Interim report
January–June 2015

Financial information for January–June 2015

- The total return for Alecta's defined contribution product, Alecta Optimal Pension, was 7,8 per cent for the first half of 2015. The average annual return over the past five-year period is 11,9 per cent.
- The six-month return for Alecta's defined benefit insurance product was 5,1 per cent. The average annual return over the past five years is 8,6 per cent.
- Alecta's financial position remains strong and the solvency ratio at the end of the period was 171 per cent. The collective funding ratio for defined benefit insurance products was 154 per cent. The determined collective funding interval is 125–155 per cent.
- The management expense ratio at 30 June remained low, at 0,10. The equivalent ratio for pension products, excluding selection centre costs, was 0,07.

Comments on the Parent Company and consolidated financial statements

The Chief Executive Officer of Alecta pensionsförsäkring, ömsesidigt, hereby presents the interim report for the period 1 January–30 June 2015.

Events during the period

Selectable option in KAP-KL/AKAP-KL

In May it became clear that Alecta Optimal Pension will become a selectable product for employees of local authorities and county councils as of 1 January 2016. Alecta Optimal Pension will thus become a selectable option in all of the four big collective bargaining areas.

Acquisition of airport properties

Swedavia and Alecta formed a joint venture to manage 20 major logistics, hangar and office properties at Sweden's three largest international airports. The Company is owned in equal parts by Swedavia and Alecta. The contract covers properties with a total leasable area of around 260 000 square metres of logistics, hangar and office space. The underlying property value is close to SEK 4 billion.

The part-time trap

In May Alecta presented a new report entitled The part-time trap – how an unequal labour market leads to unequal pensions. The report shows that part-time work can have a serious impact on your pension, and that the transition from defined benefit to defined contribution pension plans is adding to this impact. The report describes the concrete consequences of part-time work at different stages of life and provides tips on how couples can compensate the one who cuts his or her working hours. The report had a significant impact in the media, with features on television, in national and regional newspapers and numerous mentions in editorials. We have also noticed that there is a clear interest from politicians and have delivered around 50 copies of the report to government ministers and members of parliament.

Pensions on the agenda for future HR specialists

Alecta's pensions economist, Eva Adolphsson, has for some time been working to get pension studies included on the curriculum of HR studies programmes at universities. Over the past year Alecta has been driving the issue of a pilot project within the framework of the Gilla din Ekonomi (Like Your Personal Finances) network, and in May the first courses were arranged at the University of Skövde. In autumn courses will also be arranged at Kristianstad University and Dalarna University.

Results

The consolidated profit after tax for the first half of the year was SEK 47,0 billion (12,6). The return on capital had a positive net impact on earnings of SEK 34,5 billion (37,8). Earnings were also boosted by a change in technical provisions, which added SEK 8,3 billion (in the previous year these had a negative impact of 36,9), mainly on the back of rising market interest rates.

A more detailed commentary on the Company's results and financial position is given below. The amounts refer to the Group and comparative figures refer to the same period in the previous year for the income statement and the previous year-end date for the balance sheet.

Cont. Comments on the Parent Company and consolidated financial statements

Premium income

Premium income for the first half of the year was SEK 14,7 billion (21,9). Premium income consists partly of invoiced premiums, which totalled SEK 13,3 billion (12,2), and partly of guaranteed refunds in the amount of SEK 1,4 billion (9,7).

The sub-item guaranteed refunds comprises reductions of employers' premiums for disability and premium waiver insurance and family pensions as well as an increase in earned pension benefits (paid-up policies). The decrease in guaranteed refunds is largely due to the fact that no adjustment was made of paid-up values in 2015, which in turn was due to negative inflation during the measuring period, September 2013 to September 2014. In the previous year paid-up values were adjusted upwards by 3,43 per cent, which had an impact of SEK 8,6 billion on the sub-item.

Return on capital

Neither economic growth nor the inflation rate have taken off, to date, in spite of central banks' attempts to stimulate the economy through ever more expansionary monetary measures. The ECB, for example, has launched an major bond repurchase programme and in Sweden we have seen the repo rate move into negative territory for the first time ever. In connection with this the Riksbank also started to purchase government bonds. As a result of this stimulus asset prices, especially equities and property, have continued to appreciate over the year.

On the news front the year has otherwise been dominated by the negotiations between Greece and the EU on the terms of new rescue loans. The parties' inability to find common ground has created uncertainty about Greece's ability to refinance its existing loans, with some commentators even questioning its future in the EMU. Capital markets were affected by this uncertainty, which resulted in higher volatility in stock markets.

The six-month return on the default portfolio in Alecta's defined contribution insurance product, Alecta Optimal Pension, was 7,8 per cent and the average annual return on a five-year rolling basis was 11,9 per cent, which is 4,6 percentage points higher than the benchmark index, Morningstar's Blandfond SEK, aggressiv. At 30 June the default portfolio in Alecta Optimal Pension had a market value of SEK 51,5 billion. The total market value of Alecta Optimal Pension was SEK 54,3 billion. The six-month return on Alecta's defined benefit insurance product was 5,1 per cent and the average annual return on a five-year rolling basis was 8,6 per cent. The market value at 30 June was SEK 666,3 billion.

The return on capital in the income statement was SEK 34,5 billion (37,8).

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 9,2 billion (8,9).

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

Technical provisions

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

Technical provisions were SEK 419 billion at 30 June 2015. This is a decrease of SEK 8,3 billion (last year an increase of 36,9) for the first half of 2015, as a result of:

- changes in the yield curve that is used in valuing the technical provisions. The average interest rate increased from 2,31 per cent at year-end 2014 to 2,52 per cent at 30 June 2015. As a result, technical provisions decreased by SEK 14,5 billion (last year an increase of 25,7).
- interest expense for the period (effect of shorter discount period) and deductions for taxes and operating expenses, which resulted in an increase in technical provisions of SEK 2,8 billion (3,8).
- premium income (including paid-up policies), insurance claims paid and other changes resulted in an increase in technical provisions of SEK 3,4 billion (7,4).

Operating expenses

Operating expenses in the insurance business, which are termed operating expenses in the income statement, are on a par with the previous year, totalling SEK 289 million (290).

Management expense ratio

The management expense ratio declined in the first half of the year, to 0,10 (0,11), mainly due to an increase in average assets under management. For pension products excluding selection centre costs the same key ratio was 0,07 (0,07), which is on a par with the previous year.

Cont. Comments on the Parent Company and consolidated financial statements

Financial position

The collective funding ratio for defined benefit insurance products was 154 per cent (147) at the end of the period. The defined collective funding interval is 125–155 per cent.

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

Alecta's solvency ratio was 171 per cent (164).

Parent Company

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

Significant risks and uncertainties

It is still uncertain whether Alecta will be covered by Solvency II or the Occupational Pensions Directive (IORP), which the EU is currently reworking, or what capital requirements will apply under IORP II. The issue of future occupational pensions legislation in Swedish, which was the subject of an inquiry called "New regulations for occupational pension providers" (SOU 2014:57), has not advanced since the inquiry. In the government bill referred to the Council on Legislation, "Implementation of the Solvency II Directive in the insurance field", it is proposed that insurance companies which provide occupational pension services should be covered by transition rules and apply Solvency II fully only as of 1 January 2020. The provisions relating to corporate governance would apply during the transition period, however. What this will mean in detail will become clear only once Finansinspektionen (the Financial Supervisory Authority) has prepared a draft statute, which will happen no sooner than autumn 2015. Alecta is continuing its preparations for Solvency II, partly by implementing a new long-term risk and solvency assessment (ORSA).

A persistent low interest rate environment creates risks for life insurers. One is that solvency is eroded as the return on interest-bearing assets falls below the discount rate for technical provisions. The interest rate on technical provisions is determined by Finansinspektionen's discount rate curve, which is based on an assumed long-term forward rate (Ultimate Forward Rate, UFR) of 4.2 per cent for long maturities, which is currently significantly higher than the corresponding market interest rates. Another risk is that Finansinspektionen will change the discount rate curve, for example by lowering UFR to bring it more into line with the prevailing market-quoted rates.

In the spring Alecta took part in Finansinspektionen's survey of the consequences of persistently low interest rates for life insurers. Alecta's conclusion is that there is a low probability that persistently low interest rates will result in a serious weakening of the Company's solvency. Alecta has also calculated the consequences of a lowering of UFR by two percentage points. The results show that even after a reduction of this size Alecta would have a satisfactory solvency ratio with a comfortable margin to red light in Finansinspektionen's traffic light test.

For more information on Alecta's risks and risk management, see Alecta's annual report for 2014, pages 32 and 56–57.

Financial position and key ratios

Group

FINANCIAL POSITION, MSEK	30 June 2015	30 June 2014	31 Dec 2014
Collective funding capital	229 823	187 703	188 275
Capital base [1]	291 780	247 128	248 935
Required solvency margin [2]	17 326	16 162	17 658
KEY RATIOS			
Total return, per cent [3]	5,3	6,4	13,0
Management expense ratio [4]	0,10	0,11	0,11
of which pension products, excluding selection centre costs [4, 5]	0,07	0,07	0,07
Funds management costs, per cent	0,03	0,03	0,03
Collective funding ratio, defined benefit insurance, per cent	154	147	143
Collective funding ratio, defined contribution insurance, per cent [6]	100	100	100
Solvency ratio, per cent	171	164	159

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

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

Defined contribution insurance (Alecta Optimal Pension)	Market value 30 June 2015 MSEK	%	Market value 31 Dec 2014 MSEK	%	Total return, per cent 6 months Jan–June 2015	12 months July 2014 –June 2015	5-year average July 2010–June 2015
Equities	32 651	63,4	29 023	66,0	10,5	19,0	14,6
Interest-bearing investments	14 700	28,5	11 699	26,6	0,4	5,1	5,2
Property	4 159	8,1	3 284	7,5	7,8	15,7	11,5
Total investments	**51 510**	**100,0**	**44 006**	**100,0**	**7,8**	**15,4**	**11,9**

The table above refers to the portfolio that constitutes Alecta's default option, which has a 60 per cent equity component.
The market value of the total Alecta Optimal Pension portfolio, i.e. including all asset classes, is SEK 54,3 billion (46,3).

Total return table for investments, defined benefit insurance

Defined benefit insurance	Market value 30 June 2015 MSEK	%	Market value 31 Dec 2014 MSEK	%	Total return, per cent 6 months Jan–June 2015	12 months July 2014 –June 2015	5-year average July 2010–June 2015
Equities	274 067	41,1	255 028	40,0	10,5	19,0	14,6
Interest-bearing investments	339 302	50,9	335 294	52,6	0,4	5,0	5,0
Property	52 945	7,9	46 738	7,3	7,8	15,7	11,5
Total investments	**666 315**	**100,0**	**637 061**	**100,0**	**5,1**	**11,6**	**8,6**

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

Condensed Consolidated Income Statement

MSEK	Jan–June 2015	Jan–June 2014
Premiums written	14 681	21 913
Return on capital, net	34 540	37 825
Claims paid	–9 216	–8 856
Changes in provisions for claims outstanding	–981	–971
Change in other technical provisions	9 298	–35 937
Operating expenses	–289	–290
Depreciation and impairment of owner-occupied properties	–9	–9
Yield tax	–453	–499
Total operating profit	**47 571**	**13 176**
Profit before tax	**47 571**	**13 176**
Income tax	–585	–541
Profit for the period	**46 986**	**12 635**

Consolidated Statement of Comprehensive Income

MSEK	Jan–June 2015	Jan–June 2014
Profit for the period	**46 986**	**12 635**
Items that can subsequently be reclassified to net income		
Exchange rate differences	834	359
Other comprehensive income	**834**	**359**
Comprehensive income for the period	**47 820**	**12 994**

Condensed Consolidated Balance Sheet

MSEK	30 June 2015	31 Dec 2014
Intangible assets	323	336
Tangible fixed assets	31	29
Deferred tax	995	–
Investment assets	720 846	688 905
Receivables	3 474	2 519
Cash and bank balances	3 310	1 116
Prepaid expenses and accrued income	7 145	7 617
Total assets	**736 124**	**700 522**
Equity	299 745	254 737
Provisions for life insurance	405 644	414 942
Claims outstanding	13 657	12 676
Pensions and similar obligations	22	26
Other provisions	36	32
Current tax	23	5
Deferred tax	2 838	1 763
Liabilities for direct insurance operations	687	676
Derivatives	6 023	10 745
Other liabilities	3 808	1 897
Other accrued expenses and deferred income	3 641	3 023
Total equity and liabilities	**736 124**	**700 522**

Condensed Consolidated Cash Flow Statement

MSEK	Jan–June 2015	Jan–June 2014
Cash flow from operating activities	3 629	1 423
Cash flow from investing activities	–3	–1
Cash flow from financing activities	–1 444	–1 542
Cash flow for the period	**2 182**	**–120**
Cash and cash equivalents, opening balance	1 116	1 193
Exchange rate differences in cash and cash equivalents	12	7
Cash and cash equivalents, closing balance	**3 310**	**1 080**

Consolidated Statement of Changes in Equity

MSEK	Jan–June 2015	Jan–June 2014
Opening equity	**254 737**	**248 337**
Profit for the period	46 986	12 635
Other comprehensive income	834	359
Total comprehensive income for the period	**47 820**	**12 994**
Guaranteed refunds		
Pension supplements, defined benefit insurance	*–1 204*	*–1 298*
Additional supplement, defined contribution insurance	*–31*	*–17*
Adjustment of paid-up values	*–9*	*–8 579*
Premium reduction	*–1 346*	*–1 172*
Change in indexation funds		
Collective risk premium [1]	*–122*	*–122*
Change in guarantee reserve [2]		
Information funds	*–70*	*–58*
Collective agreement guarantee	*–17*	*–46*
Other changes	–13	110
Closing equity	**299 745**	**250 149**

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

[2] With the aim of complying with future regulatory requirements, Alecta and the collective bargaining parties for ITP have presented a long-term alternative to the guarantee reserve established by Alecta in 2007. Under the proposed plan, the guarantee reserve would be transferred from Alecta to a fully independent trust with the same purpose as the guarantee reserve. Such transfer is subject to approval by Alecta's Council of Administration.

Condensed Parent Company Income Statement

MSEK	Jan–June 2015	Jan–June 2014
TECHNICAL ACCOUNT		
Premiums written	14 681	21 913
Return on capital, income [1]	26 363	21 939
Unrealised gains on investment assets	13 590	16 328
Claims paid	–9 216	–8 856
Changes in provisions for claims outstanding	–981	–971
Change in other technical provisions	9 298	–35 937
Operating expenses	–289	–290
Return on capital, expenses	–732	–886
Unrealised losses on investment assets	–6 263	0
Life insurance, balance on the technical account	**46 451**	**13 240**
NON-TECHNICAL ACCOUNT		
Profit before appropriations and tax	**46 451**	**13 240**
Appropriations	–	783
Tax	–808	–1 069
Profit for the period	**45 643**	**12 954**

[1] The item has been adjusted compared with the interim report for January-June 2014 due to a previous incorrect classification.

Parent Company Statement of Comprehensive Income

MSEK	Jan–June 2015	Jan–June 2014
Profit for the period	**45 643**	**12 954**
Items that can subsequently be reclassified to net income		
Exchange rate differences	–	–
Other comprehensive income	**–**	**–**
Comprehensive income for the period	**45 643**	**12 954**

Condensed Parent Company Balance Sheet

MSEK	30 June 2015	30 June 2014	31 Dec 2014
Intangible assets	323	349	336
Investment assets	712 410	637 946	682 227
Receivables	3 287	3 997	4021
Other assets	3 072	871	847
Prepaid expenses and accrued income	7 092	6 048	7 687
Total assets	**726 184**	**649 211**	**695 118**
Equity	291 988	245 835	249 156
Untaxed reserves	115	1 642	115
Technical provisions	419 301	390 838	427 618
Other provisions	1 316	1 135	1 442
Liabilities	10 277	7 340	14 118
Accrued expenses and deferred income	3 187	2 421	2 669
Total equity, provisions and liabilities	**726 184**	**649 211**	**695 118**

Notes

NOTE 1 Accounting principles in the Group and Parent Company

Group

The interim report refers to Alecta pensionsförsäkring, ömsesidigt, registration number 502014-6865, and covers the period 1 January–30 June 2015.

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 Finansinspektionen (the Swedish Financial Supervisory Authority) and Recommendation RFR 1 Supplementary Accounting Rules for Corporate Groups of the Swedish Financial Reporting Board have also been applied.

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

No new standards applicable from 1 January 2015 have come into effect. One interpretation, IFRIC 21, which provides guidance on when to recognise a liability for a levy, came into effect on 1 January 2015 and has some impact on the financial reporting. Property tax is one such levy which, under IFRIC 21 should be recognised already on the first day of the financial year even if the tax actually refers to the whole year.

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 Finansinspektionen and Recommendation RFR 2 Accounting for Legal Entities of the Swedish Financial Reporting Board. As the Group applies the IAS/IFRS standards, as adopted by the EU, the accounting principles differ in some respects from those applied in the Parent Company. The significant differences are the same as in the preparation of the last annual report.

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

NOTE 2 Related parties

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

- All companies in the Alecta Group
- Members of the Board of Directors and management team
- Close family of members of the Board of Directors and management team
- The Confederation of Swedish Enterprise and PTK
- Associates and joint ventures
- The occupational pension information centres Collectum AB and Fora AB (where Collectum is owned by the Confederation of Swedish Enterprise and the Council for Negotiation and Co-operation, PTK, and Fora AB is owned fifty percent by the Confederation of Swedish Enterprise).

A description of related-party transactions is given in Alecta's annual report for 2014, Note 56.

In addition to the establishment of a joint-owned property company with Swedavia, classified as a joint venture, no significant changes to agreements and relations between Alecta and related parties have taken place during the period.

NOTE 3 Classification of financial assets and liabilities

Group, 30 June 2015 Financial assets	Financial assets and liabilities measured at fair value through profit or loss on initial recognition	Financial assets and liabilities measured at fair value through profit or loss through trading	Loans and receivables/other financial assets and liabilities	Total carrying amount	Total fair value
Shares and participations	318 585	–	–	318 585	318 585
Bonds and other interest-bearing securities	351 032	–	–	351 032	351 032
Loans secured by real estate	–	–	183	183	183
Other loans	1 976	–	2 448	4 424	4 424
Derivatives	–	5 467	–	5 467	5 467
Receivables relating to direct insurance	–	–	1 360	1 360	1 360
Other receivables	–	–	1 358	1 358	1 358
Cash and bank balances	–	–	3 310	3 310	3 310
Accrued interest and rental income	–	–	6 974	6 974	6 974
Other prepaid expenses and accrued income	–	–	–	–	–
Total	**671 592**	**5 467**	**15 633**	**692 693**	**692 693**
Financial liabilities					
Liabilities relating to direct insurance	–	–	25	25	25
Derivatives	–	6 023	–	6 023	6 023
Other liabilities	–	–	3 315	3 315	3 315
Other accrued expenses and deferred income	–	–	2 710	2 710	2 710
Total	**–**	**6 023**	**6 050**	**12 073**	**12 073**

Group, 31 Dec 2014 Financial assets	Financial assets and liabilities measured at fair value through profit or loss on initial recognition	Financial assets and liabilities measured at fair value through profit or loss through trading	Loans and receivables/other financial assets and liabilities	Total carrying amount	Total fair value
Shares and participations	294 131	–	–	294 131	294 131
Bonds and other interest-bearing securities	345 956	–	–	345 956	345 956
Loans secured by real estate	–	–	5	5	5
Other loans	1 261	–	2 356	3 617	3 617
Derivatives	–	6 846	–	6 846	6 846
Receivables relating to direct insurance	–	–	1 369	1 369	1 369
Other receivables	–	–	649	649	649
Cash and bank balances	–	–	1 116	1 116	1 116
Accrued interest and rental income	–	–	7 469	7 469	7 469
Other prepaid expenses and accrued income	–	–	–	–	–
Total	**641 348**	**6 846**	**12 964**	**661 158**	**661 158**
Financial liabilities					
Liabilities relating to direct insurance	–	–	31	31	31
Derivatives	–	10 745	–	10 745	10 745
Other liabilities	–	–	1 714	1 714	1 714
Other accrued expenses and deferred income	–	–	2 291	2 291	2 291
Total	**–**	**10 745**	**4 036**	**14 781**	**14 781**

NOTE 4 Valuation categories for financial instruments measured at fair value

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

The three levels of valuation categories are:

Level 1: Measurement using prices quoted in an active market

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

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

Level 2: Measurement based on observable 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 of recently completed transactions in the same or similar financial instruments

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

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

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

Level 3: Measurement based on unobservable inputs

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

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

Principles for reclassification between levels

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

Principle for reclassification between level 1 and level 2

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

In the first half of 2015 no financial instrument was transferred from level 1 to level 2 or from level 2 to level 1.

Principle for reclassification between level 2 and level 3

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

In the first half of 2015 no financial instrument was transferred from level 2 to level 3 or from level 3 to level 2.

Principle for reclassification between level 1 and level 3

A reclassification from level 1 to level 3 is made if a financial instrument is delisted from an active market and there are insufficient market inputs to allow for level 2 measurement. Similarly, a reclassification from level 3 to level 1 may be made if the level 3 financial instrument is listed on an active market.

In the first half of 2015 no financial instrument was transferred from level 1 to level 3 or from level 3 to level 1.

Sensitivity analysis for level 3 financial instruments

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

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

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

The fair value of these level 3 assets is SEK 12 499 million. A sensitivity analysis based on an assumed change in the required rate of return of 0,5 percentage points or a change in net operating income of 10 per cent would increase/decrease the fair value by around SEK 700 million or SEK 1 250 million, respectively.

Sensitivity analysis for bonds and other interest-bearing securities

The fair value of bonds and other level 3 interest-bearing securities is SEK 501 million. A doubling of the credit spread, representing a change in the interest rate of 1,8 per cent, would increase/decrease the fair value by around SEK 25 million.

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

Group	Fair values of financial instruments, 30 June 2015 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 2015
Assets				
Shares and interests	308 062	–	7 619	315 681
Joint ventures	–	–	2 904	2 904
Bonds and other interest-bearing securities	178 041	172 490	501	351 032
Loans secured by real estate	–	–	–	–
Other loans	–	–	1 976	1 976
Derivatives	–	5 467	–	5 467
Total assets	**486 103**	**177 957**	**13 000**	**677 060**
Liabilities				
Derivatives	–	6 023	–	6 023
Total liabilities	**–**	**6 023**	**–**	**6 023**

Group	Fair values of financial instruments, 31 Dec 2014 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 Dec 2014
Assets				
Shares and interests	286 171	–	6 523	292 694
Joint ventures	–	–	1 437	1 437
Bonds and other interest-bearing securities	183 470	162 486	–	345 956
Loans secured by real estate	–	–	–	–
Other loans	–	–	1 261	1 261
Derivatives	–	6 846	–	6 846
Total assets	**469 641**	**169 332**	**9 221**	**648 194**
Liabilities				
Derivatives	–	10 745	–	10 745
Total liabilities	–	**10 745**	–	**10 745**

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

Group	Fair value, 30 June 2015 Shares and participations	Joint ventures	Bonds and other interest-bearing securities	Other loans	Total
Opening balance 2015	6 523	1 437	–	1 261	9 221
Purchased	301	1 164	498	639	2 602
Cost for sold holdings	–18	–	–	–69	–87
Gains and losses					
Realised gains/losses, sold entire holding	–	–	–	–	–
Realised gains/losses, sold a portion of holding	5	–	–	6	11
Unrealised gains/losses	475	253	3	95	826
Unrealised foreign exchange gains/losses	333	50	–	44	427
Transferred from level 3	–	–	–	–	–
Transferred to level 3	–	–	–	–	–
Closing balance, 30 June 2015	**7 619**	**2 904**	**501**	**1 976**	**13 000**
Total unrealised gains and losses recognised in the income statement for financial instruments held at the end of the period	813	303	3	145	1 264
Gains and losses recognised as return on capital during the period	813	303	3	145	1 264

Group	Fair value, 31 Dec 2014 Shares and participations	Joint ventures	Bonds and other interest-bearing securities	Other loans	Total
Opening balance 2014	4 791	809	2 040	967	8 607
Purchased	641	662	–	262	1 565
Cost for sold holdings	–252	–	–2 000	–184	–2 436
Gains and losses					
Realised gains/losses, sold entire holding	–93	–	–40	–	–133
Realised gains/losses, sold a portion of holding	94	–	–	13	107
Unrealised gains/losses	772	196	–	136	1 104
Unrealised foreign exchange gains/losses	570	62	–	67	699
Transferred from level 3	–	–292	–	–	–292
Transferred to level 3	–	–	–	–	–
Closing balance, 31 Dec 2014	**6 523**	**1 437**	**–**	**1 261**	**9 221**
Total unrealised gains and losses recognised in the income statement for financial instruments held at the end of the period	1 317	257	–	217	1 791
Gains and losses recognised as return on capital during the period	1 343	258	–40	216	1 777

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

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

This interim report has not been examined by the Company's auditors.
Stockholm, 18 August 2015

STAFFAN GREFBÄCK
Chief Executive Officer

Glossary

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

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

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

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

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

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

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

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

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

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

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

Funds management costs, per cent
Operating expenses in the Company's funds management activities in relation to average assets under management.

Insured
The person covered by the insurance plan.

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

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

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

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

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

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

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

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

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

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

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

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

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