Interim report

January–June 2016

Message from the CEO

Continued strong financial position

The first half of 2016 was marked by sharp falls in global interest rates and equity markets, which started the year on a weak note, staged a recovery from the beginning of the second quarter and then sold off sharply after Brexit. Equity markets have since recovered again but the outlook remains highly uncertain. Ultra-low interest rates are of course challenging for Alecta and the industry as a whole. I am therefore happy to confirm that Alecta's financial position remains strong and that Alecta is well equipped to sustain an extended period of low interest rates. Alecta's solvency ratio is 154 per cent. Thanks to its strong financial position, Alecta is able invest for the long term in risk assets to ensure a good return over time. Alecta's defined contribution product, Alecta Optimal Pension, has over the past five-year period outperformed its benchmark index (Morningstar Blandfond SEK Aggressiv) by 3,4 percentage points. The capital held in Alecta Optimal Pension is growing steadily, largely on the back of increased premium income, and now stands at SEK 63,3 billion. This is an increase of over 16 per cent on the same date last year.

In the first half of 2016 Alecta's premium income continued to increase, to SEK 16,1 billion, compared with SEK 14,7 billion in the same period in 2015. The background to the growth in premium income is the strong performance of Alecta's defined contribution product Alecta Optimal Pension, which today is one of Sweden's biggest savings products that more and more customers are discovering and actively choosing. We recently had the privilege of welcoming our one millionth customer! This represents a very strong rate of growth and bodes well for Alecta's continued success. Alecta Optimal Pension is a product that is similar to a traditional balanced fund product, with the significant differences that Alecta Optimal Pension contains a guaranteed portion and that it is provided at a very low fee. I am proud to say that Alecta is offering the market an insurance product for occupational pensions with one of the lowest fees in the industry. Essential to our ability to provide this offer to our customers is of course that we always remain cost-effective in everything we do at Alecta. Based on the global comparisons that we have done, we have established that we are among the very best in the world in terms of cost effectiveness. Alecta's six-month results show unambiguously that we have achieved a high degree of operational cost effectiveness and that we have continued to improve our effectiveness. We are getting better all the time. Our management expense ratio dropped from 0,10 per cent for the rolling twelve-month period ended 30 June 2015 to 0,09 per cent in the same period this year. Excluding the selection centre cost, which Alecta is unable to influence directly, the ratio was 0,06 per cent, down from 0,07 per cent in the same period in 2015.

Alecta's earnings in the first half of 2016 were partly affected by increased technical provisions due to the decrease in the yield curve that is used in valuing the provisions. Our financial position shows, however, that the company is in a strong position to handle a continued uncertain market situation and ultra-low interest rate environment. Alecta has an attractive defined contribution product, a high level of cost effectiveness and a strong financial position – three factors that provide a good foundation for continued success.

Magnus Billing
Chief Executive Officer

Financial information for January–June 2016

- The return for Alecta's defined contribution product, Alecta Optimal Pension, was –1,8 per cent for the first half of 2016. The average annual return over the past five-year period is 8,9 per cent.
- The six-month return for Alecta's defined benefit insurance product was 0,1 per cent. The average annual return over the past five years is 7,0 per cent.
- Despite the continued slide in yields and volatility in financial markets, Alecta's financial position remains robust. Our solvency ratio at the end of the period was 154 per cent and the collective funding ratio for defined benefit insurance products was 140 per cent, which is within the defined normal range of 125–155 per cent.
- Our management expense ratio at 30 June remained low, at 0,09 per cent. The equivalent ratio for pension products, excluding selection centre costs, was 0,06 per cent.

Comments on the Parent Company and consolidated financial statements

The Chief Executive Officer of Alecta pensionsförsäkring, ömsesidigt, hereby presents the interim report for the period 1 January–30 June 2016.

Results

The consolidated six-month result after tax was SEK –40,2 billion (47,0). Comments on Alecta's results and financial position are given in the following.

The amounts refer to the Group and comparative figures refer to the same period in the previous year for the income statement and the previous year-end date for the balance sheet.

Premium income

Alecta's premium income for the first half of 2016 was SEK 16,1 billion (14,7). Premium income consists partly of invoiced premiums, which totalled SEK 14,4 billion (13,3), and partly of guaranteed refunds in the amount of SEK 1,7 billion (1,4).

The increase in invoiced premiums was chiefly due to a growing volume for Alecta's defined contribution product. The guaranteed refunds consist of a reduction of employers' premiums for disability and premium waiver insurance and for family pensions.

Return on capital

The year began amid a sharp sell-off in stock markets. A steep decline in the price of oil created uncertainty about profitability and credit losses for companies related to the oil sector. The uncertainty then spread to the banking sector, resulting in a shaky start to the year. Central banks continued to pursue expansionary monetary policies, although the European Central Bank (ECB) sprung a surprise by announcing that it may have reached the end of its rate-cutting cycle. For its part, the US central bank, the Federal Reserve, signalled that the rate hikes that had been pencilled in may be put off.

In the second quarter stock markets initially trudged modestly higher in Europe and the US while the Swedish equity market barely budged. The period saw a sharp decline in global yields, which have reached all-time lows in many countries. After the announcement of the results of the British referendum on EU membership the immediate reaction was a sharp sell-off in stock markets, a plummeting pound and falling long-term yields. Yet by the end of the period stock markets had recovered most of their losses.

The six-month return on the default portfolio in Alecta's defined contribution insurance product, Alecta Optimal Pension, was –1,8 per cent and the average annual return on a five-year rolling basis was 8,9 per cent, which is 3,4 percentage points higher than the benchmark index, Morningstar's Blandfond SEK, aggressiv. The relatively weak return in the first half of 2016 was mainly due to a comparatively low return on the share portfolio. Partly this was because Alecta's holdings experienced a reversal after several years of strong performance and partly it was because our relatively high allocations to Sweden and Europe weighed on our performance in the first half. At 30 June the default portfolio in Alecta Optimal Pension had a market value of SEK 59,6 billion. The total market value of Alecta Optimal Pension was SEK 63,3 billion. The six-month return on Alecta's defined benefit insurance product was 0,1 per cent

Cont. Comments on the Parent Company and consolidated financial statements

and the average annual return on a five-year rolling basis was 7,0 per cent. The market value at 30 June was SEK 671,6 billion.

The return on capital in the income statement was SEK 0,9 billion (34,5).

Claims incurred

Claims incurred consist partly of insurance claims paid and partly of changes in provisions for claims outstanding.

Insurance claims paid, which comprise benefits incurred in retirement pensions, disability and death as well as expenses for claims settlement, totalled SEK 9,7 billion (9,2).

The change in the provision for claims outstanding was SEK 2,1 billion (1,0), see the section Technical provisions below.

Technical provisions

Technical provisions comprise the sum of provisions for life insurance and provisions for claims outstanding, and constitutes the capital value of Alecta's guaranteed obligations for insurance contracts in force.

Technical provisions were SEK 475,8 billion at 30 June 2016. This is an increase of SEK 48,0 billion (–8,3) for the first half of 2016 due to:

- changes in the yield curve that is used in valuing the technical provisions. The average interest rate decreased from 2,57 per cent at year-end 2016 to 2,01 per cent at 30 June 2016. As a result, technical provisions increased by SEK 38,9 billion (–14,5).
- the return for the period and deductions for taxes and operating expenses, which resulted in an increase in technical provisions of SEK 6,2 billion (2,8).
- premium income, insurance claims paid and other changes resulted in an increase in technical provisions of SEK 2,9 billion (3,4).

Operating expenses

Operating expenses in the insurance business, which are termed operating expenses in the income statement, were SEK 279 million (289), a decrease of SEK 10 million on the same period in 2015.

The decrease in operating expenses is primarily due to lower staff costs as well as reduced costs for marketing activities, partly because the company has ceased to be a sponsor of the Vasaloppet ski race.

Management expense ratio

In the first half of 2016 Alecta's management expense ratio declined to 0,09 per cent for the last 12-month period (full year 2015: 0,10), which was due to a slight increase in assets under management during the year as well as lower operating expenses. For pension products excluding selection centre costs the same key ratio was 0,06 per cent, which is on a par with the full year 2015.

Financial position

The collective funding ratio for defined benefit insurance products was 140 per cent (153) at the end of the period. The defined collective funding interval is 125–155 per cent.

Alecta's defined contribution product, Alecta Optimal Pension, had a collective funding ratio of 100 per cent, which is the normal level, as any surplus or deficit is allocated to the insureds on an ongoing basis.

Alecta's solvency ratio was 154 per cent (171).

Parent Company

In all essential respects the above comments also refer to the Parent Company, in which the insurance activities are conducted.

Significant events during the period

Magnus Billing takes over as CEO of Alecta

On 18 April Magnus Billing took up the post of CEO of Alecta. Magnus was previously CEO of Nasdaq Nordic and its subsidiary Nasdaq Stockholm.

KAP-KL/AKAP-KL

Since year-end Alecta has been a selectable option in the KAP-KL/AKAP-KL collective bargaining area, which covers employees of local authorities and county councils.

Changed forecasting rate for Alecta Optimal Pension

After a number of years in which interest rates have declined to historically low levels, and amid expectations that rates are set to remain low, Alecta has chosen to apply lower forecasting rates for Alecta Optimal Pension as of 1 April this year. The forecasting rate is used in calculating expected pensions in forecasts and for the annual adjustment of pensions under payment. Further information on the new forecasting rates is available at alecta.se.

Cont. Comments on the Parent Company and consolidated financial statements

PRI's principles for responsible investment

Alecta has signed the Principles for Responsible Investment (PRI) and thus supports PRI's principles for responsible investment. PRI is a global UN initiative that is aimed at promoting responsible behaviour among investors on ethical and environmental issues.

Significant risks and uncertainties

Alecta's significant risks are assessed collectively to create a general risk scenario, which at 30 June contained eleven risks, the majority of which are directly linked to developments in financial markets. There are primarily two developments that involve risks: instability in financial markets, which probably has at its root the problems faced by heavily indebted governments or banks with weak balance sheets, and persistently low interest rates.

Each day, Alecta simulates the consequences of instability in financial markets using an internal stress test and the traffic light test developed by the Swedish Financial Supervisory Authority. At 30 June the company had comfortable margins in both tests and is therefore deemed capable of sustaining even significant financial instability.

Most recently, the consequences of persistently low interest rates were simulated in Alecta's long-term risk and solvency assessment (ORSA). The results show that the company has sufficient margins to sustain a low-rate environment for a long time, at least 15 years.

Changes to the rules for calculating the discount rate also have an impact on Alecta's financial position. EIOPA, the European regulator, has published a proposal which, if implemented, can be expected to gradually reduce the assumed long-term forward rate (Ultimate Forward Rate, UFR) under the regulations by around one percentage point over a five-year period. Alecta has sufficient margins to cope with such a change even if it coincides with persistently low interest rates.

A combination of the very unfavourable market outlook used in the stress test, persistently low interest rates and a lower UFR would, however, pose significant challenges for Alecta, creating a risk that the indexation of future pension payments and paid-up policies would need to be deferred. However, even in this two-pronged scenario the risk that the company will fail to meet its guaranteed obligations is deemed to be low.

Since Solvency 2 came into effect on 1 January 2016 Alecta has applied the transition rules which apply until 31 December 2019 for companies which exclusively or mainly provide occupational pensions. The issue of which regulations Alecta will be operating under in the long term – the new Solvency 2-based Insurance Business Act or a new Swedish occupational pension law based on the IORP occupational pension directive – is of very great consequence. Already in 2014 the Swedish government's committee on occupational pension service providers presented a proposal for a new Swedish Occupational Pension Business Act, in the SOU 2014:57 report. Under the committee's proposal, insurance companies such as Alecta would have the option of turning themselves into occupational pension providers, allowing them to operate fully under the new law on occupational pension service providers. However, the government has not yet taken a final decision on how to proceed on the issue. In late June 2016 the Swedish Ministry of Finance promised that it would announce how it believes the occupational pension directive should be implemented in Swedish law after summer 2016. This will be a crucial announcement for Alecta and all other insurance companies that offer occupational pensions.

For more information on Alecta's risks and risk management, see Alecta's annual report for 2015, pages 38 and 62–64.

Financial position and key ratios

Group

FINANCIAL POSITION, MSEK	30 June 2016	30 June 2015	31 Dec 2015
Collective funding capital	187 880	229 823	228 404
Capital base [1]	251 251	291 780	294 553
Required solvency margin [2]	19 602	17 326	17 668
KEY RATIOS			
Total return, per cent [3]	–0,1	5,3	5,9
Management expense ratio [4]	0,09	0,10	0,10
of which pension products, excluding selection centre costs [4, 5]	0,06	0,07	0,06
Funds management costs, per cent	0,03	0,03	0,03
Collective funding ratio, defined benefit insurance, per cent	140	154	153
Collective funding ratio, defined contribution insurance, per cent [6]	100	100	100
Solvency ratio, per cent	154	171	171

1) Refers to the Parent Company.
2) Refers to the Parent Company and Group.
3) Refers to the Group, defined benefit and defined contribution retirement pensions and risk insurance. Calculated in accordance with the recommendations of Insurance Sweden.
4) Excludes costs for funds management. The key ratio has been calculated on the basis of a rolling 12-month outcome.
5) Pension products comprise defined benefit and defined contribution retirement pensions and family pensions.
6) Any surplus/deficit is allocated to the insureds on a monthly basis. The collective funding ratio is therefore always 100 per cent.

Total return table for investments, defined contribution insurance (Alecta Optimal Pension)

Defined contribution insurance (Alecta Optimal Pension)	Market value 2016-06-30 MSEK	%	Market value 2015-12-31 MSEK	%	Total return, per cent 6 months Jan–June 2016	12 months July 2015 –June 2016	5-year average July 2011–June 2016
Shares	36 089	60,5	34 785	62,2	–5,0	–6,3	9,7
Interest-bearing investments	18 458	30,9	16 298	29,2	3,5	4,4	5,8
Property	5 096	8,5	4 820	8,6	3,3	13,6	11,7
Total investments	**59 643**	**100,0**	**55 903**	**100,0**	**–1,8**	**–1,7**	**8,9**

The table above refers to the portfolio that constitutes Alecta's default option, having an investment focus aimed at a 60 percent holding in shares.
The market value of the total Alecta Optimal Pension portfolio, i.e. including all asset classes, is SEK 63,3 billion (59,0).

Total return table for investments, defined benefit insurance

Defined benefit insurance	Market value 2016-06-30 MSEK	%	Market value 2015-12-31 MSEK	%	Total return, per cent 6 months Jan–June 2016	12 months July 2015 –June 2016	5-year average July 2011–June 2016
Shares	263 778	39,3	271 589	40,4	–5,0	–6,3	9,7
Interest-bearing investments	351 344	52,3	343 812	51,1	3,4	4,3	5,6
Property	56 485	8,4	57 066	8,5	3,3	13,6	11,7
Total investments	**671 607**	**100,0**	**672 467**	**100,0**	**0,1**	**0,7**	**7,0**

Due to rounding, the sum of the figures shown in the tables may differ from the totals.
The total return tables have been prepared in accordance with the recommendations of Insurance Sweden. The reporting and valuation of the investments in the total return tables do not agree with the accounting principles applied in the financial statements. These differences are reported only in the annual report.

Condensed Consolidated Income Statement

MSEK	Jan–June 2016	Jan–June 2015
Premiums written	16 136	14 681
Return on capital, net	925	34 540
Claims paid	–9 667	–9 216
Changes in provisions for claims outstanding	–2 097	–981
Change in other technical provisions	–45 876	9 298
Operating expenses	–279	–289
Depreciation and impairment of owner-occupied properties	–9	–9
Yield tax	–149	–453
Total operating profit	**–41 016**	**47 571**
Profit before tax	**–40 016**	**47 571**
Income tax	803	–585
Profit for the period	**–40 213**	**46 986**

Consolidated Statement of Comprehensive Income

MSEK	Jan–June 2016	Jan–June 2015
Profit for the period	**–40 213**	**46 986**
Items that can subsequently be reclassified to net income		
Exchange rate differences	90	834
Other comprehensive income	**90**	**834**
Comprehensive income for the period	**–40 123**	**47 820**

Condensed Consolidated Balance Sheet

MSEK	Note	30 June 2016	31 Dec 2015
Intangible assets		297	310
Tangible fixed assets		12	33
Deferred tax		3 656	2 157
Investment assets	3, 4, 5, 6	720 072	733 068
Receivables	3	6 947	3 359
Cash and bank balances	3	3 104	3 302
Prepaid expenses and accrued income	3	7 297	7 851
Assets held for sale	6	19 623	–
Total assets		**761 008**	**750 080**
Equity		259 476	302 634
Provisions for life insurance		459 439	413 563
Claims outstanding		16 411	14 314
Pensions and similar obligations		13	21
Other provisions		35	37
Current tax		34	37
Deferred tax		3 931	3 805
Liabilities for direct insurance operations	3	693	692
Derivatives	3, 4	12 286	6 020
Other liabilities	3	4 711	5 229
Other accrued expenses and deferred income	3	3 979	3 728
Total equity and liabilities		**761 008**	**750 080**

Condensed Consolidated Cash Flow Statement

MSEK	Jan–June 2016	Jan–June 2015
Cash flow from operating activities	1 107	3 629
Cash flow from investing activities	–1	–3
Cash flow from financing activities	–1 306	–1 444
Cash flow for the period	**–200**	**2 182**
Cash and cash equivalents, opening balance	3 302	1 116
Exchange rate differences in cash and cash equivalents	2	12
Cash and cash equivalents, closing balance	**3 104**	**3 310**

Consolidated Statement of Changes in Equity

MSEK	Jan–June 2016	Jan–June 2015
Opening equity	**302 634**	**254 737**
Profit for the period	–40 213	46 986
Other comprehensive income	90	834
Total comprehensive income for the period	**–40 123**	**47 820**
Guaranteed refunds		
Pension supplements, defined benefit insurance	*–1 128*	*–1 204*
Additional supplement, defined contribution insurance	*–45*	*–31*
Adjustment of paid-up values	*–1*	*–9*
Premium reduction	*–1 753*	*–1 346*
Change in indexation funds		
Collective risk premium [1]	*–55*	*–122*
Change in guarantee reserve [2]		
Information funds	*–73*	*–70*
Collective agreement guarantee	*–5*	*–17*
Other changes	25	–13
Closing equity	**259 476**	**299 745**

[1] The premiums for waiver of premium insurance and collective final payments have been reduced, as the employers are expected to incur higher costs as a result of the regulations on coordination and calculation of pensionable salary which the parties to the collective bargaining parties introduced in ITP 2 in 2008.

[2] With the aim of complying with future regulatory requirements, Alecta has, in consultation with the Swedish Financial Supervisory Authority and the collective bargaining parties for ITP, adopted a long-term alternative to the guarantee reserve established by Alecta in 2007. Under the adopted alternative solution, the guarantee reserve would be dissolved in late 2016 and its funds transferred from Alecta to a fully independent trust with the same purpose as the guarantee reserve.

Condensed Parent Company Income Statement

MSEK	Jan–June 2016	Jan–June 2015
TECHNICAL ACCOUNT		
Premiums written	16 136	14 681
Return on capital, income	15 261	26 363
Unrealised gains on investment assets	10 349	13 590
Claims paid	–9 667	–9 216
Changes in provisions for claims outstanding	–2 097	–981
Change in other technical provisions	–45 876	9 298
Operating expenses	–279	–289
Return on capital, expenses	–606	–732
Unrealised losses on investment assets	–24 240	–6 263
Life insurance, balance on the technical account	**–41 019**	**46 451**
NON-TECHNICAL ACCOUNT		
Profit before appropriations and tax	**–41 019**	**46 451**
Appropriations	–	–
Tax	740	–808
Profit for the period	**–40 279**	**45 643**

Parent Company Statement of Comprehensive Income

MSEK	Jan–June 2016	Jan–June 2015
Profit for the period	**–40 279**	**45 643**
Items that can subsequently be reclassified to net income		
Exchange rate differences	–	–
Other comprehensive income	**–**	**–**
Comprehensive income for the period	**–40 279**	**45 643**

Condensed Parent Company Balance Sheet

MSEK	30 June 2016	30 June 2015	31 Dec 2015
Intangible assets	297	323	310
Investment assets	732 166	712 410	725 843
Receivables	7 780	3 287	3 306
Other assets	2 719	3 072	3 011
Prepaid expenses and accrued income	7 245	7 092	7 725
Total assets	**750 207**	**726 184**	**740 195**
Equity	251 549	291 988	294 863
Untaxed reserves	–	115	–
Technical provisions	475 850	419 301	427 877
Other provisions	437	1 316	998
Liabilities	18 720	10 277	13 147
Accrued expenses and deferred income	3 651	3 187	3 310
Total equity, provisions and liabilities	**750 207**	**726 184**	**740 195**

Notes

NOTE 1 Accounting principles in the Group and Parent Company

The interim report refers to Alecta pensionsförsäkring, ömsesidigt, registration number 502014-6865, and covers the period 1 January–30 June 2016.

The interim report comprises pages 1–15. The interim information on pages 1–6 thus constitutes an integrated part of this financial report.

The amounts indicated in the notes refer to millions of Swedish kronor unless otherwise stated.

Group

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and IFRIC statements, as adopted by the EU. In preparing the financial statements, the Swedish Insurance Companies Annual Accounts Act, the Swedish Financial Supervisory Authority's instructions and general advice regarding the annual financial statements of insurance companies (FFFS 2015:12) and Recommendation RFR 1 Supplementary Financial Reporting Rules for Corporate Groups of the Swedish Financial Reporting Board have also been applied.

The rules set forth in the IAS 34 Interim Financial Reporting standard have been followed in preparing this interim report.

No new standards applicable from 1 January 2016 have come into effect, but a number of changes to the existing standards have come into effect from 1 January 2016. The changes have not had any impact on Alecta's financial reporting. The Swedish Financial Reporting Board has made changes to RFR 1 Supplementary Financial Reporting Rules for Corporate Groups – January 2016. The changes have not had any impact on Alecta's financial reporting. In other respects, the Group has applied the same accounting principles and calculation methods as in the last annual report.

Parent Company

The Parent Company applies IFRS with certain limitations contained in Swedish statutes, which means that international financial reporting standards are applied to the extent possible under Swedish accounting legislation. The Parent Company's financial reporting follows the Swedish Insurance Companies Annual Accounts Act, the Swedish Financial Supervisory Authority's instructions and general advice regarding the annual financial statements of insurance companies (FFFS 2015:12) and Recommendation RFR 2 Accounting for Legal Entities of the Swedish Financial Reporting Board. As the Group applies the IAS/IFRS standards, as adopted by the EU, the accounting principles differ in some respects from those applied in the Parent Company. The significant differences are the same as in the preparation of the last annual report.

Notes 3, 4 and 5 on financial assets and liabilities are only presented for the Group. There is no significant difference between the Parent Company and the Group.

NOTE 2 Related parties

Alecta regards the following legal entities and natural persons as related parties, as defined in IAS 24:

- All companies in the Alecta Group
- Members of the Board of Directors and management team
- Close family of members of the Board of Directors and management team
- The Confederation of Swedish Enterprise and PTK
- Associates and joint ventures
- The occupational pension information centres Collectum AB and Fora AB (the principal owners of Collectum being the Confederation of Swedish Enterprise and PTK, and the Confederation of Swedish Enterprise owning half of Fora).

A description of related-party transactions is given in Alecta's annual report for 2015, Note 56.

No significant changes to agreements and relations between Alecta and related parties have taken place during the period.

NOTE 3 Categorisation of financial assets and liabilities

Group, 30 June 2016 Financial assets	Financial assets and liabilities at fair value through profit or loss at initial recognition	Financial assets and liabilities at fair value through profit or loss classified as held for trade	Loans and receivables/other financial assets and liabilities	Total carrying amount	Fair value
Shares and interests	314 385	–	–	314 385	314 385
Bonds and other interest-bearing securities	368 143	–	–	368 143	368 143
Loans secured by real estate	–	–	123	123	123
Other loans	1 875	–	2 403	4 278	4 278
Derivatives	–	9 357	–	9 357	9 357
Receivables relating to direct insurance	–	–	1 375	1 375	1 375
Other receivables	–	–	4 269	4 269	4 269
Cash and bank balances	–	–	3 104	3 104	3 104
Accrued interest and rental income	–	–	7 111	7 111	7 111
Other prepaid expenses and accrued income	–	–	–	–	–
Total	**684 403**	**9 357**	**18 385**	**712 145**	**712 145**
Financial liabilities					
Liabilities relating to direct insurance	–	–	12	12	12
Derivatives	–	12 286	–	12 286	12 286
Other liabilities	–	–	4 075	4 075	4 075
Other accrued expenses and deferred income	–	–	3 238	3 238	3 238
Total	**–**	**12 286**	**7 325**	**19 611**	**19 611**

Group, 31 December 2015 Financial assets	Financial assets and liabilities at fair value through profit or loss at initial recognition	Financial assets and liabilities at fair value through profit or loss classified as held for trade	Loans and receivables/other financial assets and liabilities	Total carrying amount	Fair value
Shares and interests	319 042	–	–	319 042	319 042
Bonds and other interest-bearing securities	357 816	–	–	357 816	357 816
Loans secured by real estate	–	–	318	318	318
Other loans	1 880	–	2 388	4 268	4 268
Derivatives	–	8 209	–	8 209	8 209
Receivables relating to direct insurance	–	–	1 565	1 565	1 565
Other receivables	–	–	1 207	1 207	1 207
Cash and bank balances	–	–	3 302	3 302	3 302
Accrued interest and rental income	–	–	7 685	7 685	7 685
Other prepaid expenses and accrued income	–	–	–	–	–
Total	**678 738**	**8 209**	**16 465**	**703 412**	**703 412**
Financial liabilities					
Liabilities relating to direct insurance	–	–	17	17	17
Derivatives	–	6 020	–	6 020	6 020
Other liabilities	–	–	5 075	5 075	5 075
Other accrued expenses and deferred income	–	–	2 923	2 923	2 923
Total	**–**	**6 020**	**8 015**	**14 035**	**14 035**

NOTE 4 Valuation categories for financial instruments measured at fair value

Under the disclosure requirements in IFRS 13, financial assets and liabilities which are measured at fair value must be classified into three levels based on the valuation technique that is used. Assets and liabilities must be measured using the valuation technique that is appropriate in the circumstances, maximising the use of relevant observable inputs. The objective is to identify the valuation technique which best estimates the price at which the financial assets can be sold or the financial liabilities transferred between market participants under current market conditions.

The three levels of valuation categories are:

Level 1: Measurement based on prices listed in an active market
Fair value measurement using prices listed in an active market is used if listed prices are easily and regularly accessible and these prices represent actual and regularly occurring market transactions. Examples of financial assets which are classified to this level include listed shares, government bonds and Swedish mortgage bonds.

Prices for these financial assets are obtained daily through providers of index prices retrieved from each exchange, which, where applicable, are translated at exchange rates quoted on a daily basis (5 p.m.) from the price provider, WM Company.

Level 2: Measurement based on observable market data
Financial assets and liabilities for which there are no listed prices in an active market are measured at fair value based on as many available market inputs as possible. Examples of market inputs used in the measurement include:

- Quoted interest rates, credit spreads and exchange rates
- Market information on prices for similar financial instruments
- Market information on prices of recently completed transactions in the same or similar financial instruments

Examples of financial assets and liabilities which are classified to this level include interest-bearing instruments in the form of Swedish and foreign corporate bonds, structured bonds and all OTC derivatives in the form of interest rate swaps, currency derivatives and credit derivatives.

For interest-bearing instruments daily prices provided by external price providers Thomson Reuters and Bloomberg are used. Under the concluded agreements, Alecta has the right to inspect the provider's valuation data to assure the quality of the provided price information.

For OTC derivatives fair value is determined on a daily basis in Alecta's financial system in accordance with market practice by estimating the present value of each derivative's future cash flows based on quoted market prices in respect of interest rates, credit spreads and exchange rates.

Level 3: Measurement based on non-observable market data
Financial assets which have been measured at fair value without access to observable market inputs are classified to level 3. Financial assets measured at fair value which may be based on some observable inputs but for which Alecta does not have the ability to inspect the used valuation technique are also classified to this level.

The main types of financial assets in this level are property-related investments in the form of funds, part-owned property companies (joint ventures) and lending to property-owning companies. Fair values for these assets are obtained from the fund manager or the property-owning companies following an external valuation of the underlying properties.

Principles for reclassification between levels

Financial assets and liabilities measured at fair value are classified to one of the three valuation categories upon acquisition and then normally retain their classification until they are sold. Under certain circumstances a financial asset may, however, be reclassified to another level after the acquisition date. The following principles apply to such reclassification:

Principle for reclassification between level 1 and level 2

To be reclassified from level 1 to level 2, a financial instrument must no longer be traded in an active market but still be capable of being measured in accordance with the description for level 2. Similarly, a reclassification from level 2 to level 1 may be made if the level 2 financial instrument is listed on an active market.

In the first half of 2016 no financial instrument was transferred from level 1 to level 2 or from level 2 to level 1.

Principle for reclassification between level 2 and level 3

A reclassification from level 2 to level 3 may be made if it is no longer possible to measure a financial instrument at fair value based on observable market inputs. Similarly, level 3 financial instruments may be transferred to level 2 if observable market inputs become available and an external price provider is able to measure fair value based on these inputs.

In the first half of 2016 one bond was transferred from level 3 to level 2 because observable market inputs have become available, which meant that the bond could be priced by an external price provider. The transfer was effected in January. No transfers from level 2 to level 3 have been made.

Principle for reclassification between level 1 and level 3

A reclassification from level 1 to level 3 is made if a financial instrument is delisted from an active market and there are insufficient market inputs to allow for level 2 measurement. Similarly, a reclassification from level 3 to level 1 may be made if the level 3 financial instrument is listed on an active market. In the first half of 2016 no financial instrument was transferred from level 1 to level 3 or from level 3 to level 1.

Sensitivity analysis for level 3 financial instruments

Under IFRS 13, a sensitivity analysis must also be presented for those financial instruments which have been measured at fair value in accordance with level 3. The sensitivity analysis must include a narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs.

As we do not have the means to inspect the unobservable inputs used by external price providers, fund managers or property companies in their fair value measurements of level 3 financial instruments, any sensitivity analysis is subject to a degree of uncertainty. However, as the underlying assets for all financial instruments in level 3 consist of externally valued properties, it is reasonable to assume that these will be affected by roughly the same value-influencing factors as directly owned properties, i.e. changes in net operating income and required rates of return.

Sensitivity analysis for shares and interests, joint ventures and other loans

The fair value of these level 3 assets is SEK 14 247 million. A sensitivity analysis based on an assumed change in the required rate of return of 0,5 percentage points or a change in net operating income of 10 per cent would increase/decrease the fair value by around SEK 1 295 million or SEK 1 425 million, respectively.

NOTE 4 Valuation categories for financial instruments measured at fair value

Group	Fair values of financial instruments, 30 June 2016 Measurement based on prices listed in an active market Level 1	Measurement based on observable market data Level 2	Measurement based on non-observable market data Level 3	Carrying amount, 30 June 2016
Assets				
Shares and interests	302 013	–	7 240	309 253
Joint ventures	–	–	5 132	5 132
Bonds and other interest-bearing securities	195 275	172 868	–	368 143
Loans secured by real estate	–	–	–	–
Other loans	–	–	1 875	1 875
Derivatives	–	9 357	–	9 357
Total assets	**497 288**	**182 225**	**14 247**	**693 760**
Liabilities				
Derivatives	–	12 286	–	12 286
Total liabilities	**–**	**12 286**	**–**	**12 286**

Group	Fair values of financial instruments, 31 Dec 2015 Measurement based on prices listed in an active market Level 1	Measurement based on observable market data Level 2	Measurement based on non-observable market data Level 3	Carrying amount, 30 June 2015
Assets				
Shares and interests	307 119	–	7 864	314 983
Joint ventures	–	–	4 059	4 059
Bonds and other interest-bearing securities	189 529	167 077	1 210	357 816
Loans secured by real estate	–	–	–	–
Other loans	–	–	1 880	1 880
Derivatives	–	8 209	–	8 209
Total assets	**496 648**	**175 286**	**15 013**	**686 947**
Liabilities				
Derivatives	–	6 020	–	6 020
Total liabilities	**–**	**6 020**	**–**	**6 020**

NOTE 5 Disclosures on financial instruments measured at fair value based on level 3 [1)]

Group	Fair value, 30 June 2016 Shares and interests	Joint ventures	Bonds and other interest-bearing securities	Other loans	Total
Opening balance 2016	7 863	4 058	1 210	1 880	15 011
Purchased	18	721	–	73	812
Cost for sold holdings	–10	–	–	–39	–49
Gains and losses					
Realised gains/losses, sold entire holding	–	–	–	–	–
Realised gains/losses, sold a portion of holding	–	–	–	1	1
Unrealised gains/losses	–313	343	–	26	56
Unrealised foreign exchange gains/losses	–318	10	–	–66	–374
Transferred from level 3	–	–	–1 210	–	–1 210
Transferred to level 3	–	–	–	–	–
Closing balance, 30 June 2016	**7 240**	**5 132**	**–**	**1 875**	**14 247**
Total unrealised gains and losses recognised in the income statement for financial instruments held at the end of the period	–632	352	–	–39	–319
Gains and losses recognised as return on capital during the period	–632	352	–	–39	–319

Group	Fair value, 30 June 2015 Shares and interests	Joint ventures	Bonds and other interest-bearing securities	Other loans	Total
Opening balance 2015	6 523	1 437	–	1 261	9 221
Purchased	314	1 470	498	773	3 055
Cost for sold holdings	–18	–	–	–269	–287
Gains and losses					
Realised gains/losses, sold entire holding	–	–	–	–	–
Realised gains/losses, sold a portion of holding	5	–	–	15	20
Unrealised gains/losses	845	1 085	–1	105	2 034
Unrealised foreign exchange gains/losses	194	66	–	–5	255
Transferred from level 3	–	–	–497	–	–497
Transferred to level 3	–	–	1 210	–	1 210
Closing balance, 31 Dec 2015	**7 863**	**4 058**	**1 210**	**1 880**	**15 011**
Total unrealised gains and losses recognised in the income statement for financial instruments held at the end of the period	1 044	1 151	–1	115	2 309
Gains and losses recognised as return on capital during the period	1 044	1 151	–1	115	2 309

[1)] The definition of level 3 is found in Note 4 Valuation categories for financial instruments measured at fair value.

Due to rounding, the sum of the figures shown in the tables may differ from the totals.

NOTE 6 Assets held for sale

Alecta has decided to sell all its directly owned foreign properties, which consist of properties in the US and UK. The portfolio comprises office, residential, retail and industrial properties. The ambition is to sell the properties in 2016. In view of this, these properties are accounted for as held for sale in the consolidated financial statements.

The total property value for assets held for sale is SEK 19 623 million, of which the property value in the Parent Company is SEK 6 431 million and the property value in the subsidiaries is SEK 13 192 million. In the Parent Company the assets are included in the item investment assets.

The property value was determined through market valuations using classification to level 3 in accordance with IFRS 13. The parameters used in the market valuation should reflect the reasoning of a prospective buyer. This means that estimates of the property value are subject to uncertainty. Currently the UK market is marked by considerable uncertainty, as the British people have voted to leave the EU. For further information on how changed assumptions affect the market value, see Alecta's annual report for 2015, page 69.

Accumulated exchange rate differences that have been recognised in other comprehensive income in the consolidated financial statements and that are attributable to the foreign properties referred to above amount to SEK 1 479 million.

This interim report has not been examined by the Company's auditors.
Stockholm, 17 August 2016

MAGNUS BILLING
Chief Executive Officer

Glossary

Adjustment of paid-up values
Assigned refunds through an increase of the pension entitlement earned prior to retirement age. This adjustment is primarily made to compensate for inflation.

Assets under management
Total assets less financial liabilities (other provisions, liabilities and accrued expenses and deferred income), as stated in the balance sheet.

Capital base
An insurance company is required to maintain adequate capital, defined as the capital base, to be able to cover any unforeseen future losses. The capital base consists of the difference between the value of the Company's assets, less intangible assets and financial liabilities, and technical provisions.

Collective funding capital
The difference between distributable assets, measured at market value, and insurance obligations (guaranteed obligations as well as allocated refunds) to policyholders and insureds.

Collective funding ratio
Distributable assets in relation to insurance obligations to policyholders and insureds (guaranteed obligations as well as allocated refunds).

Defined benefit insurance (ITP 2)
In a defined benefit insurance plan the size of the *pension* is defined in advance, either as a specified amount or as a certain percentage of the employee's final salary.

Defined contribution insurance
In a defined contribution insurance plan the size of the *premium* is defined in advance, either as a certain percentage of the employee's salary or as a specified amount. The size of the pension depends on the size of the pension capital at retirement.

Derivatives
A financial instrument whose value depends on the price performance of another, underlying, instrument.

Discount rate
The interest rate used to calculate the present value of future incoming or outgoing payments.

Distributable assets
The total market value of assets less financial liabilities, special indexation funds and guarantee reserves.

Financial instrument
All forms of agreement which result in a financial asset in one company and a financial liability or equity instrument in another company.

Investment management expense ratio
Operating expenses in the Company's investment management activities in relation to average assets under management.

Insured
The person covered by the insurance plan.

Investments
Investment assets, cash and bank balances, and other assets and liabilities related to the investment assets (such as accrued interest and rental income) measured at market value, as stated in balance sheet.

Investment assets
Assets having the character of a capital investment, i.e. interest-bearing securities, shares and properties.

Management expense ratio
Operating expenses in the insurance business (acquisition and administrative expenses) and claims settlement expenses for the past twelve-month period, in relation to average assets under management during the same period. The key ratio is calculated on an aggregate basis and for each pension product.

Pension supplement
A refund allocated to the insureds in addition to the guaranteed pension. Under the applicable actuarial guidelines, the refund may not exceed the increase in the consumer price index for the year, calculated from the date on which the insured's first pension payment was made. The size of the pension supplement is decided each year by the Board.

Policyholder
The party which has entered into an insurance agreement with an insurance company.

Premium reduction
Distribution of surplus funds by means of a reduction of the premium. Premium reduction is applied for risk insurance policies.

Refund
A surplus guaranteed or allocated to
- the policyholders, in the form of a reduction of the premium
- the insureds, in the form of an increase of the insurance benefit
- cost coverage for measures under the ITP plan. The parties to the collective agreement have been granted the right to indicate how the funds should be used. The final decision is made by the Board of Directors of Alecta, provided that its members unanimously agree that the indicated use is in accordance with Alecta's interests as an insurance company.

Assigned refunds are formally guaranteed. Allocated refunds are not formally guaranteed.

Solvency margin
A minimum requirement for the size of the capital base. Put simply, the solvency margin is defined as certain percentages of technical provisions and the Company's insurance risks.

Solvency ratio
Total assets at market value less intangible assets and financial liabilities, in relation to guaranteed obligations.

Technical provisions
Provisions in the balance sheet for an insurance company's obligations under insurance plans. The capital value of the insurance company's guaranteed obligations. Technical provisions comprise provisions for life insurance and claims outstanding.

Total return
The return on investments adjusted for cash flows, expressed as a percentage in accordance with Insurance Sweden's recommendation.

Alecta has been managing occupational pensions since 1917. Our mission is to ensure that collectively-agreed occupational pensions attain as large a value as possible for both our corporate clients and private customers. We do this by maintaining strong returns, good customer service and low costs. We manage approximately SEK 730 billion on behalf of our owners, of whom 2,3 million are private customers and 33 000 are corporate clients.

Alecta pensionsförsäkring, ömsesidigt
Telephone 020-78 22 80
103 73 Stockholm | alecta.se

2016.09