Interim Report

January–June 2017

Message from the CEO

A good first half

In the first half of 2017 Alecta's active asset management model once again produced a good result, with a total return of 4,2 per cent. This means that Alecta has over the past five years generated an average annual total return of 9,0 per cent. Looking specifically at our defined benefit product, the return for the six-month period was 4,0 per cent and the average annual return over the past five years is 8,8 per cent. The corresponding figures for Alecta Optimal Pension are 5,8 per cent year to date and 12,1 per cent annually over the past five years.

Thanks to our strong capital return in the first six months, Alecta's collective funding ratio for defined benefit insurance rose to 156 per cent. Since 30 June the ratio has slipped back slightly and is at the time of writing back in its normal range of 125–155 per cent. In view of the existing uncertainties, notably with regard to capital adequacy requirements in the coming occupational pensions regulation, it feels good to have a strong financial position. One of the uncertainties concerning the coming regulation is the level of the ultimate forward rate (UFR) that must be applied in valuing long-term pension liabilities. In the spring the European pensions regulator (EIOPA) adopted a method that is expected to lead to a gradual reduction of UFR for insurance companies from 4,2 per cent currently to 3,65 per cent. If the same method is implemented in the coming occupational pensions regulation Alecta's collective funding ratio would, all else equal, decrease by five percentage points.

Alecta continues to be an industry leader in terms of cost effectiveness. Our management expense ratio in the first half of 2017 was 0,09 per cent and our investment management expense ratio was 0,02 per cent. This means that the cost for Alecta's customers is two hundredths of a krona for each 100 kronor!

I am very proud that our private and corporate customers, in the surveys we conduct, say that Alecta provides a high level of service and that the service provided is of good quality. And it is particularly satisfying to note that we have achieved this high level of customer satisfaction against a backdrop of ongoing discussions on issues such as the design of the PPM premium pension system.

A number of initiatives are currently underway that could have a significant impact on Alecta. The implementation of the EU's IORP II ("Occupational Pensions") Directive is one of the most important issues for Alecta in 2017 and 2018 along with the coming ITP procurement. With regard to the implementation of the Occupational Pensions Directive, it is particularly the formulation of the capital adequacy requirements that will be included in the Swedish legislation that could have significant repercussions for our business. Right now the Swedish Financial Supervisory Authority is engaged in consultations aimed at producing one or several proposals that will be submitted to the Ministry of Finance on 1 September. Alecta is taking part in the consultations. It is of course important to ensure that the coming capital adequacy rules provide adequate customer safeguards and ensure satisfactory stability. But these objectives need to be balanced by the need to ensure that occupational pension providers are able to deliver healthy long-term returns and thereby good pensions for their customers.

In the first half of 2017 Alecta passed the SEK 800 billion mark in assets under management. Premiums written also continued to grow, from SEK 16,1 billion in the same period in 2016 to SEK 19,2 billion. The increase is partly due to the adjustment of paid-up values that was implemented in the first half of 2017 and partly to a continued strong performance for Alecta's defined contribution product, Alecta Optimal Pension. The growth in Alecta Optimal Pension is attributable to all collective bargaining areas and includes new insurance policies with new customers in the AKAP-KL area as well as the FTP area, for which Alecta became the default option after the procurement in autumn 2016.

Alecta has also strengthened its position in sustainable investment. At 30 June Alecta had SEK 14,6 billion invested in green bonds and Alecta's equity portfolio performed well in the WWF's test of investment portfolios' carbon footprints in relation to the Paris Agreement's two-degree target.

Alecta's financial position is solid. The company is well positioned for handling a continued ultra-low interest rate environment and to continue to deliver good returns at very low fees while ensuring that our customers are satisfied and feel secure. Security increases when it is shared.

Magnus Billing, CEO

Comments on the Parent Company and consolidated financial statements

The Chief Executive Officer of Alecta pensionsförsäkring, ömsesidigt, hereby presents the company's interim report for the period 1 January–30 June 2017.

Profit

The consolidated after-tax profit for the six-month period was SEK 38,5 billion (–40,2). Comments on Alecta's results and financial position are presented 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.

Premiums written

Premiums written for the first half of the year were SEK 19,2 billion (16,1). Premiums written consist partly of invoiced premiums, which totalled SEK 15,8 billion (14,4), and partly of guaranteed refunds in the amount of SEK 3,4 billion (1,7).

The increase in invoiced premiums was chiefly due to a growing volume for Alecta's defined contribution product, Alecta Optimal Pension. Guaranteed refunds comprise reductions of employers' premiums for disability and premium waiver insurance as well as family pensions and an increase in earned pension entitlements (adjustment of paid-up values). The increase in guaranteed refunds is largely due the upward adjustment of paid-up values by 0,59 per cent that was implemented in January based on the change in the consumer price index between September 2013 and September 2016. No adjustment of paid-up values was made in 2016.

Return on capital

The first half of 2017 has been a relatively good period both at the macroeconomic level and for Alecta's portfolio. Market data from the US and major European economies paint a picture of improving employment, increasing industrial production and inflation running at just under 2 per cent in the developed nations.

Despite the encouraging macroeconomic data, the situation is still viewed as fragile by central banks due to the uncertain outlook for inflation. The presidential election in France, in which Emmanuel Macron achieved a comfortable victory, has helped to quell concerns about the political situation. The election in the UK proved a disappointment for the Conservative Party, which had expected to win a stronger mandate. In the event, the opposite happened, which has increased uncertainty about the consequences of the UK's departure from the EU. In the United States the central bank, the Federal Reserve, has raised its policy rate twice this year. In Europe the ECB has stayed on hold while cautiously signalling an end to stimulus, which has had the effect of pushing interest rates higher.

The six-month return on the default portfolio in Alecta's defined contribution insurance product, Alecta Optimal Pension, was 5,8 per cent and the average annual return on a five-year rolling basis was 12,1 per cent, which is 3,5 percentage points higher than the benchmark index, Morningstar's Blandfond SEK, aggressiv. The six-month return was mainly due to strong returns in Alecta's equity and real estate portfolios. At 30 June the default portfolio in Alecta Optimal

Key ratios

Group

January–June 2017

Return Defined contribution insurance, Alecta Optimal Pension	**5,8 %** (–1,6 %*)
Return Defined benefit insurance	**4,0 %** (0,4 %*)
Management expense ratio For pension products excl. selection centre costs	**0,06 %** (0,06 %)
Solvency ratio	**173 %** (166 %)

* The comparative figures for the previous year have been corrected.

Cont. Comments on the Parent Company and consolidated financial statements

Pension had a market value of SEK 78,8 billion. The total market value of Alecta Optimal Pension was SEK 83,8 billion.

The six-month return on Alecta's defined benefit insurance product was 4,0 per cent and the average annual return on a five-year rolling basis was 8,8 per cent. The market value at 30 June was SEK 720,3 billion.

The return on capital in the income statement was SEK 32,8 billion (0,9).

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 life insurance as well as expenses for claims settlement, totalled SEK 10,1 billion (9,7).

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

Technical provisions

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

Technical provisions were SEK 468,8 billion at 30 June 2017. This is an increase of SEK 2,6 billion (48,0) for the first half of 2017 due to:

- The return for the period and deductions for taxes and operating expenses, which resulted in an increase in technical provisions of SEK 6,5 billion (6,2).
- Premiums written, insurance claims paid and other changes, which together resulted in an increase in technical provisions of SEK 1,1 billion (2,9).
- Changes in the yield curve that is used in valuing the technical provisions. The average interest rate increased from 2,22 per cent at year-end 2017 to 2,28 per cent at 30 June 2017. As a result, technical provisions decreased by SEK 5,0 billion (increased by SEK 38,9 billion last year).

Operating expenses

Operating expenses in the insurance business, which are termed operating expenses in the income statement, totalled SEK 294 million (279). This is an increase of SEK 15 million on 2016.

The increase in operating expenses was mainly due to higher costs for the Collectum selection centre and higher fees to the Financial Supervisory Authority. During the period we also incurred expenses in connection with activities aimed at highlighting the role of occupational pensions and Alecta's 100th anniversary, the development of Alecta's website and non-recurring personnel costs.

Management expense ratio

The management expense ratio was the same as for the full year 2016, 0,09 per cent. The ratio for pension products excluding selection centre costs was also unchanged, at 0,06 per cent.

Financial position

The collective funding ratio for defined benefit insurance products was 156 per cent (149) at the end of the period. The increase is chiefly due to a very good return on capital over the past year. The defined normal range for the collective funding ratio is 125–155 per cent. The fact that the collective funding ratio occasionally exceeds the upper limit in individual measurements does not necessitate any immediate action. Decisions on refunds are made by Alecta's Board of Directors. Refunds are paid primarily in the form of pension supplements for pensions in payment but can also be distributed in the form an increase in the earned pension entitlement (adjustment of paid-up values) or a reduction in the premiums paid by the policy holders.

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 173 per cent (166).

Parent Company

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

Cont. Comments on the Parent Company and consolidated financial statements

Significant events during the period

Sale of foreign properties

At the beginning of the year the sale of all of Alecta's directly owned foreign real estate portfolio in the US and UK, which was initiated in 2016, was concluded. The total consideration for properties sold in 2017 was around SEK 6 billion.

Adjustment of premiums

On 1 March 2017 the regular premiums payable for new policies and for increased benefit levels for defined benefit retirement pensions were raised by 15 per cent on average. Single premiums payable on redemption were also raised by 3 per cent on average. The premium adjustments have been made in response to an increase in life expectancy and the current low interest rate environment.

The premium for risk insurance has been further increased as of 2017. The existing 75 per cent premium reduction for family cover was maintained but was reduced to 65 per cent for disability and waiver of premium insurance.

Adjustment of paid-up values

In the first half of 2017 Alecta implemented an increase in earned pension entitlements (adjustment of paid-up values) by SEK 1,5 billion following a decision by the Board to increase pensions in payment as well as earned pension entitlements for defined benefit insurance products by 0,59 per cent. The increase reflects the change in CPI for the period September 2013–September 2016.

Organisational changes

Camilla Wirth has been recruited as new Chief Financial Officer and will take up her post in August. She will take over from Katarina Thorslund, who has chosen to focus on her role as head of Alecta's Customer department. Before joining Alecta, Camilla was CFO at Nordax Bank.

Alecta's Head of Investment Management, Per Frennberg, left Alecta on 31 May. The process of recruiting a replacement has been initiated. Tony Persson, currently Head of Fixed Income and Strategy, has been appointed Acting Head of Investment Management.

In March Carina Silberg was appointed Head of Sustainability at Alecta. Carina's recruitment is an important step in Alecta's striving to raise its ambition in the area of sustainability.

Significant risks and uncertainties

Alecta's significant risks are assessed collectively to create a general risk scenario, which at 30 June contained eleven risks, four 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 (FSA). 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 and new capital adequacy requirements also have a significant impact on Alecta's financial position.

The discount rate for occupational pension providers is currently guided by the regulations of the Swedish FSA. EIOPA, the European regulator, has presented a proposed new method for calculating the assumed ultimate forward rate (UFR) under the regulations that would result in a gradual lowering of this rate by just over half a percentage point over a four-year period. The FSA is expected to start applying EIOPA's method in 2019 at the earliest and gradually lower UFR until 2022.

On behalf of the Swedish Ministry of Finance the FSA is currently preparing draft new capital adequacy rules for occupational pension providers, which are also expected to become effective in 2019 at the earliest. Alecta has participated in test reporting under a number of alternative proposed new rules. The highest capital adequacy option would, if implemented, result in requirements that are around 20 per cent higher than in the traffic light test. The FSA's draft rules will be presented to the Ministry of Finance on 1 September.

If both the reduction of UFR and the highest capital adequacy option were to be implemented, this could have a significant impact on Alecta's financial position. Alecta has sufficient margins to cope with such a change even if it coincides with persistently low interest rates.

For more information on Alecta's risks and risk management, see Alecta's annual report for 2016, pages 44 and 68–70.

Financial position and key ratios

Group

FINANCIAL POSITION, SEK MILLION	30 June 2017	30 June 2016	31 Dec 2016
Collective funding capital	256 721	187 880	226 484
Capital base [1]	335 552	251 251	302 376
Required solvency margin [2]	19 661	19 602	19 231
KEY PERFORMANCE INDICATORS			
Total return, per cent [3,7]	4,2	0,2	5,2
Direct return, per cent	1,7	1,7	2,6
Management expense ratio [4]	0,09	0,09	0,09
of which pension products, excluding selection centre costs [4,5]	0,06	0,06	0,06
Investment management expense ratio	0,02	0,03	0,02
Collective funding ratio, defined benefit insurance, per cent	156	140	149
Collective funding ratio, defined contribution insurance, per cent [6]	100	100	100
Solvency ratio, per cent	173	154	166

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 investment 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.
7) The comparative figure for 30 June 2016 has been corrected.

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

	Market value		Market value		Total return, per cent		
	2017-06-30		2016-12-31		6 months	12 months	5-year average
DEFINED CONTRIBUTION INSURANCE (Alecta Optimal Pension)	SEK million	%	SEK million	%	Jan–June 2017	July 2016 –June 2017	July 2012 –June 2017
Shares	51 767	65,7	43 947	63,4	8,4	22,2	15,6
Debt securities	21 447	27,2	20 401	29,4	0,4	–0,5	4,1
Real estate	5 542	7,0	4 962	7,2	5,5	11,5	12,1
Total investments	**78 756**	**100,0**	**69 311**	**100,0**	**5,8**	**13,8**	**12,1**

The table above refers to the portfolio that constitutes Alecta's default option, which has a 60 per cent allocation to shares.
The market value of the total Alecta Optimal Pension portfolio, i.e. including all asset classes, is SEK 83,8 billion (73,6).

Total return table for investments, defined benefit insurance

	Market value		Market value		Total return, per cent		
	2017-06-30		2016-12-31		6 months	12 months	5-year average
DEFINED BENEFIT INSURANCE	SEK million	%	SEK million	%	Jan–June 2017	July 2016 –June 2017	July 2012 –June 2017
Shares	307 726	42,7	286 996	41,2	8,4	22,2	15,6
Debt securities	362 652	50,3	360 723	51,8	0,4	–0,5	4,0
Real estate	49 960	6,9	49 141	7,1	5,5	11,5	12,1
Total investments	**720 338**	**100,0**	**696 860**	**100,0**	**4,0**	**8,9**	**8,8**

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

SEK million	Jan–June 2017	Jan–June 2016
Premiums written	19 219	16 136
Net return on capital	32 789	925
Claims paid	–10 059	–9 667
Change in provisions for claims outstanding	–167	–2 097
Change in other technical provisions	–2 400	–45 876
Operating expenses	–294	–279
Depreciation and impairment of owner-occupied properties	–9	–9
Yield tax	–133	–149
Total operating profit	**38 946**	**–41 016**
Profit before tax	**38 946**	**–40 016**
Income tax	–481	803
Profit for the period	**38 465**	**–40 213**

Consolidated Statement of Comprehensive Income

SEK million	Jan–June 2017	Jan–June 2016
Profit for the period	**38 465**	**–40 213**
Items that can subsequently be reclassified to net income		
Foreign exchange differences	–132	90
Accumulated foreign exchange differences reclassified to profit or loss	–824	–
Other comprehensive income	**–956**	**90**
Comprehensive income for the period	**37 509**	**–40 123**

Condensed Consolidated Balance Sheet

SEK million	Note	30 June 2017	30 June 2016	31 Dec 2016
Intangible assets		272	297	285
Property, plant and equipment		12	12	11
Deferred tax		5 296	3 656	5 097
Investment assets	3, 4, 5	810 272	720 072	764 729
Receivables	3	5 394	6 947	7 309
Cash and bank balances	3	3 503	3 104	2 856
Prepaid expenses and accrued income	3	6 012	7 297	7 223
Assets held for sale		–	19 623	5 696
Total assets		**830 761**	**761 008**	**793 206**
Equity		340 585	259 476	307 786
Provision for life insurance		451 945	459 439	449 546
Claims outstanding		16 894	16 411	16 727
Pensions and similar commitments		6	13	9
Other provisions		20	35	22
Current tax		2	34	29
Deferred tax		1 344	3 931	2 601
Liabilities related to direct insurance operations	3	696	693	683
Derivatives	3, 4	6 519	12 286	8 552
Other liabilities	3	9 683	4 711	4 475
Other accrued expenses and deferred income	3	3 067	3 979	2 776
Total equity and liabilities		**830 761**	**761 008**	**793 206**

Condensed Consolidated Cash Flow Statement

SEK million	Jan–June 2017	Jan–June 2016
Cash flow from operating activities	1 889	1 107
Cash flow from investing activities	–4	–1
Cash flow from financing activities	–1 209	–1 306
Cash flow for the period	**676**	**–200**
Cash and cash equivalents, opening balance	2 856	3 302
Exchange rate differences in cash and cash equivalents	–29	2
Cash and cash equivalents, closing balance	**3 503**	**3 104**

Consolidated Statement of Changes in Equity

SEK million	Jan–June 2017	Jan–June 2016
Opening equity	**307 786**	**302 634**
Profit for the period	38 465	–40 213
Other comprehensive income	–956	90
Total comprehensive income for the period	**37 509**	**–40 123**
Guaranteed refunds		
Pension supplements, defined benefit plan	*–1 098*	*–1 128*
Supplementary amounts, defined contribution plan	*–55*	*–45*
Adjustment of paid-up values	*–1 482*	*–1*
Premium reduction	*–1 975*	*–1 753*
Change in indexation funds		
Collective risk premium [1]	*–56*	*–55*
Change in guarantee reserve [2]		
Information funds	*–*	*–73*
Collective agreement guarantee	*–*	*–5*
Other changes	–44	25
Closing equity	**340 585**	**259 476**

1) Premiums for waiver of premium insurance and collective final payments have been reduced as a result of the increase in employers' expenses resulting from the rules for coordination and calculation of pensionable salaries introduced by the parties to ITP 2 in 2008.

2) The guarantee reserve was eliminated on 12 December 2016 and all funds in the reserve were transferred to a new foundation, the Guarantee Foundation for ITP and TGL, which is entirely independent of Alecta.

Condensed Parent Company Income Statement

SEK million	Jan–June 2017	Jan–June 2016
TECHNICAL ACCOUNT		
Premiums written	19 219	16 136
Return on capital, income	23 884	15 261
Unrealised gains on investment assets	20 646	10 349
Claims paid	–10 059	–9 667
Change in provisions for claims outstanding	–167	–2 097
Change in other technical provisions	–2 400	–45 876
Operating expenses	–294	–279
Return on capital, expenses	–9 388	–606
Unrealised losses on investment assets	–3 080	–24 240
Life insurance, balance on the technical account	**38 361**	**–41 019**
NON-TECHNICAL ACCOUNT		
Profit before appropriations and tax	**38 361**	**–41 019**
Tax	–488	740
Profit for the period	**37 873**	**–40 279**

Parent Company Statement of Comprehensive Income

SEK million	Jan–June 2017	Jan–June 2016
Profit for the period	**37 873**	**–40 279**
Items that can subsequently be reclassified to profit or loss		
Foreign exchange differences	–	–
Other comprehensive income	**–**	**–**
Comprehensive income for the period	**37 873**	**–40 279**

Condensed Parent Company Balance Sheet

SEK million	30 June 2017	30 June 2016	31 Dec 2016
Intangible assets	272	297	285
Investment assets	804 148	732 166	764 397
Receivables	10 387	7 780	11 629
Other assets	3 411	2 719	2 450
Prepaid expenses and accrued income	6 001	7 245	7 144
Total assets	**824 219**	**750 207**	**785 905**
Equity	335 823	251 549	302 661
Technical provisions	468 840	475 850	466 273
Other provisions	39	437	58
Liabilities	16 687	18 720	14 428
Accrued expenses and deferred income	2 830	3 651	2 485
Total equity, provisions and liabilities	**824 219**	**750 207**	**785 905**

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 2017.

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 Regulations and General Guidelines on the Annual Accounts of Insurance Companies (FFFS 2015:12) of the Swedish Financial Supervisory Authority and Recommendation RFR 1 Supplementary Accounting 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 2017 have come into effect.

The accounting principles and calculation methods applied are the same 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 Regulations and General Guidelines on the Annual Accounts of Insurance Companies (FFFS 2015:12) of the Swedish Financial Supervisory 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, PTK and their member organisations/unions
- Associates and joint ventures
- The occupational pension information centres Collectum AB and Fora AB (the main owners of Collectum being PTK and the Confederation of Swedish Enterprise, the latter of which also owns half of Fora).
- AMF and AFA are half-owned by the Confederation of Swedish Enterprise.

A description of related-party transactions is given in Alecta's annual report for 2016, Note 58.

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

NOTE 3 Classification of financial assets and liabilities

Group, 30 June 2017 Financial assets	Financial assets and liabilities measured at fair value through profit or loss on initial recognition	Financial assets and liabilities measured at fair value through profit or loss through trading	Loans and receivables/other financial assets and liabilities	Total carrying amount	Total fair value
Shares and participations in jointly controlled entities (joint ventures)	7 093	–	–	7 093	7 093
Loans to jointly controlled entities (joint ventures)	–	–	3 389	3 389	3 389
Shares and participations	366 433	–	–	366 433	366 433
Bonds and other debt securities	391 466	–	–	391 466	391 466
Other loans	2 156	–	58	2 214	2 214
Derivatives	–	9 547	–	9 547	9 547
Receivables related to direct insurance operations	–	–	1 507	1 507	1 507
Other receivables	–	–	1 842	1 842	1 842
Cash and bank balances	–	–	3 503	3 503	3 503
Accrued interest and rental income	–	–	5 858	5 858	5 858
Total	**767 148**	**9 547**	**16 157**	**792 852**	**792 852**
Financial liabilities					
Liabilities related to direct insurance operations	–	–	11	11	11
Derivatives	–	6 519	–	6 519	6 519
Other liabilities	–	–	9 430	9 430	9 430
Other accrued expenses and deferred income	–	–	2 424	2 424	2 424
Total	**–**	**6 519**	**11 865**	**18 384**	**18 384**

Group, 31 Dec 2016 Financial assets	Financial assets and liabilities measured at fair value through profit or loss on initial recognition	Financial assets and liabilities measured at fair value through profit or loss through trading	Loans and receivables/other financial assets and liabilities	Total carrying amount	Total fair value
Shares and participations in jointly controlled entities (joint ventures)	6 045	–	–	6 045	6 045
Loans to jointly controlled entities (joint ventures)	–	–	3 655	3 655	3 655
Shares and participations	346 171	–	–	346 171	346 171
Bonds and other debt securities	372 328	–	–	372 328	372 328
Other loans	2 161	–	123	2 284	2 284
Derivatives	–	7 944	–	7 944	7 944
Receivables related to direct insurance operations	–	–	1 599	1 599	1 599
Other receivables	–	–	4 133	4 133	4 133
Cash and bank balances	–	–	2 856	2 856	2 856
Accrued interest and rental income	–	–	7 121	7 121	7 121
Total	**726 705**	**7 944**	**19 487**	**754 136**	**754 136**
Financial liabilities					
Liabilities related to direct insurance operations	–	–	2	2	2
Derivatives	–	8 552	–	8 552	8 552
Other liabilities	–	–	4 372	4 372	4 372
Other accrued expenses and deferred income	–	–	2 194	2 194	2 194
Total	**–**	**8 552**	**6 568**	**15 120**	**15 120**

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 quoted in an active market
Fair value measurement based on prices quoted in an active market is used if quoted prices are easily and regularly available 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, which are retrieved from each exchange. Where applicable, the prices are translated at exchange rates quoted on a daily basis (5 p.m.), which are obtained from price provider WM Company.

Level 2: Measurement based on observable inputs
Financial assets and liabilities for which there are no quoted 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 sreads 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 debt 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 debt instruments, daily prices from external price providers Thomson Reuters and Bloomberg are used. Under the concluded agreements, Alecta has the right to inspect the price 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 unobservable inputs
Financial assets which are measured at fair value without access to observable market inputs are classified to level 3. Financial assets at fair value which are measured on the basis of 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 real estate-related investments in the form of funds, part-owned real estate companies (joint ventures) and loans 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 on 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 quoted in an active market.

In the first half of 2017 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 2017 no financial instrument was transferred from level 2 to level 3 or from level 3 to level 2.

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 quoted in an active market.

In the first half of 2017 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.

Alecta's assets in level 3 mainly comprise financial instruments with real estate as underlying asset and, to smaller degree, unlisted venture capital investments.

As we do not have the means to inspect the unobservable inputs used by external price providers, fund managers or real estate companies in their fair value measurements of these financial instruments, any sensitivity analysis is subject to a degree of uncertainty. For real estate-related investments, however, 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, while venture capital investments are primarily affected by equity market risk.

Sensitivity analysis for shares and participations, joint ventures and other loans
The fair value of these level 3 assets is SEK 20 345 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 for real estate-related investments and a change in share prices of 10 per cent for venture capital investments would increase/decrease the fair value by around SEK 2 034 million.

NOTE 4 Valuation categories for financial instruments measured at fair value, *cont.*

	Fair values of financial instruments, 30 June 2017			
Group	Measurement based on prices quoted in an active market Level 1	Measurement based on observable inputs Level 2	Measurement based on unobservable inputs Level 3	Total carrying amount
Assets				
Shares and participations	355 337	–	11 096	366 433
Shares and participations in jointly controlled entities (joint ventures)	–	–	7 093	7 093
Bonds and other debt securities	207 753	183 713	–	391 466
Loans secured by real estate	–	–	–	–
Other loans	–	–	2 156	2 156
Derivatives	–	9 547	–	9 547
Total assets	**563 090**	**193 260**	**20 345**	**776 695**
Liabilities				
Derivatives	–	6 519	–	6 519
Total liabilities	**–**	**6 519**	**–**	**6 519**

	Fair values of financial instruments, 31 December 2016			
Group	Measurement based on prices quoted in an active market Level 1	Measurement based on observable inputs Level 2	Measurement based on unobservable inputs Level 3	Total carrying amount
Assets				
Shares and participations	337 401	–	8 770	346 171
Shares and participations in jointly controlled entities (joint ventures)	–	–	6 045	6 045
Bonds and other debt securities	204 770	167 558	–	372 328
Loans secured by real estate	–	–	–	–
Other loans	–	–	2 161	2 161
Derivatives	–	7 944	–	7 944
Total assets	**542 171**	**175 502**	**16 976**	**734 649**
Liabilities				
Derivatives	–	8 552	–	8 552
Total liabilities	**–**	**8 552**	**–**	**8 552**

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

Group	Fair value, 30 June 2017 Shares and participations	Shares and participations in jointly controlled entities (joint ventures)	Bonds and other debt securities	Other loans	Total
Opening balance 2017	8 770	6 045	–	2 161	16 976
Purchased	2 290	964	–	–	3 254
Sold	–318	–	–	–	–318
Gains and losses					
Realised gains/losses, sold entire holding	–	–	–	–	–
Realised gains/losses, sold portion of holding	24	–	–	–	24
Unrealised gains/losses	597	143	–	15	755
Unrealised foreign exchange gains/losses	–267	–59	–	–20	–346
Transferred from level 3	–	–	–	–	–
Transferred to level 3	–	–	–	–	–
Closing balance, 30 June 2017	**11 096**	**7 093**	**–**	**2 156**	**20 345**
Total realised and unrealised gains and losses recognised in the income statement for financial instruments held at the end of the period	354	84	–	–5	433
Gains and losses recognised as return on capital during the period	354	84	–	–5	433

Group	Fair value, 31 Dec 2016 Shares and participations	Shares and participations in jointly controlled entities (joint ventures)	Bonds and other debt securities	Other loans	Total
Opening balance 2016	7 863	4 058	1 210	1 880	15 011
Purchased	1 387	2 020	–	249	3 656
Sold	–157	–1 025	–	–39	–1 221
Gains and losses					
Realised gains/losses, sold entire holding	–407	–	–	–	407
Realised gains/losses, sold portion of holding	–	–82	–	1	83
Unrealised gains/losses	289	900	–	137	1 326
Unrealised foreign exchange gains/losses	–205	10	–	–67	–262
Transferred from level 3	–	–	–1 210	–	–1 210
Transferred to level 3	–	–	–	–	–
Closing balance, 31 Dec 2016	**8 770**	**6 045**	**–**	**2 161**	**16 976**
Total realised and unrealised gains and losses recognised in the income statement for financial instruments held at the end of the period	–222	992	–	71	841
Gains and losses recognised as return on capital during the period	–323	992	–	71	740

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.

This interim report has not been examined by the company's auditors.
Stockholm, 22 August 2017

Magnus Billing
CEO

Glossary

Adjustment of paid-up values
Assigned refunds through an increase of the pension entitlement earned prior to retirement age. This adjustment is made primarily 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 market 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 policy holders and insureds.

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

Defined benefit insurance
A defined benefit pension plan is a plan under which *the size of the pension* is determined in advance, for example as a specified amount or a percentage of the final salary.

Defined contribution insurance
A defined contribution pension plan is a plan under which *the size of the premium* is determined in advance, for example as a certain percentage of the salary or a specified amount. The size of the pension depends on the amount of pension capital on retirement.

Derivative
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 cash inflows and outflows.

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.

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. debt securities, shares and real estate.

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

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
Refunds allocated to the insureds in addition to the guaranteed pension. Under the applicable actuarial guidelines, the pension supplement must not exceed the increase in the consumer price index for the year concerned, starting from the date on which the first pension payment was made to the insured. The pension supplement is determined by the Board each year.

Policy holder
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 that is guaranteed or allocated to
- the policyholders, in the form of a premium reductions
- 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.

Guaranteed 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 arising from insurance contracts. Technical provisions comprise the capital value of the insurance company's guaranteed commitments, which consist of a life insurance provision and a provision for claims outstanding.

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

Ever since 1917 Alecta has been taking responsibility for the future by managing occupational pension plans. Our mission is to maximise the value of collectively agreed occupational pension plans for our corporate and private customers. We do this through strong returns, good customer service and low costs. We manage SEK 800 billion on behalf of our owners – 2,3 million private customers and 34 000 corporate customers.

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