Sweden Balance 20%

Index Rules v1.2
Version as of 2 May 2011

1. Index Descriptions

The Sweden Balance 20 % Index (the “Index”) measures the performance of a rules-based, quantitative investment strategy that reflects the relative return of the OMX Stockholm 30 Gross index (the “Underlying Index”) against the Tomorrow Next (T/N) interbank offered rate for deposits in SEK (the “STIBOR Rate”), based on a 20% target volatility risk control mechanism for the Underlying Index. The Index Rules are quantitative.

The exposure to the Underlying Index, i.e., OMX Stockholm 30 Gross index is adjusted daily based on formulas outlined in the Index Rules which compare the volatility of the Underlying Index to the target volatility. The purpose of adjusting the exposure is to decrease the exposure to the Underlying Index when the volatility of the Underlying Index increases and to increase the exposure to the Underlying Index when its volatility decreases. The exposure to the Underlying Index is capped at 170%; furthermore, a minimum change of 10% in the exposure is required in order for the exposure to the Underlying Index to be adjusted.

Sweden 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

Business Days	TARGET
$ACT(t-1,t)$	Number of calendar days between the Calculation Date $(t-1)$ (included) and the Calculation Date (t) (excluded)
Calculation Date, "t"	any Scheduled Valuation Date 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 Index 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 "ΔE" it is kept unchanged as defined in Sections 2.5 and 2.8
Index	The Sweden Balance 20 % Index
Index Calculator	Handelsbanken Capital Markets
Index Currency	Swedish Krona (“SEK”)
Index Disruption Event	in respect of the Underlying Index, the occurrence or existence of an Underlying Index Disruption Event or, in respect of the STIBOR Rate, a STIBOR Disruption Event, which in any case the Index Calculator determines is relevant.
Index Base Date, "t_0"	2003-03-20
Index Launch Date	2011-05-05
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, "$E_{\max}$"	170% , maximum Exposure to the Underlying Index
$N(t_1, t_2)$	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 Index 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 Index 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 Business Day closing time of the Underlying Index Exchange without regard to after hours or any other trading outside of the regular trading sessions.

2.2 Terms and definitions relating to the STIBOR Rate

STIBOR Disruption Event	in respect of the STIBOR Rate, the occurrence on a Scheduled Valuation Day of any event that prevents the Index Calculator from ascertaining the STIBOR Rate from the STIBOR Rate Source.
STIBOR Rate, "R_t"	in respect of the Calculation Date (t), the percentage fixing rate of the Stockholm Interbank offered rate Tomorrow Next (T/N) which appears on the STIBOR Rate Source.
STIBOR Rate Source	Reuters Screen page: SIOR, or any successor page or service, as determined by the Index Calculator.

2.3 Terms and definitions relating to the Underlying Index

Underlying Index	the OMX Stockholm 30 Gross index (Reuters ticker: .OMXS30GI; Bloomberg Ticker: OMXS30GI <Index>). The Underlying Index is maintained and governed according to the "Rules and Regulations of NASDAQ OMX Derivatives Market, Addendum to the OMXS30 contract specifications, addendum 4.8. NASDAQ OMX Group, Inc. has agreed to the use of, and reference to, the Underlying Index by Handelsbanken in connection with the Index.
Underlying Index Disruption Event	in respect of the Underlying Index, the occurrence or existence on any Scheduled Valuation Day, of an event beyond the control of the Index Calculator which precludes the calculation and/or the publication of the Underlying Index.
Underlying Index Exchange	NASDAQ OMX Stockholm AB

Related Exchange	in respect of the Underlying Index, each exchange or quotation system where trading has a material effect (as determined by the Index Calculator) on the overall market for futures or options contracts relating to the Underlying Index.
Underlying Index Extraordinary Event	As described in Section 4.
Underlying Index Level, S_t	the Underlying Index level as of the Calculation Date t

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:

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

where

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

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

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

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

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 Index and the Convexity Correction Factor. The Target Exposure "TE_t" may not exceed 170%. As of each Calculation Date (t), the Target Exposure "TE_t" is determined by the Index Calculator in accordance with the following formula:

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

where

$E_{\max} = 170\%$, the Maximum Exposure to the Underlying Index

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

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

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

The Exposure "E_t" is related to the Target Exposure "TE_t" in such a way that "E_t" 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 "ΔE" the Exposure "E_t" is set equal to the Target Exposure. Thus, at each Calculation Date after the Base Date the Exposure is given by:

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

where $abs(TE_t - E_{t-1}) = TE_t - E_{t-1}$ if $TE_t \geq E_{t-1}$
and $abs(TE_t - E_{t-1}) = E_{t-1} - TE_t$ if $TE_t < E_{t-1}$

On the index Base Date the Exposure was set equal to the Target Exposure.

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

As of each Calculation Date (t) when $N(t,t_0) < 254$, i.e, when the Historical Volatility of the Underlying Index 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:

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

where
$\lambda_S = 0.96$, the exponentially weighted smoothing factor for calculating the historical volatility of the Underlying Index
"$\ln$" 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 Index on such date is determined by the Index Calculation Agent in accordance with the following formula:

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

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:

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

where

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

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

Calculation of the Exposure of the Unadjusted Balance Index "E_t^{UA}" is based on the Target Exposure "TE_t^{UA}". The Target Exposure "TE_t^{UA}" is related to the historical volatility of the Underlying Index and it may not exceed 170%. As of each Calculation Date (t), the Target Exposure "TE_t^{UA}" is determined by the Index Calculator in accordance with the following formula:

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

The Exposure "E_t^{UA}" is related to the Target Exposure through the formula:

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

where $abs\left(TE_t^{UA} - E_{t-1}^{UA}\right) = TE_t^{UA} - E_{t-1}^{UA}$ if $TE_t^{UA} \geq E_{t-1}^{UA}$
and $abs\left(TE_t^{UA} - E_{t-1}^{UA}\right) = E_{t-1}^{UA} - TE_t^{UA}$ if $TE_t^{UA} < E_{t-1}^{UA}$

On the Calculation Date $(t = t_0^{UA})$ the Exposure was set to the Target Exposure, 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:

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

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 Index or the STIBOR 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 Index Disruption Event exists there will be no level for the Index calculated or announced on such day;

(ii) if a STIBOR Disruption Event exists but not an Underlying Index Disruption Event, a Successor Rate, replacing the STIBOR Rate is determined by the Index Calculator , in consultation with the Index Sponsor, using rates quoted by major bank(s) in Stockholm, selected by the Index Calculator in consultation with the Index Sponsor, for loans in Swedish Kronor 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 Index Extraordinary Event

If the Underlying Index is (i) not calculated and announced by the Underlying Index Exchange but is calculated and announced by a successor entity acceptable to the Index Calculator, or (ii) replaced by a successor index using, in the determination of the Index Calculator, the same or a substantially similar formula for and method of calculation as used in the calculation of the Underlying Index, then in each case that index (the "Successor Index") may be deemed the Underlying Index if so specified by the Index Calculator.

If, on any Scheduled Valuation Date, the Underlying Index Exchange permanently cancels the Underlying Index and no Successor Index exists, then the Index Calculator shall permanently cancel the Index.

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