reuters ticker: EEM.P; Bloomberg Ticker: EEM UP <Equity>). The iShares® funds are distributed by SEI Investments Distribution Co. ("SEI"). Barclays Global Fund Advisors ("BGFA") serves as the investment advisor to the funds. BGFA is a subsidiary of Barclays Global Investors, N.A., neither of which is affiliated with SEI.
Underlying Share Disruption Event	in respect of the Underlying Share, the occurrence or existence on any Scheduled Valuation Day, of any of the following events which the Index Calculator determines is material; <ul style="list-style-type: none"> (i) any suspension of or limitation imposed on trading by the Underlying Share Exchange or Related Exchange, or

- (ii) any event that disrupts or impairs the ability of market participants in general to effect transactions in, or obtain market values for, the Underlying Share on the Underlying Share Exchange or to effect transactions in, or obtain market values for, futures and option contracts relating to the Underlying Share on any Relevant Exchange, or
- (iii) the closure on any Scheduled Valuation Day of the Underlying Share Exchange or any Relevant Exchange prior to its scheduled closing time unless such earlier close is announced by the Underlying Share Exchange or the Relevant Exchange at least one hour prior to the earlier of (1) the actual closing time for the regular trading sessions and (2) the submission deadline for orders to be entered into for execution on such day.

Underlying Share Exchange New York Stock Exchange, NYSE Arca.

Related Exchange in respect of the Underlying Share, each exchange or quotation system where trading has a material effect (as determined by the Index Calculator) on the overall market for the Underlying Share or for futures or options contracts relating to the Underlying Share.

Underlying Share Adjustment Event as described in Section 4.

Underlying Share Level, S_t the Underlying Share level as of the Calculation Date t

Dividend level, Q_t in respect of the Calculation Date t , amount of dividend and similar distributions when the Underlying Share becomes ex-dividend with respect to such dividend or similar distributions.

Tax the non-Swedish tax rate actually withheld by the issuer of the Underlying Share, or by any competent authority, on dividends and similar distributions on the Underlying Share to the Index Owner. However, if there is a double tax treaty which is applicable to the dividends (or similar distributions) and which the Index Owner can benefit from, Tax is the non-Swedish tax rate that the issuer of the Underlying Share, or any competent authority, is allowed to withhold on such distribution under the double tax treaty.

2.4 Determination of the Index Level “ I_t ”

$I_0 = 100$ (as of the index Base Date)

As of each Calculation Date (t) when $N(t_0, t) \geq 1$, Index Level “ I_t ” is determined by the Index Calculator in accordance with the following formula:

$$I_t = I_{t-1} \left[1 + E_{t-1} \left(\frac{S_t + DivAdj_t}{S_{t-1}} - 1 \right) - E_{t-1} R_{t-1} \frac{ACT(t-1, t)}{360} \right]$$

where

E_{t-1} = in respect of the Calculation Date $t - 1$, the Exposure to the Underlying Share (as described in section 2.5)

S_t = in respect of the Calculation Date t , the Underlying Share Level on such date

R_{t-1} = in respect of the Calculation Date $t - 1$, the USD LIBOR Rate on such date

$ACT(t - 1, t)$ = the number of calendar days between the Calculation Date ($t - 1$) and the Calculation Date t

R_t = in respect of the Calculation Date t , the USD LIBOR Rate on such date

$DivAdj_t$ is the dividend adjustment term, which is zero for all days except if t is an ex-dividend day in which case it is calculated as $DivAdj_t = Q_t \cdot Df(t, t_{div}) \cdot (1 - Tax)$

Where

t_{div}

is the dividend payment day with respect to the ex-dividend day t and

$Df(t_1, t_2) = 1 / (1 + R_t \cdot (t_2 - t_1) / 360)$ the USD LIBOR discount factor between the Calculation Date t_1 and the Calculation Date t_2

2.5 Determination of the Exposure " E_t "

Calculation of the Exposure " E_t " is based on the Target Exposure " TE_t ". The Target Exposure " TE_t " is related to the historical volatility of the Underlying Share and the Convexity Correction Factor. The Target Exposure " TE_t " may not exceed 150%. As of each Calculation Date (t), the Target Exposure " TE_t " is determined by the Index Calculator in accordance with the following formula:

$$TE_t = \min(E_{\max}, CCF_{t-1} * Vol^B / Vol_{t-1}^S)$$

where

$E_{\max} = 150%$, the Maximum Exposure to the Underlying Share

$CCF_{t-1} = \max(0.75, Vol^B / Vol_{t-1}^{UA})$, the Convexity Correction Factor on the Calculation Date ($t - 1$)

Vol_{t-1}^{UA} = in respect of the Calculation Date ($t - 1$), the historical volatility of the Unadjusted Balance Index (as described in section 2.9)

Vol_{t-1}^S = in respect of the Calculation Date ($t - 1$), the historical volatility of the Underlying Share (as described in section 2.6)

The Exposure " E_t " is related to the Target Exposure " TE_t " in such a way that it is unchanged relative to its previous value at the Calculation Date ($t - 1$) if the distance $abs(TE_t - E_{t-1})$ is smaller than the threshold " ΔE ". If the distance is greater than or equal to the threshold the Exposure is set equal to the Target Exposure. On the index Base Date the Exposure is set equal to the Target Exposure. Thus, at each Calculation Date after the Base Date the Exposure is given by:

$$E_t = \begin{cases} TE_t & \text{if } \text{abs}(TE_t - E_{t-1}) \geq \Delta E \\ E_{t-1} & \text{if } \text{abs}(TE_t - E_{t-1}) < \Delta E \end{cases}$$

On the Calculation Date ($t = t_0$) the Exposure " E_t " is set to the Target Exposure " TE_t ", i.e.

$$E_t = TE_t .$$

2.6 Determination of the Historical Volatility of the Underlying Share " Vol_t^S "

As of each Calculation Date (t) when $N(t, t_0) < 254$, i.e., when the Historical Volatility of the Underlying Share is to be calculated for any Calculation Date after the 254th Calculation Date preceding the Index Base Date, it is determined by the Index Calculator in accordance with the following formula:

$$Vol_t^S = \sqrt{\lambda_S (Vol_{t-1}^S)^2 + (1 - \lambda_S) \left[\ln \left(\frac{S_t + DivAdj_t}{S_{t-1}} \right) \right]^2} \cdot 252$$

where

$\lambda_S = 0.96$, the exponentially weighted smoothing factor for calculating the historical volatility of the Underlying Share

$DivAdj_t$ is the dividend adjustment term, which is zero for all days except if t is an ex-dividend day in which case it is calculated as $DivAdj_t = Q_t \cdot Df(t, t_{div}) \cdot (1 - Tax)$

Where

t_{div}

is the dividend payment day with respect to the ex-dividend day t and

$Df(t_1, t_2) = 1 / (1 + R_{t_1} \cdot (t_2 - t_1) / 360)$ the USD LIBOR discount factor between the Calculation Date t_1 and the Calculation Date t_2

"ln" means the logarithm to the base e

As of the Calculation Date (t) when $N(t, t_0) = 254$, i.e., when the number of Calculation Dates between the Calculation Date (t) (included) and the Index Base Date (t_0) (excluded) is 254, the Historical Volatility of the Underlying Share on such date is determined by the Index Calculation Agent in accordance with the following formula:

$$Vol_t^S = \sqrt{\sum_{i=t-49}^t \frac{\alpha_{t,i}}{SF_t^S} \left[\ln \left(\frac{S_i + DivAdj_i}{S_{i-1}} \right) \right]^2} \cdot 252$$

where

$$\alpha_{t,i} = (1 - \lambda_S) * \lambda_S^{t-i}$$

$$SF_t^S = \sum_{j=t-49}^t \alpha_{t,j}$$

2.7 Determination of the Unadjusted Balance Index Level “ I_t^{UA} ”

The Unadjusted Balance Index is calculated in order to obtain the Convexity Correction Factor CCF_t as defined in section 2.5. $I_t^{UA} = 100$ as of the Calculation Date ($t = t_0^{UA}$) when

$N(t_0^{UA}, t_0) = 253$, i.e., the Unadjusted Balance Index Level was set to 100 as of the 253rd Calculation Date preceding the Index Base Date

On each Calculation Date (t) when $N(t_0^{UA}, t) \geq 1$, the Unadjusted Balance Index Level “ I_t^{UA} ” is determined by the Index Calculator in accordance with the following formula:

$$I_t^{UA} = I_{t-1}^{UA} \left[1 + E_{t-1}^{UA} \left(\frac{S_t + DivAdj_t}{S_{t-1}} - 1 \right) - E_{t-1}^{UA} R_{t-1} \frac{ACT(t-1, t)}{360} \right]$$

where

E_{t-1}^{UA} = in respect of the Calculation Date ($t-1$), the Exposure of the Unadjusted Balance Index to the Underlying Share (as described in section 2.8)

$DivAdj_t$ is the dividend adjustment term, which is zero for all days except if t is an ex-dividend day in which case it is calculated as $DivAdj_t = Q_t \cdot Df(t, t_{div}) \cdot (1 - Tax)$

Where

t_{div}

is the dividend payment day with respect to the ex-dividend day t and

$Df(t_1, t_2) = 1 / (1 + R_{t_1} \cdot (t_2 - t_1) / 360)$ the USD LIBOR discount factor between the Calculation Date t_1 and the Calculation Date t_2

2.8 Determination of the Exposure of the Unadjusted Balance Index “ E_t^{UA} ”

The Target Exposure “ TE_t^{UA} ” is related to the historical volatility of the Underlying Share and it may not exceed 150%. As of each Calculation Date (t), the Target Exposure “ TE_t^{UA} ” is determined by the Index Calculator in accordance with the following formula:

$$TE_t^{UA} = \min(E_{\max}, Vol^B / Vol_{t-1}^S)$$

The Exposure “ E_t^{UA} ” is related to the Target Exposure “ TE_t^{UA} ” through the formula:

$$E_{t,t}^{UA} = \begin{cases} TE_t^{UA} & \text{if } abs(TE_t^{UA} - E_{t-1}^{UA}) \geq \Delta E \\ E_{t-1}^{UA} & \text{if } abs(TE_t^{UA} - E_{t-1}^{UA}) < \Delta E \end{cases}$$

On the Calculation Date ($t = t_0^{UA}$) the Exposure “ E_t^{UA} ” is set to the Target Exposure “ TE_t^{UA} ”, i.e.

$$E_t^{UA} = TE_t^{UA} .$$

2.9 Determination of the Unadjusted Balance Index Historical Volatility " Vol_t^{UA} "

As of each Calculation Date (t) when $N(t_0, t) \geq 0$, i.e., when the Unadjusted Balance Index Historical Volatility is to be calculated for the Index Base date or any Calculation Date after the Index Base Date, it is determined by the Index Calculator in accordance with the following formula:

$$Vol_t^{UA} = \sqrt{\lambda_{UA} (Vol_{t-1}^{UA})^2 + (1 - \lambda_{UA}) \left[\ln \left(\frac{I_t^{UA}}{I_{t-1}^{UA}} \right) \right]^2} \cdot 252$$

where

$\lambda_{UA} = 0.99$, which is the exponentially weighted smoothing factor for calculating the Unadjusted Balance Index Historical Volatility

As of the Calculation Date (t) when $N(t, t_0) = 1$, i.e., if the Unadjusted Balance Index Historical Volatility is to be calculated for the preceding Calculation Date to the Index Base date, it is determined by the Index Calculator in accordance with the following formula:

$$Vol_t^{UA} = \sqrt{\sum_{i=t-251}^t \frac{\alpha_{t,i}^{UA}}{SF_t^{UA}} \left[\ln \left(\frac{I_i^{UA}}{I_{i-1}^{UA}} \right) \right]^2} \cdot 252$$

where

$$\alpha_{t,i}^{UA} = (1 - \lambda_{UA}) * \lambda_{UA}^{(t-i)}$$

$$SF_t^{UA} = \sum_{j=t-251}^t \alpha_{t,j}^{UA}$$

3. Consequences of an Index Disruption Event

If an Index Disruption Event occurs on a Scheduled Valuation Day for either the Underlying Share or the USD LIBOR Rate, then there will be no level for the Index calculated or announced on such day.

If an Index Disruption Event occurs on each of the eight Scheduled Valuation Days immediately following the initial Scheduled Valuation Day, then that eighth Scheduled Valuation Day, and each Scheduled Valuation Day thereafter on which an Index Disruption Event continues to exist, shall be deemed to be a Calculation Date, notwithstanding the existence of an Index Disruption Event on such date(s). The Index Calculator shall then, as of the Valuation Time on each such deemed Calculation Date, in regards to the level of Index (each, a “Disrupted Calculation Date”), act based on the following:

- (i) if an Underlying Share Disruption Event exists there will be no level for the Index calculated or announced on such day;
- (ii) if a USD LIBOR Disruption Event exists but not an Underlying Share Disruption Event, a Successor Rate, replacing the USD LIBOR Rate is determined by the Index Calculator using rates quoted by four major bank(s) in the London interbank market, selected by the Index Calculator, for loans in US Dollar to leading European banks on the relevant date(s) of determination.

Notwithstanding the foregoing, if an Index Disruption Event continues for eight consecutive Scheduled Valuation Days, then the Index Calculator may permanently cancel the Index on such eighth Scheduled Valuation Day.

4. Underlying Share Adjustment Event

Following the occurrence of an event which causes the adjustment to the terms of any futures or options contract on the Underlying Share traded on any Related Exchange, the Index Calculator will make the corresponding adjustments, if any, or any other adjustments that the Index Calculator determines to be appropriate to account for such event.

Following the occurrence of an event, other than those specified above, beyond the control of the Index Calculator which has a material effect on the Underlying Share, the Index Calculator may make an adjustment or decide to modify a provision regarding adjustment or permanently cancel the Index to account for such event.

5. Index Extraordinary Event

If, in the opinion of the Index Calculator, technical or other reasons, render the automatic transmission of price information or other information regarding the Underlying Share either wholly or partially unavailable, or if such price information is unreliable or in any other way fails to reflect the development of market prices in the Underlying Share, the Index Calculator may utilise another source of information and thereby apply other bases for the calculation of the Index than those which otherwise are stated in these rules.

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The Index Owner is not liable for loss or damage resulting from Swedish or foreign legislative enactment, actions of Swedish or foreign authorities, war, power failure, telecommunication failure, fire, water damage, strike, blockade, lockout, boycott, or other similar circumstances outside the control of the Index Owner. The reservation with respect to strikes, blockade, lockout and boycott also applies if the Index Owner adopts or is the object of such conflict measures.

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