alecta

Interim report

January–June 2014

Financial information for January–June 2014

- The total return for Alecta's defined contribution product, Alecta Optimal Pension, amounted to 7.4 percent for the first half year 2014. During the last five year period, the average annual return has been 12.2 percent, which is 5.2 percentage points more per year than the comparative index.
- As regards Alecta's defined benefit insurance, the return for the first half year was 6.3 percent. The most recent five year period saw an annual, average return of 9.0 percent.
- Alecta's financial position continues to be strong and the solvency level at the end of period was 164 percent. The collective funding ratio for defined benefit insurance was 147 percent. The determined collective funding interval is 125–155 percent.
- Alecta's management expense ratio continued to be low at the end of the period, 0.11. For pension products, excluding selection centre costs, the equivalent key ratio was 0.07.

Comments regarding the Parent Company's and Group's book closing

Events during the period

Redemption of Skanska's ITP1 commitments under own management

During the period, Skanska has redeemed its ITP1 commitments, which they have had under own management, in return for insurance with Alecta. The redemption amount totalled slightly more than SEK 400 million and referred to approximately 1,100 insureds.

New external auditors

On 10 April, Alecta's Council of Administration determined to appoint EY to serve as the next external auditors of Alecta, from and beginning financial year 2014.

Fees deducted on a percentage basis – Are your pension benefits dwindling?

For the fourth year in a row Alecta took part in Almedalen Week (Sweden's most important annual, public forum for political and social issues). Alecta released the report "Fees deducted on a percentage basis – Are your pension benefits dwindling?" on the significance of fees in determining the final amount of pension benefits the insured receives. The the launching of this report was arranged in conjunction with a seminar during which a panel discussed this topic.

Results

The results, after tax, for the Group amounted to SEK 12.6 billion (57.0) for the first half year. The primary reason for the lower results compared with the equivalent period last year is the change in technical provisions, which had a negative impact on results in an amount of SEK 36.9 billion (last year there was a positive impact of SEK 39.5 billion). At the same time, the return on capital, net, of SEK 37.8 billion (15.2) and premium income, including adjusted paid up policies, of SEK 21.9 billion (12.0) both had a positive impact on results.

Further details regarding the results and financial position of Alecta are provided below. Comparative figures for the income statement refer to the equivalent period in the previous year, while the balance sheet figures are compared with the balance sheet at the most recent year-end.

Premium income

Premium income for the first half year amounted to SEK 21.9 billion (12.0). Premium income is comprised, partly, of invoiced premiums amounting to SEK 12.2 billion (11.9) and, partly, of allocated rebates which amounted to SEK 9.7 billion (0.1).

The increase in the sub-item allocated rebates is due, largely, to 2014's increase in earned pension benefits (paid up policies) in the defined benefit ITP 2 plan. The increase in earned pension benefits was 3.43 percent as at 1 January 2014 which is equivalent to the increase in the Consumer Price Index since the most recent indexation, which was executed in January 2011.

The sub-item allocated rebates is also comprised, in addition to the increase in earned pension rights, of 2014's

Cont. Comments regarding the Parent Company's and Group's book closing

premium reduction of employer's insurance premiums for disability and premium waiver insurance and for family pensions.

Return on capital

The first half year has seen the global economy going through a week recovery phase with low growth and inflation as a result. The central banks have kept their key interest rates at a continued low level and diverse directed action plans have been implemented to try to stimulate the economy.

However, the scenario has been brighter as regards investment assets, with clear gains on shares, interest-bearing investments and property investments. The capital markets have learned how to benefit from an environment with low interest rates and central bank support, which has led to both stock exchanges and the bond markets reaching new records during a period of increasingly low volatility.

As regards Alecta's defined contribution default portfolio, Alecta Optimal Pension, the return for the first half year amounted to 7.4 percent and the average return on a rolling five year basis was 12.2 percent as at 30 June. The market value of the default portfolio in Alecta Optimal Pension was, as at the end of the six month period, SEK 37.5 billion. The total market value of Alecta Optimal Pension was SEK 39.4 billion.

The return on Alecta's defined benefit insurance amounted to 6.3 percent during the first half year. The average annual return on a rolling five year basis was 9.0 percent as at 30 June. The market value as at the end of the period was SEK 602.2 billion.

In the Income statement the return on capital amounted to SEK 37.8 billion (15.2).

Claims incurred

Claims incurred are comprised partly of the sum of paid insurance claims and of changes in provisions for claims outstanding.

Paid insurance claims, comprised of benefits incurred in retirement pensions, disability and life insurance, as well as operating expenses for claims settlement, totalled SEK 8.9 billion (8.5).

The change in provisions for claims outstanding amounted to SEK 1.0 billion (–0.2), refer to the section below, Technical provisions.

Technical provisions

Technical provisions comprise the total of the provision for life insurance and the provision for claims outstanding, and comprise the capital value of the Company's guaranteed commitments for insurance contracts in force.

Technical provisions amounted to SEK 391 billion as at the end of June 2014. This is an increase of SEK 36.9 billion (–39.5) for the first half year 2014 due to:

- changes in the interest rate curve applied in valuing the technical provisions. The average interest rate decreased from 3.25 percent at the beginning of 2014 to an average of 2.77 percent at the end of the second quarter 2014. This change implied that technical provisions increased by SEK 25.7 billion (–45.1).
- the current return for the period and deduction for taxes and operating costs which implied that technical provisions increased by SEK 3.8 billion (3.7).
- premium income (including paid up policies), paid insurance claims and other changes have implied an increase in technical provisions of SEK 7.4 billion (1.9).

Operating costs

Operating costs for the insurance business amounted to SEK 290 million (294) for the first half year 2014. The decrease in operating costs is due to, amongst other things, lower costs for office premises as Alecta rents out one floor to Metro since March of this year.

The management expense ratio as at June 2014 amounted to 0.11 and decreased only marginally compared with the 2013/2014 year-end ratio. For pension products excluding selection centre costs, the equivalent key ratio was 0.07 which is also somewhat lower compared with the equivalent year-end figure.

Financial position

The collective funding ratio for defined benefit insurance was 147 percent at the end of the period. The determined funding interval is 125–155 percent.

Alecta's defined contribution product, Alecta Optimal Pension had a collective funding ratio of 100 percent which is the normal level as all of the surplus, respective deficit, is allocated to the insureds an on-going basis.

Alecta's solvency level was 164 percent.

Cont. Comments regarding the Parent Company's and Group's book closing

Parent Company

The above comments refer, primarily, also to the Parent Company in which the insurance operations are undertaken.

Significant risks and uncertainties

It is still uncertain as to whether Alecta will be covered by Solvency II or IORP II and it is also uncertain as to the capital requirement demands which will be implemented on the basis of IORP II. The current committee investigating the area of occupational pension companies is to present their proposal at the end of August 2014. This proposal is expected to provide indications as to the regulations which could apply to Alecta in the future. Regardless of the nature of these future regulations, Alecta is now an insurance company covered by EIOPA's temporary guidelines in terms of preparation for Solvency II, which came into effect on 1 January 2014.

The introduction of new discount rate curve at year-end 2013/2014 implies that Alecta's financial position has become less sensitive to changes in market interest rates and that, as a consequence, the matching risk decreases. The value of Alecta's investment assets has continued to develop positively during the first half year and, all in all, this implies that Alecta will also, in the future, have good possibilities to invest in risk assets with the aim of achieving its financial return targets. For more information regarding Alecta's risks and risk management, refer to Alectas' annual report for 2013 and page 24 and pages 48–49.

Financial position and key ratios

Group

FINANCIAL POSITION, MSEK	30 June 2014	30 June 2013	31 Dec 2013
Collective funding capital	187 703	162 172	181 152
Capital base [1]	247 128	219 636	246 144
Required solvency margin [2]	16 162	14 080	14 648
KEY RATIOS			
Total return, percent [3]	6.4	2.8	10.2
Management expense ratio, percent [4]	0.11	0.13	0.12
Of which pension products, excluding selection centre costs [4,5]	0.07	0.08	0.08
Funds management costs, percent	0.03	0.03	0.03
Collective funding ratio, defined benefit insurance, percent	147	145	148
Collective funding ratio, defined contribution insurance, percent [6]	100	100	100
Solvency level, percent	164	165	170

1) Refers to the Parent Company
2) Refers to the Parent Company and Group
3) Refers to the Group, defined benefit and contribution retirement pensions and risk insurance. Calculated according to Insurance Sweden's recommendation.
4) Does not include costs for funds management. Key ratios are calculated on the basis of a rolling 12 month outcome.
5) Pension products are comprised of defined benefit and defined contribution retirement pensions and family pensions.
6) Surplus/deficit is allocated monthly to the insured which is the reason the collective funding level is always approximately 100 percent.

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

Defined contribution insurance (Alecta Optimal Pension)	Market value 30 June 2014 MSEK	%	Market value 31 December 2013 MSEK	%	Total return in percentage: 6 months Jan–June 2014	12 months July 2013 –June 2014	5 year average July 2009 –June 2014
Shares	23 569	62.8	19 098	61.4	9.2	26.9	15.0
Interest-bearing investments	11 368	30.3	9 720	31.2	4.8	6.4	6.3
Property	2 602	6.9	2 297	7.4	4.6	11.6	10.0
Total investments	**37 539**	**100.0**	**31 115**	**100.0**	**7.4**	**19.4**	**12.2**

In the table above the portfolio referred to comprises Alecta's default alternative which has an investment focus on shares totalling 60% of the entire portfolio value. The market value of the total portfolio, that is, all areas of investment, for Alecta Optimal Pension, amounts to SEK 39.4 (32.6) billion.

Total return table for investments, defined benefit insurance

Defined benefit insurance	Market value 30 June 2014 MSEK	%	Market value 31 December 2013 MSEK	%	Total return in percentage: 6 months Jan–June 2014	12 months July 2013 –June 2014	5 year average July 2009 –June 2014
Shares	229 259	38.1	211 965	37.2	9.2	26.9	15.0
Interest-bearing investments	331 995	55.1	316 976	55.6	4.6	6.2	6.0
Property	40 992	6.8	41 292	7.2	4.6	11.6	10.0
Total investments	**602 247**	**100.0**	**570 234**	**100.0**	**6.3**	**13.7**	**9.0**

Due to the rounding off of the figures, the amounts in the table above may deviate from the figures shown as the total of these amounts.
The total return table has been prepared according to Insurance Sweden's recommendations. The reporting and valuation of the investments in the total return tables do not agree with the accounting principles applied in the financial reports. These differences are reported only in the annual financial statements.

Condensed Consolidated Income Statement

MSEK	Jan–June 2014	Jan–June 2013
Premiums written	21 913	11 974
Return on capital, net	37 825	15 154
Claims paid	–8 856	–8 526
Changes in provisions for claims outstanding	–971	168
Change in other technical provisions	–35 937	39 326
Operating expenses	–290	–294
Depreciation and impairment of owner-occupied properties	–9	–9
Yield tax	–499	–352
Total operating profit	**13 176**	**57 441**
Profit before tax	**13 176**	**57 441**
Income tax	–541	–429
Profit for the period	**12 635**	**57 012**

Consolidated Statement of Comprehensive Income

MSEK	Jan–June 2014	Jan–June 2013
Profit for the period	**12 635**	**57 012**
Items that can subsequently be reclassified to net income		
Exchange rate differences	359	310
Total other comprehensive income	**359**	**310**
Comprehensive income for the period	**12 994**	**57 322**

Condensed Consolidated Balance Sheet

MSEK	30 June 2014	30 Dec 2013
Intangible assets	349	362
Tangible fixed assets	27	27
Deferred tax	1	–
Investment assets	642 050	599 945
Receivables	4 053	3 128
Cash and bank balances	1 080	1 193
Prepaid expenses and accrued income	6 078	7 279
Total assets	**653 638**	**611 934**
Equity	250 149	248 337
Provisions for life insurance	379 600	343 663
Claims outstanding	11 238	10 267
Pensions and similar comitments	28	31
Other provisoins	18	18
Current tax	50	13
Deferred tax	1 848	1 743
Liabilities for direct insurance operations	673	671
Derivatives	5 034	4 363
Other liabilities	2 266	568
Other accrued expenses and deferred income	2 734	2 260
Total equity and liabilities	**653 638**	**611 934**

Condensed Consolidated Cash Flow Statement

MSEK	Jan–June 2014	Jan–June 2013
Cash flow from operating activities	1 423	1 774
Cash flow from investing activities	–1	–4
Cash flow from financing activities	–1 542	–1 591
Cash flow for the period	**–120**	**179**
Cash and cash equivalents, opening balance	1 193	726
Exchange rate differences in cash and cash equivalents	7	5
Cash and cash equivalents, closing balance	**1 080**	**910**

1) Comparative figures in the Group's cash flow analysis have been adjusted to reflect cash and cash equivalents at the beginning of the year.

Consolidated Statement of Changes in Equity

MSEK	Jan–June 2014	Jan–June 2013
Opening equity	**248 337**	**165 966**
Profit for the period	12 635	57 012
Other comprehensive income	359	310
Total comprehensive income for the period	**12 994**	**57 322**
Rebates		
Pension supplements, defined benefit insurance	*–1 298*	*–1 391*
Additional supplement, defined contribution insurance	*–17*	*–8*
Adjustment of paid-up values	*–8 579*	*–3*
Premium reduction	*–1 172*	*–118*
Change in indexation funds		
Collective risk premium [1)]	*–122*	*–121*
Change in guarantee reserve [2)]		
Information funds	*–58*	*–56*
Collective agreement guarantee	*–46*	*–15*
Other changes	110	3
Closing equity	**250 149**	**221 579**

1) The premiums for waiver of premium insurance and collective final payments are reduced as the employers are expected to incur a higher cost due to the new regulations for co-ordination and calculation of pensionable salary which the collective agreements parties introduced into ITP2 in 2008.

2) With the aim of being able to comply with the future regulatory framework, Alecta and the collective agreement parties within ITP have presented a long-term alternative to the guarantee reserve established by Alecta in 2007. This plan implies that the guarantee reserve is transferred from Alecta to an entirely independent foundation with the same purpose as that applying to the guarantee reserve. Such a transfer requires the decision of Alecta's Council of Administration.

Condensed Parent Company Income Statement

MSEK	Jan–June 2014	Jan–June 2013
TECHNICAL ACCOUNT		
Premiums written	21 913	11 974
Return on capital, income	22 059	20 485
Unrealised gains on investment assets	16 328	6 177
Claims paid	–8 856	–8 526
Changes in provisions for claims outstanding	–971	168
Changes in other technical provisions	–35 937	39 326
Operating expenses	–290	–294
Return on capital, expenses	–1 006	–274
Unrealised losses on investment assets	0	–11 045
Life insurance, balance on the technical account	**13 240**	**57 991**
NON-TECHNICAL ACCOUNT		
Profit before appropriation and tax	**13 240**	**57 991**
Appropriations	783	–366
Tax	–1 069	–536
Profit for the period	**12 954**	**57 089**

Parent Company Statement of Comprehensive Income

MSEK	Jan–June 2014	Jan–June 2013
Profit for the period	**12 954**	**57 089**
Items that can subsequently be reclassified to net income		
Exchange rate differences	–	–
Total other comprehensive income	**–**	**–**
Comprehensive income for the period	**12 954**	**57 089**

Condensed Parent Company Balance Sheet

MSEK	30 June 2014	30 June 2013	30 Dec 2013
Intangible assets	349	375	362
Investment assets	637 946	560 882	596 419
Receivables	3 997	5 779	4 154
Other assets	871	748	987
Prepaid expenses and accrued income	6 048	5 659	7 426
Total assets	**649 211**	**573 443**	**609 348**
Equity	245 835	217 360	244 081
Untaxed reserves	1 642	2 651	2 425
Technical provisions	390 838	340 259	353 930
Other provisions	1 135	444	885
Liabilities	7 340	11 073	6 054
Accrued expenses and deferred income	2 421	1 656	1 973
Total equity, provisions and liabilities	**649 211**	**573 443**	**609 348**

Notes

NOTE 1 Accounting principles in the Group and Parent Company

Group

The interim report refers Alecta pensionsförsäkring, ömsesidigt, registration number 502014-6865, and covers the period 1 January–30 June 2014.

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 (1995:1560), the Regulations and General Guidelines Governing the Annual Accounts of Insurance Companies (FFFS 2008:26) of the Swedish Financial Supervisory 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.

New standards or revisions to standards adopted by the EU that apply from 1 January 2014 have not had any significant impact on Alecta's financial statements. The effects of these on the presentation and content of the interim report are described in the following.

IFRS 10 Consolidated Financial Statements. A new standard for consolidation which replaces parts of IAS 27 and SIC 12 and focuses on when and how a holding company should prepare consolidated financial statements. The standard applies from 1 January 2014 but has not had any impact on the interim report.

IFRS 11 Joint Arrangements. A new standard which deals with the accounting of joint arrangements, which are defined as a contractual arrangement of which two or more parties have joint control. A joint arrangement is classified as either a joint operation or a joint venture. The new standard was adopted on 1 January 2014 but does not affect Alecta's reporting, as all joint arrangements to which Alecta is a party are classified as joint ventures. Alecta's holdings in joint ventures are accounted for as financial instruments at fair value through profit or loss, as before.

IFRS 12 Disclosure of Interests in Other Entities. The standard was adopted on 1 January 2014 and is expected to affect the annual accounts in view of the expanded disclosure requirements for holdings in subsidiaries and joint ventures.

IAS 32 Financial Instruments: Classification. The amendment to the standard came into effect on 1 January 2014 and clarifies when financial assets and liabilities may be recognised on a net basis. The amendment has not affected Alecta's financial reporting.

In other respects, the Group has applied the same accounting principles and calculation methods as in the last annual report.

Parent Company

The Parent Company applies IFRS with certain limitations contained in Swedish statutes, which means that international financial reporting standards are applied to the extent possible under Swedish accounting legislation. The Parent Company's financial reporting follows the Swedish Insurance Companies Annual Accounts Act (1995:1560), the Regulations and General Guidelines Governing the Annual Accounts of Insurance Companies (FFFS 2008:26) of the Swedish Financial Supervisory and Recommendation RFR 2 Accounting for Legal Entities of the Swedish Financial Reporting Board. As the Group applies full IFRS, 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.

NOTE 2 Related parties

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

- All companies in the Alecta Group
- Members of the Board of Directors and management team
- Close family of members of the Board of Directors and management team
- The Confederation of Swedish Enterprise and PTK
- Associated companies and joint ventures
- The occupational pension information centres Collectum AB and Fora AB (the main owner of Collectum being the Confederation of Swedish Enterprise, which also owns half of Fora).

A description of related-party transactions is given in Alecta's annual report for 2013, Note 56. No significant changes to existing agreements and relationships between Alecta and related parties took place during the period.

NOTE 3 Fair value by category of financial instrument

Group, 30 June 2014 Financial assets	Financial assets and liabilities carried at fair value through profit or loss	Financial assets and liabilities carried at fair value through profit or loss through trading	Loans and receivables/ other financial liabilities	Total book value	Total fair value
Shares and interests	260 716	–	–	260 716	260 716
Bonds and other interest-bearing securities	341 655	–	–	341 655	341 655
Loans secured by real estate	1	–	–	1	1
Other loans	1 049	–	1 940	2 989	2 989
Derivatives	–	2 760	–	2 760	2 760
Receivables relating to direct insurance	–	–	1 316	1 316	1 316
Other receivables	–	–	1 715	1 715	1 715
Cash and bank balances	–	–	1 079	1 079	1 079
Accrued interest and rental income	3 690	2 214	10	5 914	5 914
Other prepaid expenses and accrued income	–	–	–	–	–
Total	**607 111**	**4 974**	**6 060**	**618 145**	**618 145**
Financial liabilities					
Liabilities relating to direct insurance	–	–	34	34	34
Derivatives	–	5 034	–	5 034	5 034
Other liabilities	1 815	–	224	2 039	2 039
Other accrued expenses and deferred income	1	1 945	–	1 946	1 946
Total	**1 816**	**6 979**	**258**	**9 053**	**9 053**

Group, 31 Dec 2013 Financial assets	Financial assets and liabilities carried at fair value through profit or loss	Financial assets and liabilities carried at fair value through profit or loss through trading	Loans and receivables/ other financial liabilities	Total book value	Total fair value
Shares and interests	237 807	–	–	237 807	237 807
Bonds and other interest-bearing securities	323 527	–	–	323 527	323 527
Loans secured by real estate	175	–	–	175	175
Other loans	967	–	2 620	3 587	3 587
Derivatives	–	1 626	–	1 626	1 626
Receivables relating to direct insurance	–	–	1 534	1 534	1 534
Other receivables	–	–	625	625	625
Cash and bank balances	–	–	1 193	1 193	1 193
Accrued interest and rental income	5 018	2 115	3	7 136	7 136
Other prepaid expenses and accrued income	–	–	–	–	–
Total	**567 494**	**3 741**	**5 975**	**577 210**	**577 210**
Financial liabilities					
Liabilities relating to direct insurance	–	–	48	48	48
Derivatives	–	4 363	–	4 363	4 363
Other liabilities	140	–	293	433	433
Other accrued expenses and deferred income	1	1 528	42	1 571	1 571
Total	**141**	**5 891**	**383**	**6 415**	**6 415**

NOTE 4 Valuation categories for financial instruments

Under the disclosure requirements in IFRS 13, financial instruments carried at fair value must be categorised into three levels based on the underlying valuation technique that is used. The three levels are:

Level 1: quoted prices in active markets for identical assets or liabilities

The fair value of financial instruments that are traded in an active market is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices from an exchange, broker, industry group, pricing service or regulatory authority are easily and regularly available, and these prices represent actual and regularly occurring arm's length market transactions.

Level 2: inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly in the form of quoted prices or indirectly (derived prices)

The fair value of financial instruments that are not traded in an active market is determined with the help of valuation techniques. Market data is used as far as possible when such data is available. Entity-specific information is used to the smallest extent possible. The following specific valuation techniques are used to measure fair value of level 2 financial instruments:

- derived with reference to similar financial instruments for which observable inputs are available
- based on recently completed transactions in the same instrument
- calculated as the present value of estimated future cash flows based on observable yield curves that are discounted to present value

Level 3: inputs for assets that are not based on observable market data

The fair values of financial instruments that are not based on observable market data belong to level 3. The following specific valuation techniques are used to measure fair value of level 3 financial instruments:

- shares and interests as well as joint ventures are determined with the help of various valuation techniques, such as EVCA's principles. Valuations are obtained from external counterparties.
- bonds and other interest-bearing securities as well as loans are valued based on valuations obtained from external counterparties.

Principles for transfers between levels

All financial instruments are categorised into the above levels upon acquisition. A transfer from a lower to a higher level is only permissible if the original valuation technique is no longer available, for instance if an asset is delisted and is no longer traded in an active market. Similarly, a transfer from a higher to a lower level may be made if, for instance, an unlisted asset is listed in an active market or if information has become available that allows for use of level 2 valuation techniques.

Transfers between levels in 2014

During the period an unlisted stock was listed and has therefore been transferred from level 3 to level 1.

	Fair values of financial instruments, 30 June 2014			
Group	Published price quotes in an active market Level 1	Valuation techniques based on observable market data Level 2	Valuation techniques based on unobservable market data Level 3	Book value, 30 June 2014
Assets				
Shares and interests	254 720	–	5 359	260 079
Joint ventures	–	–	637	637
Bonds and other interest-bearing securities	182 123	157 514	2 018	341 655
Loans secured by real estate	–	1	–	1
Other loans	–	–	1 049	1 049
Derivatives	–	2 760	–	2 760
Total assets	**436 843**	**160 275**	**9 063**	**606 181**
Liabilities				
Derivatives	–	5 034	–	5 034
Total liabilities	**–**	**5 034**	**–**	**5 034**

	Fair values of financial instruments, 31 Dec 2013			
Group	Published price quotes in an active market Level 1	Valuation techniques based on observable market data Level 2	Valuation techniques based on unobservable market data Level 3	Book value, 31 Dec 2013
Assets				
Shares and interests	232 207	–	4 791	236 998
Joint ventures	–	–	809	809
Bonds and other interest-bearing securities	180 993	140 494	2 040	323 527
Loans secured by real estate	–	175	–	175
Other loans	–	–	967	967
Derivatives	–	1 626	–	1 626
Total assets	**413 200**	**142 295**	**8 607**	**564 102**
Liabilities				
Derivatives	–	4 363	–	4 363
Total liabilities	**–**	**4 363**	**–**	**4 363**

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

Group	Fair value, 30 June 2014 Shares and interests	Joint ventures	Bonds and other interest-bearing securities	Other loans	Total
Opening balance 2014	4 791	809	2 040	967	8 607
Purchased	229	121	–	73	423
Sold/Matured	–244	–	–	–100	–344
Gains and losses					
Realised gains/losses, sold entire holding	*–94*	*–*	*–*	*–*	*–94*
Realised gains/losses, sold a portion of holding	*87*	*–*	*–*	*6*	*93*
Unrealised gains/losses	*341*	*–7*	*–22*	*65*	*377*
Unrealised foreign exchange gains/losses	*249*	*6*	*–*	*38*	*293*
Transferred from level 3	–	–292	–	–	–292
Transferred to level 3	–	–	–	–	–
Closing balance, 30 June 2014	**5 359**	**637**	**2 018**	**1 049**	**9 063**
Total unrealised gains and losses recognised in the income statement for financial instruments held at the end of the period	557	–1	–22	109	643
Gains and losses recognised as return on capital during the period	583	–1	–22	109	669

Group	Fair value, 31 Dec 2013 Shares and interests	Joint ventures	Bonds and other interest-bearing securities	Other loans	Total
Opening balance 2013	4 340	466	2 070	720	7 596
Purchased	340	557	–	217	1 114
Sold/Matured	–324	–390	–	–7	–721
Gains and losses					
Realised gains/losses sold entire holding	*–91*	*350*	*–*	*–*	*259*
Realised gains/losses, sold a portion of holding	*–68*	*–*	*–*	*–*	*–68*
Unrealised gains/losses	*500*	*–174*	*–30*	*28*	*324*
Unrealised foreign exchange gains/losses	*94*	*–*	*–*	*9*	*103*
Transferred from level 3	–	–	–	–	–
Transferred to level 3	–	–	–	–	–
Closing balance 2013	**4 791**	**809**	**2 040**	**967**	**8 607**
Total unrealised gains and losses recognised in the income statement for financial instruments held at the end of the period	435	45	–30	37	487
Gains and losses recognised as return on capital during the period	435	176	–30	37	618

1) The definition of level 3 is found in Note 4 Valuation categories..

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

NOTE 6 Financial instruments covered by netting agreements

30 June 2014	Financial assets recognised in the balance sheet	*of which, amount that is not offset but covered by a binding framework agreement on netting or a similar agreement in case of insolvency*	Financial collateral received	Cash collateral received	Net amount[1)]
Assets					
Derivatives [2)]	4 970	–4 970	–	–405	0
Loaned securities	8 733	–	–8 731	–	2

	Financial liabilities recognised in the balance sheet	*of which, amount that is not offset but covered by a binding framework agreement on netting or a similar agreement in case of insolvency*	Financial collateral posted	Cash collateral posted	Net amount[1)]
Liabilities					
Derivatives [2)]	6 979	–4 970	–3 212	–	0

31 Dec 2013	Financial assets recognised in the balance sheet	*of which, amount that is not offset but covered by a binding framework agreement on netting or a similar agreement in case of insolvency*	Financial collateral received	Cash collateral received	Net amount[1)]
Assets					
Derivatives [2)]	3 741	–3 741	–	–	0
Loaned securities	12 182	–	–12 191	–	0

	Financial liabilities recognised in the balance sheet	*of which, amount that is not offset but covered by a binding framework agreement on netting or a similar agreement in case of insolvency*	Financial collateral posted	Cash collateral posted	Net amount[1)]
Liabilities					
Derivatives [2)]	5 891	–3 741	–1 981	–	169

1) Under IFRS 7 the net amount can never be less than 0.
2) The amounts include accrued interest income of 2 209 (2 115) and accrued interest expenses of 1 946 (1 528).

Disclosures on financial instruments covered by netting agreements
The purpose of the note is to provide information on options for offsetting of assets and liabilities in case of the insolvency of either party. The note also shows whether collateral has been posted between the parties for the net asset or liability which remains after any netting or, as in the case of loaned interest-bearing securities, the assets received as collateral in the event that the borrower is unable to return the loaned interest-bearing securities.

All derivatives and loaned interest-bearing securities are recognised on a gross basis in the balance sheet, as no offsetting takes place. However, binding framework agreements or similar agreements in the event of the insolvency of either party exist for these financial instruments. All values in the table above are the fair values.

Derivatives
As shown in the table, at 30 June there were derivatives with a positive value of SEK 4,970 million and derivatives with a negative value of SEK 6,979 million. All derivatives are covered by ISDA agreements, which means that a legal right exists to settle these contracts on a net basis in the event of the insolvency of either counterparty. As no insolvency situation exists, no netting has taken place. In addition to this right of set-off, CSA agreements have also been concluded. These regulate the daily exchange of collateral for those positive or negative fair values which arise between Alecta and each counterparty during the term of the derivatives contract. For those counterparties for which the sum of the fair values of all derivatives is positive Alecta receives the corresponding collateral and in cases where the sum of the fair values of all derivatives is negative Alecta posts the corresponding collateral. Under these CSA agreements, Alecta has received SEK 405 million in cash from counterparties in respect of derivatives for which the sum of all contracts is positive and posted SEK 3,212 million in interest-bearing securities in the form of French and Swedish government bonds as collateral to counterparties in respect of derivatives for which the sum of all contracts is negative.

This interim report has not been examined by the Company's auditors.
Stockholm, 19 August 2014

STAFFAN GREFBÄCK
Chief Executive Officer

Glossary

Adjustment of paid-up values
Rebate allocation which increases pension entitlement earned prior to retirement age. This adjustment is primarily made to compensate for inflation.

Assets under management
Total assets minus financial liabilities (other provisions, liabilities and accrued costs and prepaid income) as specified in the balance sheet.

Capital base
An insurance company should hold a capital base of a sufficient size so as to be able to cover eventual unforeseen future losses. The capital base consists of the difference between the market value of the Company's assets, minus intangible assets and financial liabilities, and technical provisions.

Collective funding capital
The difference between distributable assets, assessed at market value, and insurance commitments (both guaranteed commitments and allocated rebates) to policy holders and the insured.

Collective funding ratio
Distributable assets in relation to insurance commitments to policy holders and insured (both guaranteed commitments and allocated rebates).

Default alternative
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 named as the default supplier following the procurement process for management of the pension plan.

Defined benefit insurance
The amount of pension is determined in advance as a specified amount or a specified level of for instance final salary. The size of the premium varies depending on the benefit decided and on how well the fund manager manages the pension capital.

Defined contribution insurance
Pension which is based on an insurance, the premium of which is determined as a certain percentage of the salary or as a certain amount of money. The amount of pension is dependent on, among other things, returns and fees charged by the manager of the pension capital.

Derivative
A financial instrument whose value depends on the price development of another, underlying, instrument.

Discounting
Calculation of present value of future payments received and payments based on a specific interest rate.

Distributable assets
Total market value of assets less deduction for financial liabilities, special indexation funds and guarantee reserves.

Financial instrument
All types 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.

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

Investment management expense ratio
Operating expenses for investment management in relation to average assets under management.

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

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 the pension products.

Pension supplement
Rebate allocated to the insured in addition to guaranteed pension. Under the actuarial guidelines, such a rebate may not exceed the increase in the Consumer Price Index for the year in question, calculated from the date on which the insured's pension payments are first paid out. The pension supplement is determined by the Board each year.

Policy holder
The one who has entered into an insurance agreement with the insurance company.

Premium reduction
Distribution of surplus funds through the reduction of premiums. Premium reduction is applied to risk insurance.

Rebate
Surplus assigned or allocated to
- policy holders, in the form of premium reductions
- the insured, in the form of increased insurance benefits
- cost coverage for measures within the ITP plan. The parties to the collective agreement have been granted the right to direct the use of these funds. The decision on final use is made by the Board of Alecta, provided they unanimously agree that the directed use is in accordance with Alecta's interests as an insurance company.

Reversionary rebate is formally guaranteed. Allocated rebates are not formally guaranteed.

Solvency level
Total market-valued assets, less intangible assets and financial liabilities, in relation to guaranteed commitments.

Solvency margin
Minimum requirement for the size of the capital base. Put somewhat simply, the solvency margin is determined as a certain percentage of both technical provisions and the Company's insurance risks.

Technical provisions
Provisions in the balance sheet for a company's engagements due to insurances. 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, according to Insurance Sweden's recommendation.

Alecta has been managing occupational pensions since 1917. Our task is to provide collectively agreed occupational pensions with as large value as possible for both our corporate clients and our private customers. We do this through good returns, good customer service and low costs. We manage approximately SEK 640 billion on behalf of our owners, of whom 2,1 million are private customers and 33,000 are corporate clients.

Alecta pensionsförsäkring, ömsesidigt
Telephone 020-78 22 80 | Fax 08-441 60 90
103 73 Stockholm | alecta.se