Interim Report

January–June 2020

Message from the CEO

Six months dominated by COVID-19

The spring of 2020 was entirely dominated by the spread of COVID-19. Aside from the tragic consequences for the people taken seriously ill or who died, and for their relatives, the disease has also posed major challenges for both Sweden and the rest of the world. Alecta's crisis management efforts have focused on maintaining our core operation, protecting the health of our staff and playing our part to avoid the spread of the disease in society.

Great volatility on world stock markets

The year began with rising stock markets. When information reached the market in late February that Italy had also been hit by an uncontrolled spread of COVID-19, the situation changed and we witnessed falls across global stock markets that we had not experienced for many years.

Massive stimulus packages to raise liquidity in the financial system led to sporadic surges on stock markets at the end of March and in April. Following a weak first quarter, the recovery in April was robust, making it one of the best stock market months for many years. Volatility continued to characterise the markets in May and June.

As regards Alecta's asset management, intensive work was carried out to analyse the effects on individual investments to understand how the crisis will affect the capacity to generate long-term value. A great deal of effort was also focused on adapting allocation among various asset classes to adjust our risk levels.

For the first half of 2020, Alecta reported a return for defined benefit insurance of minus 1.1 per cent and for Alecta Optimal Pension of minus 2.2 per cent. After the first quarter, the return was minus 7.1 per cent and minus 10.5 per cent, respectively – the recovery in the second quarter was therefore strong. The return for the first six months is in line with our benchmark index, although this is not a level we are satisfied with in the long term.

Investments for strong companies and societies

Alecta has helped companies to survive the current crisis by granting payment deferrals and waiving commitments in addition to comprehensive supportive investments. For example, since the end of February, we have invested more than SEK 15 billion in bonds issued by Swedish companies, municipalities and regions.

We have also invested more than SEK 3 billion in two social bonds targeting developing countries to assist companies, organisations and authorities in these countries to guide them though this crisis.

New property company

In March, we announced the formation of Alecta Fastigheter AB. The new company, which will be formed over a period of about 18 months, will provide us with a broader platform for Alecta's property transactions so that we can increase scalability while continuing to manage our customers' pension savings at the lowest possible fees.

Accelerated agile and digital transformation

Progress towards a digital way of working has taken a giant leap in the spring as we have all been required to work at home. Alecta has also increased the pace of our agile transformation as regards our development activities.

In January, we launched a new online office for our 35,000 corporate and proxy customers. During the second quarter, all of our agile development teams started working at full capacity. A successful transformation means that development of our business will be more effective, thereby helping us to realise our vision of creating an Alecta that is the most efficient occupational pension fund in the world.

Secure and satisfied customers in times of financial turbulence

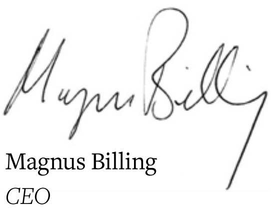
Alecta's solvency, meaning our assets in relation to our guaranteed pension commitments, has been impacted by the financial turbulence. However, we have consistently been comfortably above 140 per cent – the current figure is nearly 160 per cent. Alecta's financial position remains strong.

Utilising meticulous stress tests and by adapting the allocation of our assets, we have prepared ourselves specifically to ensure that steep declines on stock markets will not put our solvency at risk and that, due to excessively low solvency, we will not be forced to act in a manner that would reduce the return on our customers' capital in the long term.

In times of financial turmoil and rapid stock market downturns, it is clear that these stress tests combined with Alecta's long-term approach, traditional insurance with a guarantee element and extremely low fees ensure a high level of security and consumer protection for our customers.

We also continue to have satisfied customers. In our customer satisfaction survey for the six-month period, we received a score of 5.27 for corporate customers and 5.51 for private customers from a maximum score of 6. The ability to provide good service to our customers in a period characterised by rapidly changing routines and remote working really shows what our employees in our customer service centre are capable of.

We know that this crisis is not over yet and that the continued impact of the virus on public health, society and the economy is difficult to predict. Thanks to the dedicated work of our employees and an intense focus on our customers, Alecta has thus far effectively managed this crisis and created security for our customers.



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 2020.

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

Profit

The consolidated after-tax loss for the six-month period was SEK –32.8 billion (profit: 43.2). Comments on Alecta's results and financial position are presented below.

Premiums written

Premiums written for the first half of the year were SEK 31.9 billion (29.0). Premiums written consist partly of invoiced premiums, which totalled SEK 25.1 billion (19.6), and partly of guaranteed refunds in the amount of SEK 6.8 billion (9.4).

The increase in invoiced premiums was chiefly due to a rise in single premiums in the form of PRI redemption. Guaranteed refunds comprise reductions of employers' premiums for disability and premium waiver insurance as well as family pensions and an increase in pensions in payment and earned pension entitlements (adjustment of paid-up values). The decrease in guaranteed refunds is largely due the upward adjustment of paid-up values by 1.45 per cent (2.32) that was implemented in January based on the change in the consumer price index between September 2018 and September 2019.

Return on capital

The first six months of the year witnessed major movements in the financial markets in the wake of the spread of coronavirus and its shocking effects on global economies.

The year, however, began on a positive note, with rising stock markets following the signing of a partial trade agreement between the US and China and the steady improvement in economic data in Europe, the US and China. Some volatility could be noted in the financial markets in the second half of January on account of the spread of coronavirus, but the markets shook off any concerns about the virus at the start of February. Stock markets subsequently rose to new record levels in the belief that we would see a fairly rapid economic recovery as previously closed Chinese factories gradually began to reopen. However, concern about the virus was reignited and when information reached the market at the end of February that Italy had also been hit by the uncontrolled spread of coronavirus, the situation changed radically. As a result, stock markets plunged and the first quarter turned out to be the worst quarter for global shares since the financial crisis of 2008.

Central banks and governments across the globe responded to the virus outbreak rapidly in the form of massive monetary and fiscal stimulus packages on an unprecedented scale. The purpose of this was to save jobs, ease the loss of earnings for households and companies and mitigate the stress on the financial markets. Combined with other support measures, this resulted in considerable stabilisation of the financial markets in the second quarter.

Key ratios

Group
January–June 2020

Return *Defined contribution insurance, Alecta Optimal Pension*	–2.2 %	(11.8 %)
Return *Defined benefit insurance*	–1.1 %	(8.5 %)
Management expense ratio *Defined contribution insurance, Alecta Optimal Pension*	0.07 %	(0.07 %)
Management expense ratio *Defined benefit insurance*	0.08 %	(0.08 %)
Solvency ratio	157 %	(162 %)

Comments on the Parent Company and consolidated financial statements

As countries begin to reopen their economies, the macroeconomic statistics have also proven to be better than expected, which has spread optimism and hope of a swift economic recovery. The favourable sentiment gave rise to a remarkable upturn on the global stock markets in the second quarter and the US stock market reported its single best quarter since 1998, rising more than 20 per cent. Under current circumstances, however, economic statistics and forecasts are difficult to interpret and, in absolute terms, they remain low. We should therefore be prepared for continued volatility in the markets in the period ahead.

The six-month return on the default portfolio in Alecta's defined contribution insurance product, Alecta Optimal Pension, was –2.2 per cent and the average annual return on a five-year rolling basis was 5.6 per cent. At the end of June, the market value of the default portfolio in Alecta Optimal Pension was SEK 136.7 billion.

The six-month return on Alecta's defined benefit insurance product was –1.1 per cent and the average annual return on a five-year rolling basis was 4.5 per cent. The market value was SEK 815.8 billion at the end of June. The total return on capital in the income statement was SEK –11.5 billion (75.4).

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 11.1 billion (10.7).

The change in the provision for claims outstanding was SEK 2 billion (417).

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 612.2 billion at 30 June 2020. This is an increase of SEK 41.6 billion (47.3) for the first six months of 2020, which was due to the following reasons:

- Premiums and payment resulted in an increase in technical provisions of SEK 20.9 billion (18.4).
- The difference between underlying premiums and assumptions in the calculation of technical provisions reduced the provisions by SEK 7.7 billion (8.2) for savings insurance.
- The results from disability and waiver of premium insurance reduced the provisions by SEK 1.4 billion (1.4).
- Lower market rates meant that the yield curve used in the measurement declined, which increased provisions by SEK 23.4 billion (31.0). The average cash flow-weighted rate declined from 1.81 to 1.55 per cent during the first six months of 2020.
- Cumulative return, after deduction for released tax and operating expenses, increased the technical provisions by SEK 7.0 billion (6.8).
- Other changes and results led to an overall decrease of SEK 0.6 billion in technical provisions (increase: 0.7).

Operating expenses

Operating expenses for the insurance business, which are termed operating expenses in the income statement, increased by SEK 13 million compared with the preceding year and amounted to SEK 309 million (296). The increase was due to such factors as higher training and IT costs on account of the accelerated agile and digital transformation, and increased costs for the selection centre Collectum.

Management expense ratio

The management expense ratio of 0.08 remained unchanged for the Group in total compared with full-year 2019. The key performance indicators for defined contribution insurance, 0.07, and defined benefit insurance, 0.08, were also unchanged compared with 2019.

Financial position

The collective funding ratio for defined benefit insurance products was 140 per cent (144) at the end of the period. The collective funding ratio was negatively impacted mainly due to an increase in technical provisions.

The defined normal range for the collective funding ratio is 125–175 per cent. 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 insurance 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 157 per cent (162).

Comments on the Parent Company and consolidated financial statements

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

Raised premiums for defined benefit pensions

At the beginning of 2020, Alecta's Board of Directors decided to raise the premiums for defined benefit pensions from 1 March 2020. The increase was in response to increased longevity and falling market rates in the past year.

For the ITP 2 Retirement pension paid on an ongoing basis, the premium was raised by an average of 16 per cent, of which the interest adjustment accounted for 9 percentage points and changed longevity for 7 percentage points. The premium rate was changed to 0.8 per cent from the previous 1.25 per cent. The premium level for existing insurance benefits in Alecta was unaffected by the decision.

In parallel, minor adjustments were made to the premiums for the redemption of pension commitments and for ITP 2 Family pension.

Alecta Fastigheter AB

In 2019, Alecta's Board of Directors decided to unbundle the Swedish property business and, in March 2020, transferred the shares in the property-owning holding companies from Alecta pensionsförsäkring, ömsesidigt to the newly formed wholly owned subsidiary Alecta Fastigheter AB. The company will own, manage and develop properties in Sweden.

Impact of the COVID-19 pandemic

The shutdown of large parts of the world's economies in the first quarter, resulting in the loss of million of jobs, meant that the spread of infection temporarily culminated in the second quarter, at least in Europe. This, in turn, led to countries gradually reopening, thereby also having a positive impact on the financial markets, which bottomed out in the second half of March and have since experienced a significant reduction in volatility. Central banks and governments have continued to offer massive monetary and fiscal stimulus packages which – combined with the hope of a swift economic recovery – led to a remarkable upswing on the world's stock exchanges during the quarter. As a result of several countries now reopening, the spread of infection has once again gained momentum, not least in the US, which has caused markets to shake at times.

The performance of the market during the second quarter, primarily in the form of rising stock markets and falling interest rates, benefited Alecta's total investments, which are level with the beginning of the year. At 30 June, the market value was SEK 963 billion. Total return for the second quarter was 6.9 per cent and return for the year was –1.2 per cent. Alecta's financial position has recovered during the second quarter and remains at a healthy level. At 30 June, the risk margin according to the traffic light model was SEK 206 billion, compared with SEK 230 billion at the beginning of the year.

A direct effect of COVID-19 is that mortality in Alecta's insurance portfolio was significantly higher than what is normal for April and May. We have noted increased mortality in all age groups, among both men and women, but it is clear that the elderly have been hardest hit by the pandemic. Preliminary figures show that the increase in mortality among men in the 18–64 age group was 10 per cent, while the figure was 43 per cent for those aged 90 or older. For women, the corresponding figures are 7 per cent and 42 per cent, respectively, which is shown in the table below.

Since the dominating insurance risk in Alecta is the risk that the insureds live longer, the increase in mortality has resulted in the technical provisions declining by approximately SEK 0.3 billion. At the same time, the decrease in interest rates during the first six months of the year resulted in the technical provisions increasing by approximately SEK 23.4 billion. Provisions were therefore impacted significantly more by the market trend rather than the increase in mortality.

Increase in mortality rate in Alecta's insurance portfolio in April and May 2020 compared with the corresponding months in 2015–2019

	18–64 years	65–79 years	80–89 years	over 90 years
Men	10 %	19 %	28 %	43 %
Women	7 %	12 %	20 %	42 %

Comments on the Parent Company and consolidated financial statements

Significant risks and uncertainties

There are primarily two developments that pose risks to Alecta's financial position: 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 model developed by the Swedish Financial Supervisory Authority. At 30 June, Alecta 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 own risk and solvency assessment (ORSA), which was conducted in late 2019. Alecta thus has sufficient margins to manage a low-rate environment for a long time. In respect of the financial implications of coronavirus for Alecta, refer to pages 3–5.

Coronavirus has resulted in increased mortality in Alecta's insurance portfolio in the first six months of the year. Since longevity risk is Alecta's largest insurance risk, the net effect of the increased mortality is that the insurance obligation has decreased.

Since mid-March, essentially all Alecta staff are working at home due to coronavirus. The transition went remarkably smoothly and has not led to any disruptions to operations. However, it is uncertain whether there may be negative consequences of the current work arrangement in the longer term, for example, due to the absence of physical meetings.

During the spring, the Ministry of Finance circulated proposals for consultation on changes to the Occupational Pension Company Act. The Ministry is now processing the opinions received and has adjusted its timetable. A government bill is expected before Christmas and it is scheduled to enter into force on 1 April 2021. The transitional rules that Alecta currently applies will expire on 31 December 2022. Alecta must thereafter apply the provisions of the Insurance Business Act in full unless conversion to an occupational pension company has already taken place.

For more information about Alecta's risks and risk management, see Alecta's Annual and Sustainability Report for 2019, pages 65–66 and 86–87.

Financial position and key performance indicators

Group

FINANCIAL POSITION, SEK MILLION	30 June 2020	30 June 2019	31 Dec 2019
Collective funding capital	231,344	238,231	263,282
Capital base [1]	344,342	340,153	385,722
Required solvency margin [2]	25,535	23,440	23,887
KEY PERFORMANCE INDICATORS			
Total return, per cent [3]	–1.2	8.9	14.8
Total return, defined contribution insurance, per cent [4]	–2.2	11.8	20.3
Total return, defined benefit insurance, per cent [4]	–1.1	8.5	14.1
Direct return, per cent	0.8	1.5	2.1
Management expense ratio [5]	0.08	0.08	0.08
Management expense ratio, defined contribution insurance [5]	0.07	0.07	0.07
Management expense ratio, defined benefit insurance [5]	0.08	0.08	0.08
Investment management expense ratio	0.02	0.02	0.02
Collective funding ratio, defined contribution insurance, per cent [6]	100	100	100
Collective funding ratio, defined benefit insurance, per cent	140	144	148
Solvency ratio, per cent	157	162	169

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) Calculated in accordance with the recommendations of Insurance Sweden.
5) Excludes costs for investment management. The key ratio has been calculated on the basis of a rolling 12-month outcome.
6) Any surplus/deficit is allocated to the insureds on a monthly basis. The collective funding ratio is therefore always approximately 100 per cent.

Total return table for investments, defined contribution insurance

	Market value		Market value		Total return, per cent		
	30 June 2020		31 Dec 2019		6 months	12 months	5-year average
DEFINED CONTRIBUTION INSURANCE, (Alecta Optimal Pension)	SEK million	%	SEK million	%	Jan–June 2020	July 2019 –June 2020	July 2015 –June 2020
Shares	76,424	55.9 %	79,278	60.5	–3.1 %	8.4 %	7.4 %
Debt securities	43,382	31.7 %	37,976	29.0	1.1 %	1.0 %	1.8 %
Alternative investments [1]	16,862	12.3 %	13,812	10.5	–2.4 %	2.2 %	8.5 %
Total investments	**136,669**	**100.0 %**	**131,066**	**100.0**	**–2.2 %**	**5.3 %**	**5.6 %**

1) Alternative investments include real estate.
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 146.9 billion (123.0).

Total return table for investments, defined benefit insurance

	Market value		Market value		Total return, per cent		
	30 June 2020		31 Dec 2019		6 months	12 months	5-year average
DEFINED BENEFIT INSURANCE	SEK million	%	SEK million	%	Jan–June 2020	July 2019 –June 2020	July 2015 –June 2020
Shares	280,245	34.4 %	327,492	39.8	–3.1 %	8.4 %	7.4 %
Debt securities	436,150	53.5 %	409,112	49.8	1.1 %	1.1 %	1.8 %
Alternative investments [1]	99,422	12.2 %	85,587	10.4	–2.4 %	2.2 %	8.5 %
Total investments	**815,817**	**100.0 %**	**822,191**	**100.0**	**–1.1 %**	**4.0 %**	**4.5 %**

1) Alternative investments include real estate.
Due to rounding, the sum of the figures shown in the tables above 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 only reported in the annual report. See Note 47
Reconciliation of total return table to financial statements in the Annual Report and Sustainability Report for 2019.

Condensed Consolidated Income Statement

SEK million	Jan–June 2020	Jan–June 2019
Premiums written	31,914	28,991
Net return on capital	–11,518	75,393
Claims paid	–11,068	–10,675
Change in provision for claims outstanding	–2	–417
Change in other technical provisions	–41,604	–46,849
Operating expenses	–309	–296
Depreciation and impairment of owner-occupied properties	–12	–11
Yield tax	–191	–146
Total operating profit/loss	**–32,790**	**45,990**
Profit/loss before tax	**–32,790**	**45,990**
Income tax	–45	–2,764
Profit/loss for the period	**–32,835**	**43,226**

Consolidated Statement of Comprehensive Income

SEK million	Jan–June 2020	Jan–June 2019
Profit/loss for the period	**–32,835**	**43,226**
Items that can subsequently be reclassified to net income:		
Foreign exchange differences	35	57
Other comprehensive income	**35**	**57**
Comprehensive income for the period	**–32,800**	**43,283**

Condensed Consolidated Balance Sheet

SEK million	Note	30 June 2020	30 June 2019	31 Dec 2019
Intangible assets		194	220	207
Property, plant and equipment		22	20	24
Deferred tax		2,747	3,676	2,332
Investment assets	3, 4, 5	973,313	913,477	964,949
Receivables	3	4,387	5,822	11,812
Cash and bank balances	3	4,287	3,063	3,332
Prepaid expenses and accrued income	3	7,425	7,466	9,068
Total assets		**992,375**	**933,744**	**991,724**
Equity		351,665	347,439	393,395
Provision for life insurance		598,384	542,528	556,780
Claims outstanding		13,856	17,888	13,854
Pensions and similar commitments		0	1	0
Other provisions		14	15	15
Current tax		31	30	0
Deferred tax		1,638	1,686	1,659
Liabilities related to direct insurance operations	3	784	763	765
Derivatives	3, 4	13,959	13,141	12,375
Other liabilities	3	6,394	4,919	7,335
Other accrued expenses and deferred income	3	5,650	5,334	5,546
Total equity and liabilities		**992,375**	**933,744**	**991,724**

Consolidated Statement of Changes in Equity

SEK million	Jan–June 2020	Jan–June 2019
Opening equity	**393,395**	**315,423**
Profit/loss for the period	–32,835	43,226
Other comprehensive income	35	57
Total comprehensive income for the period	**–32,800**	**43,283**
Guaranteed refunds		
Pension supplements, defined benefit plan	*–1,419*	*–1,360*
Supplementary amounts, defined contribution plan	*–116*	*–78*
Adjustment of paid-up values	*–4,723*	*–7,203*
Premium reduction	*–2,109*	*–2,171*
Change in indexation funds		
Collective risk premium [1]	*–63*	*–60*
Other changes	–500	–395
Closing equity	**351,665**	**347,439**

[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.

Condensed Consolidated Cash Flow Statement

SEK million	Jan–June 2020	Jan–June 2019
Cash flow from operating activities	3,055	1,552
Cash flow from investing activities	–1	–3
Cash flow from financing activities	–2,099	–1,892
Cash flow for the period	**955**	**–343**
Cash and cash equivalents, opening balance	3,332	3,392
Foreign exchange differences in cash and cash equivalents	0	14
Cash and cash equivalents, closing balance	**4,287**	**3,063**

Alecta recognises cash flows from operating activities, investing activities and financing activities by applying the necessary adjustments for the insurance business. As cash flows in the insurance business are mostly invested, investment assets are accounted for as an integral part of operating activities. Financing activities in Alecta refer to payments that flow directly to/from equity. Bank balances are recognised as cash and cash equivalents, i.e. the same as the Cash and bank balances item in the balance sheet. Short-term investments are not included in cash and cash equivalents but are recognised as investment assets. Interest received or paid and dividends received are recognised as cash flow from operating activities.

Condensed Parent Company Income Statement

SEK million	Jan–June 2020	Jan–June 2019
TECHNICAL ACCOUNT		
Premiums written	31,914	28,991
Capital return, income	16,365	15,631
Unrealised gains on investment assets	1,318	61,091
Claims paid	–11,068	–10,675
Change in provision for claims outstanding	–2	–417
Change in other technical provisions	–41,603	–46,849
Operating expenses	–309	–296
Capital return, expenses	–2,009	–1,706
Unrealised losses on investment assets	–26,884	–145
Life insurance, balance on the technical account	**–32,278**	**45,625**
NON-TECHNICAL ACCOUNT		
Profit/loss before appropriations and tax	**–32,278**	**45,625**
Tax	–185	–2,803
Profit/loss for the period	**–32,463**	**42,822**

Parent Company Statement of Comprehensive Income

SEK million	Jan–June 2020	Jan–June 2019
Profit/loss for the period	**–32,463**	**42,822**
Items that can subsequently be reclassified to profit or loss		
Foreign exchange differences	–	–
Other comprehensive income	**–**	**–**
Comprehensive income for the period	**–32,463**	**42,822**

Condensed Parent Company Balance Sheet

SEK million	30 June 2020	30 June 2019	31 Dec 2019
Intangible assets	194	220	207
Investment assets	966,956	905,426	957,305
Receivables	6,773	9,258	14,716
Other assets	2,889	2,625	3,295
Prepaid expenses and accrued income	7,412	7,459	9,033
Total assets	**984,224**	**924,988**	**984,556**
Equity	344,535	340,373	385,929
Technical provisions	612,240	560,416	570,634
Other provisions	3	4	4
Liabilities	22,034	19,103	22,750
Accrued expenses and deferred income	5,412	5,092	5,239
Total equity, provisions and liabilities	**984,224**	**924,988**	**984,556**

Notes

NOTE 1 Group and Parent Company accounting principles

The interim report refers to Alecta pensionsförsäkring, ömsesidigt, registration number 502014-6865, and covers the period 1 January–30 June 2020, including the Group.

The interim report comprises pages 1–16. The interim information on pages 1–6 thus constitutes an integrated part of this financial report. Amounts in the notes are specified in 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 interpretations, as adopted by the EU. In preparing the financial statements, the Swedish Insurance Companies Annual Accounts Act (ÅRFL), the Regulations and General Guidelines regarding Annual Accounts at Insurance Undertakings and Institutions for Occupational Retirement Provision (FFFS 2019:23) 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.

Alecta has chosen to postpone the adoption of IFRS 9 Financial Instruments, as stated in Note 1 of the 2019 Annual and Sustainability Report. The assessment is that adoption of the standard would not have any material effect on the classification and measurement of Alecta's financial assets and liabilities.

According to the Swedish Financial Supervisory Authority's Regulations and General Guidelines regarding Annual Accounts at Insurance Undertakings and Institutions for Occupational Retirement Provision (FFFS 2019:23), all companies that prepare consolidated financial statements must apply international financial reporting standards. In its proposal for revised insurance regulations for insurance companies and occupational pension companies, the Swedish Financial Supervisory Authority proposes that this requirement be removed for unlisted companies and has thus adapted the provisions governing consolidated financial statements contained in the regulations to the provisions governing consolidated financial statements for unlisted companies that apply according to the Swedish Insurance Undertakings Act (1995:1560).

The main reason for the proposal is the risk that mandatory application in consolidated financial statements of the forthcoming IFRS 17 Insurance Contracts will entail extensive systematic changes and costs for unlisted companies. Such cost increases are not justified from a supervisory perspective.

The changes are proposed to take effect on 1 December 2020 with initial application to financial years ending on 31 December 2020.

Amendments to existing standards have not had any material effects on the financial statements. Accounting principles and calculation methods are otherwise unchanged compared with the most recent Annual and Sustainability 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 (ÅRFL), the Regulations and General Guidelines regarding Annual Accounts at Insurance Undertakings and Institutions for Occupational Retirement Provision (FFFS 2019:23) of the Swedish Financial Supervisory Authority and Recommendation RFR 2 Accounting for Legal Entities of the Swedish Financial Reporting Board. As the Group applies the IAS/IFRS 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 most recent Annual and Sustainability 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 members of the Board of Directors and management team
- The Confederation of Swedish Enterprise, PTK and their member organisations/unions
- Associated companies and joint ventures.

A description of related-party transactions is given in Alecta's Annual and Sustainability Report for 2019, Note 51.

In March 2020, the shares in the property-owning holding companies were transferred from Alecta pensionsförsäkring, ömsesidigt to the newly formed wholly owned subsidiary Alecta Fastigheter AB. Moving forward, the relationship will generate related party transactions in the form of the provision/receipt of services. However, no such transactions occurred during the first six months of 2020.

Otherwise, no significant changes to agreements and relations between Alecta and related parties took place during the period.

NOTE 3 Classification of financial assets and liabilities

Group, 30 June 2020 Financial assets	Financial assets/ liabilities measured at fair value through profit or loss on initial recognition	Financial assets/ liabilities measured at fair value through profit or loss through trading	Loans and receivables/ other financial assets and liabilities	Total carrying amount	Fair value
Shares and participations in associated companies and joint ventures	40,859	–	–	40,859	40,859
Loans to associated companies and joint ventures	–	–	334	334	334
Shares and participations	438,756	–	–	438,756	438,756
Bonds and other debt securities	436,830	–	–	436,830	436,830
Loans secured by real estate	1,851	–	2,228	4,079	4,079
Other loans	6,302	–	–	6,302	6,302
Derivatives	–	12,321	–	12,321	12,321
Receivables related to direct insurance operations	–	–	1,921	1,921	1,921
Other receivables	–	–	1,340	1,340	1,340
Cash and bank balances	–	–	4,287	4,287	4,287
Accrued interest and rental income	–	–	7,241	7,241	7,241
Total	**924,598**	**12,321**	**17,351**	**954,270**	**954,270**
Financial liabilities					
Liabilities related to direct insurance operations	–	–	13	13	13
Derivatives	–	13,959	–	13,959	13,959
Other liabilities	–	–	6,054	6,054	6,054
Other accrued expenses and deferred income	–	–	5,071	5,071	5,071
Total	**–**	**13,959**	**11,138**	**25,097**	**25,097**

Group, 31 Dec 2019 Financial assets	Financial assets/ liabilities measured at fair value through profit or loss on initial recognition	Financial assets/ liabilities measured at fair value through profit or loss through trading	Loans and receivables/ other financial assets and liabilities	Total carrying amount	Fair value
Shares and participations in associated companies and joint ventures	36,357	–	–	36,357	36,357
Loans to associated companies and joint ventures	–	–	334	334	334
Shares and participations	454,757	–	–	454,757	454,757
Bonds and other debt securities	416,620	–	–	416,620	416,620
Loans secured by real estate	1,914	–	2,569	4,483	4,483
Other loans	6,444	–	–	6,444	6,444
Derivatives	–	12,755	–	12,755	12,755
Receivables related to direct insurance operations	–	–	2,549	2,549	2,549
Other receivables	–	–	8,150	8,150	8,150
Cash and bank balances	–	–	3,332	3,332	3,332
Accrued interest and rental income	–	–	8,982	8,982	8,982
Total	**916,092**	**12,755**	**25,916**	**954,763**	**954,763**
Financial liabilities					
Liabilities related to direct insurance operations	–	–	9	9	9
Derivatives	–	12,375	–	12,375	12,375
Other liabilities	–	–	7,187	7,187	7,187
Other accrued expenses and deferred income	–	–	4,948	4,948	4,948
Total	**–**	**12,375**	**12,144**	**24,519**	**24,519**

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 or financial liabilities can be sold or 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 retrieved from each exchange, which, where applicable, are translated at exchange rates quoted on a daily basis from the 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 spreads and exchange rates
- Market information on prices for similar financial instruments
- Market information on prices in 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, where applicable, in the form of interest rate swaps, currency derivatives and credit derivatives.

For debt instruments, daily prices from the external price providers Refinitiv 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 fully inspect the used valuation technique are also classified to this level.

Financial assets at this level mainly comprise financial instruments with real estate and debt securities as the underlying asset and, to a smaller degree, unlisted shares and venture capital investments. Fair values for these assets are obtained from fund managers, counterparties or 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.

No financial instrument was transferred from Level 1 to Level 2, or from Level 2 to Level 1, in either the first half of 2020 or the corresponding period in 2019.

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.

To date in 2020, no financial instruments were transferred from Level 2 to Level 3 or from Level 3 to Level 2. In the corresponding period in 2019, three debt securities were transferred from Level 3 to Level 2, as observable market inputs became available and external price providers were able to measure the investments at fair value. However, there were no transfers from Level 2 to Level 3 during the first half of 2019.

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.

There were no transfers from Level 1 to Level 3, or from Level 3 to Level 1 in either the first half of 2020 or the corresponding period in 2019.

Sensitivity analysis for Level 3 financial instruments

Under IFRS 13, a sensitivity analysis must 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 and debt securities as the underlying asset and, to a lesser degree, unlisted shares and venture capital investments.

As we do not have the means to inspect the unobservable inputs used by external price providers, fund managers, counterparts 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 the debt securities are mainly impacted by interest and credit risk and unlisted shares, and venture capital by equity market risk.

The following table presents the estimated effects on fair value if the required rates of return on real estate rose 0.5 of a percentage point, an interest-rate increase of 1 percentage point and a share-price decrease of 10 per cent.

Sensitivity analysis

Group (SEK million)	Fair value	Value-influencing factor	Effect on fair value
Real-estate-related holdings	63,097	Return requirement increase of 0.5 percentage points	–7,887
Interest-related holdings	27,927	Interest-rate increase of 1 percentage point	–638
Equity-related holdings	7,686	Share price decrease of 10 per cent	–769
Total Level 3	**98,710**		**–9,294**

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

Group	Fair values of financial instruments, 30 June 2020			
	Measurement using prices quoted in an active market Level 1	Measurement based on observable inputs Level 2	Measurement based on unobservable inputs Level 3	Carrying amount 30 June 2020
Assets				
Shares and participations	402,303	–	36,453	438,756
Shares and participations in associated companies and joint ventures	–	–	40,859	40,859
Bonds and other debt securities	223,193	200,392	13,245	436,830
Loans secured by real estate	–	–	1,851	1,851
Other loans	–	–	6,302	6,302
Derivatives	–	12,321	–	12,321
Total assets	**625,496**	**212,713**	**98,710**	**936,919**
Liabilities				
Derivatives	–	13,959	–	13,959
Total liabilities	**–**	**13,959**	**–**	**13,959**

Group	Fair values of financial instruments, 31 December 2019			
	Measurement using prices quoted in an active market Level 1	Measurement based on observable inputs Level 2	Measurement based on unobservable inputs Level 3	Carrying amount 31 December 2019
Assets				
Shares and participations	421,740	–	33,017	454,757
Shares and participations in associated companies and joint ventures	–	–	36,357	36,357
Bonds and other debt securities	230,010	174,080	12,530	416,620
Loans secured by real estate	–	–	1,914	1,914
Other loans	–	–	6,444	6,444
Derivatives	–	12,755	–	12,755
Total assets	**651,750**	**186,835**	**90,262**	**928,847**
Liabilities				
Derivatives	–	12,375	–	12,375
Total liabilities	**–**	**12,375**	**–**	**12,375**

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

Group	Fair value at year-end 2020 Shares and participations	Shares and participations in associated companies and joint ventures	Bonds and other debt securities	Loans secured by real estate	Other loans	Total
Opening balance 2020	33,017	36,357	12,530	1,914	6,444	90,262
Purchased	6,847	5,675	980	1	1,263	14,766
Sold	–409	–	–155	–11	–1,440	–2,015
Gains and losses	–3,002	–1,173	–110	–53	35	–4,303
Realised gains/losses, sold entire holding	–	–	–	–	–	–
Realised gains/losses, sold portion of holding	*4*	–	*12*	*0*	*212*	*228*
Unrealised gains/losses	*–2,190*	*–1,146*	*–74*	*–53*	*–122*	*–3,585*
Unrealised foreign exchange gains/losses	*–816*	*–27*	*–48*	–	*–55*	*–946*
Transferred from Level 3	–	–	–	–	–	–
Closing balance 2020	**36,453**	**40,859**	**13,245**	**1,851**	**6,302**	**98,710**
Total unrealised gains and losses recognised in the income statement for financial instruments held at the end of the period	–3,002	–1,173	–110	–53	35	–4,303
Gains and losses recognised as return on capital during the period	–3,002	–1,173	–110	–53	34	–4,304

Group	Fair value at year-end 2019 Shares and participations	Shares and participations in associated companies and joint ventures	Bonds and other debt securities	Loans secured by real estate	Other loans	Total
Opening balance 2019	21,911	23,870	6,255	–	3,133	55,169
Purchased	11,887	12,376	7,281	1,886	3,990	37,420
Sold	–2,939	–2,035	–	–10	–726	–5,710
Gains and losses	2,158	2,146	167	38	47	4,556
Realised gains/losses, sold entire holding	*129*	*1,201*	–	–	*184*	*1,514*
Realised gains/losses, sold portion of holding	*40*	*70*	–	–	–	*110*
Unrealised gains/losses	*1,359*	*981*	*123*	*38*	*–150*	*2,351*
Unrealised foreign exchange gains/losses	*630*	*–106*	*44*	–	*13*	*581*
Transferred from Level 3	–	–	–1,173	–	–	–1,173
Closing balance 2019	**33,017**	**36,357**	**12,530**	**1,914**	**6,444**	**90,262**
Total unrealised gains and losses recognised in the income statement for financial instruments held at the end of the period	2,165	2,011	168	38	6	4,388
Gains and losses recognised as return on capital during the period	2,158	2,146	168	38	47	4,557

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

Stockholm, 17 July 2020

Magnus Billing
CEO

This Interim Report has not been reviewed by the Company's auditors.

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.

Allocated refunds
Surplus that is allocated to
- the policy holders, in the form of a future reduction of the premium.
- the insureds, in the form of a future increase of the insurance benefit
- to cover the cost under the ITP plan. The parties to the collective agreement have been granted the right to indicate how the funds should be used.

Allocated refunds are not formally guaranteed.

Assets under management
Calculated as equity, provision for life insurance and claims outstanding, according to the balance sheet.

Capital base
The insurance company is required to maintain a capital base of sufficient size 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.

Capital value
The estimated present value of future payment flows.

Collective funding capital
The difference between the distributable assets, valued at market value, and the insurance commitments (guaranteed commitments as well as allocated refunds) to policy holders and the insureds.

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

Default option
In a defined contribution plan where the employee does not make an active choice of insurance company, the employee automatically becomes a customer of the insurance company that has been designated as the default option in the procurement for the management of the plan.

Defined benefit insurance (ITP 2)
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
In a defined contribution pension, 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 amount of pension capital on retirement.

Discount rate
The interest rate used to calculate the present value of future cash inflows or outflows.

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

Financial position
The relationship between assets and liabilities where the central key ratios for Alecta are the collective funding ratio and the solvency ratio.

Guaranteed refunds
A surplus that is guaranteed to
- the policy holders, in the form of premium reductions.
- the insureds, in the form of a raised guaranteed insurance benefit or paid supplementary amount/pension supplement.
- to cover the cost under the ITP plan. The decision on the final use of the funds is made by Alecta's Board of Directors, provided that the Board unanimously agrees that the designated use is consistent with Alecta's interests as an insurance company.

Guaranteed refunds are formally guaranteed.

Insured
The person covered by the insurance contract.

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

Investment assets
Assets having the character of a capital investment, including debt securities, shares and real estate, at market value in the balance sheet.

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 in relation to average assets under management. The key ratio is calculated on an aggregate basis and for the pension products, excluding selection centre costs.

Occupational group life insurance (TGL)
A life insurance policy under which surviving family members receive a specified amount if the insured dies before retirement. Under the collective agreement, the employer is required to take out occupational group life insurance for its employees.

Pension supplement
Refunds allocated to the insureds in addition to the guaranteed defined benefit 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 and is allocated in conjunction with the payment.

Policy holder
The party that has entered into an insurance contract with an insurance company.

Premium reduction
Reduction in premiums through allocation or guaranteeing of refunds.

Risk insurance
Insurance for which the entire premium is used to protect against risk. There is no savings component in this type of insurance.

Solvency margin
The required solvency margin is a minimum requirement for the size of the capital base. The solvency margin represents just over 4 per cent of the technical provisions.

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

Technical provisions
Technical provisions comprise the capital value of the insurance company's guaranteed obligations to the policy holders and insureds. Technical provisions consist of provisions for life insurance and claims outstanding.

Total return
The return on investments, adjusted for cash flows and expressed as a percentage. Calculated in accordance with the recommendations of Insurance Sweden.

Waiver of premium insurance
Part of the collective risk insurance provided under the ITP plan, waiver of premium insurance means that the employer is released from paying premiums if an employee becomes incapacitated for work. In such case, premiums for insurance provided under the ITP plan will be paid from the waiver of premium insurance and are recognised as insurance compensation.

When trust is shared, it grows

Alecta has been managing occupational pension plans since 1917. Our mission is to maximise the value of collectively agreed occupational pension plans for both our corporate and private customers. We do this by generating high returns at low cost, and providing excellent customer service. We manage just over SEK 950 billion on behalf of our owners – 2.6 million private customers and 35,000 corporate customers.

Alecta pensionsförsäkring, ömsesidigt
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