Interim Report

January–June 2019

Message from the CEO

The first half of 2019 was characterised by high activity both internally and externally in the capital markets and the pension debate.

Alecta 2023

In 2018, Alecta conducted a thorough strategic review. The aim was to ensure that even in the future, and especially prior to the next procurement of ITP 1 management in 2023, we will undoubtedly be best at generating the highest possible value for occupational pension plans for both private and corporate customers. That is what our customers and owners have tasked us with doing.

We will generate long-term, high returns and therefore good pensions, and create secure and satisfied customers who have confidence in both the collectively agreed occupational pension scheme and Alecta, today and tomorrow.

Our review resulted in a five-year business plan, Alecta 2023. In the first half of 2019, we began to implement the plan.

The plan has four focus areas that, overall, are designed to help us generate high returns for our customers and give them the service they want whenever they want it, while also working so smartly and flexibly that we will be the most efficient company in our industry. That requires being best in the industry at identifying new and profitable investment opportunities, utilising the possibilities of automation and digitalisation, and attracting and developing the right expertise.

New working method to increase automation

We have started several new initiatives in which we apply new cross-functional working methods to increase the degree of automation.

We call them Proof of Concept (POC). We have also developed a model for measuring the degree of automation in various flows. This will enable us to intensify our efforts to automate our operations.

Robots and new behaviours

Over the past half-year, we have also put our new robot to work. A formerly manual sub-process in our pension calculation service in the Internet office for our private customers is now fully automated, which is increasing the speed and quality of customer deliveries. The robot will be able to handle more processes at Alecta and efforts are ongoing to identify the most suitable robotic applications.

Our information should be available where our customers want it to be, such as in MinPension. That places great demands on us, which we have clarified in an updated information delivery strategy.

We have also introduced a training programme to strengthen the competence and change the behaviour of all employees so that we not only implement new digital tools, but we also leverage the opportunities they present to work more efficiently and flexibly, which will make us more cost-efficient and increase our attractiveness as an employer. The programme will be intensified during the autumn and continue throughout the entire five-year period.

A voice in the pension debate

We have also participated actively in the pension debate by compiling reports about the financial situation of pensioners, and the views of young people on security and pensions. The overall purpose has been to contribute to a pension debate based on facts.

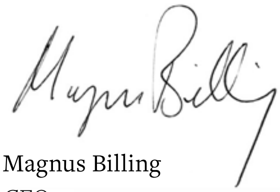
We have also hosted debate lunches and submitted consultation responses and opinion articles on, for example, the pension group's proposal for raising the retirement age and on sovereign green bonds.

High returns and satisfied customers

During the half-year, we achieved high returns in both the defined-contribution ITP plan (AOP) and the defined benefit plan, 11,8 and 8,5 per cent, respectively. The high returns are mainly attributable to the strong recovery of stock markets worldwide, particularly in the January–April period, following a sharp downturn in the fourth quarter of 2018.

Our customers remain satisfied with us. The target for our full-year customer surveys is a minimum score of 5,2 out of 6,0 for both corporate and private customers. The half-year score for corporate customers was 5,36, and 5,37 for private customers. We are also well on the way to meeting our cost target and the trend is on track.

Overall during the first half-year, we generated high returns and achieved our customer and cost targets, while beginning to lay the foundation for maintaining our leading position and strong competitiveness over time. All of this was made possible by our dedicated and competent employees, and the insights and clarity provided by working closely with our customers and principals. When trust is shared, it grows.



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 2019.

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

Profit

The consolidated after-tax profit for the six-month period was SEK 43,2 billion (11,0). Comments on Alecta's results and financial position are presented in the following.

Premiums written

Premiums written for the first half of the year were SEK 29,0 billion (26,4). Premiums written consist partly of invoiced premiums, which totalled SEK 19,6 billion (18,1), and partly of guaranteed refunds in the amount of SEK 9,4 billion (8,3).

The increase in invoiced premiums was chiefly due to a growing volume for Alecta's defined contribution insurance product, Alecta Optimal Pension. Guaranteed refunds comprise reductions of employers' premiums for disability and premium waiver insurance as well as family pensions and an increase in earned pension entitlements (adjustment of paid-up values). The increase in guaranteed refunds is largely due the upward adjustment of paid-up values by 2,32 per cent that was implemented in January based on the change in the consumer price index between September 2017 and September 2018.

Return on capital

During the first half-year, we experienced a considerable upswing for most asset classes worldwide, which benefited Alecta's investments. However, the positive trend follows a period of considerable volatility in financial markets.

The main explanation for the positive trend is that the central banks, and the US Federal Reserve specifically, have reversed their monetary policy, whereby the risk of a deeper global recession has decreased. Statements on a breakthrough in the US-China trade talks also contributed to optimism among investors at the beginning of the year. During the spring, the flow of company reports also contributed to the positive sentiment as these generally signalled a favourable profit trend.

In May, optimism cooled somewhat when the US announced less liberal trade policies with the rest of the world. This created turmoil in financial markets and concerns that increasing protectionism would have a negative impact on growth. The lack of a clear solution for Brexit and how Prime Minister Theresa May's successor will handle the withdrawal has also led to uncertainty.

While global financial statistics are showing signs of an economic slowdown, especially in Europe, several economic indicators are still pointing to the fact that the basic strength of the global economy is still above trend. However, inflation expectations are at a record-low level which, in June, led central banks to once again signal the continuation of soft monetary policies. Instead of the four rate hikes that were planned in 2019 at the end of last year, the Fed is now expected to

Key ratios

Group

January–June

2019

Return Defined contribution insurance, Alecta Optimal Pension	11,8 %	(2,1 %)
Return Defined benefit insurance	8,5 %	(1,7 %)
Management expense ratio For pension products excl. selection centre costs	0,05 %	(0,05 %)
Solvency ratio	162 %	(172 %)

Comments on the Parent Company and consolidated financial statements, *cont.*

lower interest rates during the second half of the year. During the year, the Riksbank has kept the repo rate unchanged at –0,25 per cent and continues to announce interest rate hikes at the end of the year, or early next year.

The six-month return on the default portfolio in Alecta's defined contribution insurance product, Alecta Optimal Pension, was 11,8 per cent and the average annual return on a five-year rolling basis was 7,5 per cent, which is 0,7 percentage points higher per year than the benchmark index, Morningstar's Blandfond SEK aggressiv. At the end of June, the market value of the default portfolio in Alecta Optimal Pension was SEK 115 billion.

The six-month return on Alecta's defined benefit insurance product was 8,5 per cent and the average annual return on a five-year rolling basis was 6,0 per cent. The market value was SEK 782 billion at the end of June. The return on capital in the income statement was SEK 75,4 billion (14,4).

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 10,7 billion (10,5).

The change in the provision for claims outstanding was SEK 0,4 billion (–0,04), see the section Technical provisions below.

Technical provisions

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

Technical provisions were SEK 560,4 billion at 30 June 2019. This is an increase of SEK 47,3 billion (18,7) for the first half of 2019 due to:

- the return for the period and deductions for taxes and operating expenses, which resulted in an increase in technical provisions of SEK 6,8 billion (6,6).
- adjustment of paid-up values resulted in an increase in technical provisions of SEK 7,2 billion (6,3).
- changes in the yield curve that is used in valuing the technical provisions. Due to lower market rates, the average discount rate decreased from 2,15 per cent during the first half of 2019 to 1,78 per cent. As a result, technical provisions increased by SEK 31,0 billion (6,4).
- premiums written, insurance claims paid and other changes, which together resulted in an increase in technical provisions of SEK 2,3 billion (–0,6).

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 296 million (295).

Income tax

The total cost of income tax for the period includes a deferred tax expense of SEK 2 billion attributable to the impairment of a deferred tax asset related to future foreign tax credit.

Management expense ratio

The management expense ratio remained unchanged at 0,08 compared with the full-year 2018. The ratio for pension products excluding selection centre costs also remained unchanged at 0,05.

Financial position

The collective funding ratio for defined benefit insurance products was 144 per cent (154) at the end of the period. The collective funding ratio increased on the back of a positive return but decreased due to an increase in technical provisions.

The defined normal range for the collective funding ratio is 125–175 per cent. The permitted range for the collective funding ratio was changed on 30 June 2018. 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 policyholders

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 162 per cent (172).

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

Decision on refunds and premiums for 2019

In 2018, Alecta's Board of Directors decided to increase defined benefit pensions by 2,32 per cent from January 2019, matching the inflation rate over the past year. The decision covered pensions in payment as well as earned pension entitlements.

Comments on the Parent Company and consolidated financial statements, *cont.*

The Board of Directors also approved premium reduction for the defined benefit age and family pension of 10 per cent in relation to the applicable premium for 2018, and to retain premium reductions of 65 per cent for disability and premium waiver insurance, 75 per cent for family cover and SEK 9 per insured and month for TGL. The invoiced premium for occupational group life insurance (TGL) was reduced from SEK 29 to SEK 26 per month and insured.

Adjustment of paid-up values

In the first half of 2019, Alecta recognised an increase in earned pension entitlements (adjustment of paid-up values) of SEK 7,2 billion following a decision by the Board to increase pensions in payment as well as earned pension entitlements for defined benefit insurance by 2,32 per cent. The increase reflects the change in CPI for the period September 2017–September 2018.

New Chairman of the Board

Ingrid Bonde was elected new Chairman of the Board for Alecta Pensionsförsäkring, ömsesidigt at the Council of Administration's meeting on 11 April 2019. Erik Åsbrink stepped down from the chairmanship after 19 years of service. Ingrid Bonde has previously served as Vice President and CFO of Vattenfall AB, CEO of AMF Pension and Director General of the Swedish Financial Supervisory Authority. She currently serves on several company boards, is Chairman of the Board of Hoist Finance AB and Apoteket AB and chairs the Swedish Climate Policy Council.

Organisational changes

At Alecta's Board meeting on 14 March, Hans Sterte was appointed Deputy CEO of Alecta. He is currently Head of Investment Management at Alecta, a role he has held since spring 2018. Katarina Thorslund is the Deputy CEO and Head of Customer Relations.

Charlotte Rydin was appointed Alecta's General Counsel in May. Before joining Alecta, Charlotte Rydin held a similar position at the Swedish Financial Supervisory Authority, and prior to that at the National Debt Office. Alecta's former General Counsel, Magnus Landare, will remain at Alecta as the CEO's senior advisor.

Significant risks and uncertainties

Alecta's significant risks are aggregated to form an overall risk assessment. There are primarily two developments that pose risks to Alecta's financial position: instability in financial markets, which probably has at its root in the problems faced by heavily indebted governments or banks with weak balance sheets, and persistently low interest rates. Each day, Alecta simulates the consequences of instability in financial markets using an internal stress test and the traffic light test developed by the Swedish Financial Supervisory Authority (FSA). At 30 June, 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 long-term risk and solvency assessment (ORSA), which was conducted in late 2018. Alecta thus has sufficient margins to manage a low-rate environment for a long time.

On 16 May 2019, the FSA submitted a consultation document containing a proposed new regulation for occupational pension funds. The regulation will implement the EU's second occupational pensions directive (IORP II). It is proposed that the new rules become effective on 1 December 2019 and the conversion to an occupational pension fund will be possible without any time limitation. However, 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 fund has already taken place. Under the new rules, a 97 per cent confidence level must be used in calculating the capital requirement for each of the risks included in the risk-sensitive capital requirement.

In addition to the capital requirement, the discount rate applied has a major impact on Alecta's financial position. The regulations referred by the FSA on 5 July 2019 propose that the Ultimate Forward Rate (UFR) be determined by the method applied by the EIOPA, which means that the UFR will decrease from the current figure of 4,2 per cent, to 3,75 per cent in 2020, and 3,6 per cent in 2021. According to the FSA's proposal and assuming that Alecta has been converted into an occupational pension fund in 2021, the new method is expected to increase technical provisions by approximately SEK 21 billion and thereby reduce the solvency ratio by approximately 6 percentage points.

For more information about Alecta's risks and risk management, see Alecta's Annual Report and Sustainability Report for 2018, pages 39–40 and 75–76.

Financial position and key performance indicators

Group

FINANCIAL POSITION, SEK MILLION	30 June 2019	30 June 2018	31 Dec 2018
Collective funding capital	238 231	260 517	210 613
Capital base [1]	340 153	350 522	308 585
Required solvency margin [2]	23 440	20 875	21 536
KEY PERFORMANCE INDICATORS			
Total return, per cent [3]	8,9	1,8	–2,2
Total return, defined contribution insurance, per cent [4]	11,8	2,1	–3,5
Total return, defined benefit insurance, per cent [4]	8,5	1,7	–2,0
Direct return, per cent	1,5	1,6	2,2
Management expense ratio [5]	0,08	0,08	0,08
of which pension products, excluding selection centre costs [5, 6]	0,05	0,05	0,05
Investment management expense ratio	0,02	0,02	0,02
Collective funding ratio, defined benefit insurance, per cent	144	154	142
Collective funding ratio, defined contribution insurance, per cent [7]	100	100	100
Solvency ratio, per cent	162	172	161

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) Pension products comprise defined benefit and defined contribution retirement pensions and family pensions.
7) 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

DEFINED CONTRIBUTION INSURANCE, (Alecta Optimal Pension)	Market value 2019-06-30 SEK million	%	Market value 2018-12-31 SEK million	%	Total return, per cent 6 months Jan–June 2019	12 months July 2018 –June 2019	5-year average July 2014 –June 2019
Shares	70 422	61,1	54 518	56,6	18,7	7,6	9,4
Debt securities	34 127	29,6	32 130	33,4	2,6	2,3	2,6
Alternative investments [1]	10 743	9,3	9 654	10,0	2,7	5,2	11,2
Total investments	**115 292**	**100,0**	**96 302**	**100,0**	**11,8**	**5,6**	**7,5**

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 103,0 billion (101,6).

Total return table for investments, defined benefit insurance

DEFINED BENEFIT INSURANCE	Market value 2019-06-30 SEK million	%	Market value 2018-12-31 SEK million	%	Total return, per cent 6 months Jan–June 2019	12 months July 2018 –June 2019	5-year average July 2014 –June 2019
Shares	310 734	39,8	265 337	36,8	18,7	7,6	9,4
Debt securities	398 957	51,0	384 353	53,3	2,6	2,3	2,5
Alternative investments [1]	71 888	9,2	71 250	9,9	2,7	5,2	11,2
Total investments	**781 579**	**100,0**	**720 939**	**100,0**	**8,5**	**4,6**	**6,0**

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 2018.

Condensed Consolidated Income Statement

SEK million	Jan–June 2019	Jan–June 2018
Premiums written	28 991	26 417
Net return on capital	75 393	14 429
Claims paid	–10 675	–10 475
Change in provision for claims outstanding	–417	36
Change in other technical provisions	–46 849	–18 711
Operating expenses	–296	–295
Depreciation and impairment of owner-occupied properties	–11	–10
Yield tax	–146	–159
Total operating profit	**45 990**	**11 232**
Profit before tax	**45 990**	**11 232**
Income tax	–2 764	–210
Profit for the period	**43 226**	**11 022**

Consolidated Statement of Comprehensive Income

SEK million	Jan–June 2019	Jan–June 2018
Profit for the period	**43 226**	**11 022**
Items that can subsequently be reclassified to net income:		
Foreign exchange differences	57	144
Other comprehensive income	**57**	**144**
Comprehensive income for the period	**43 283**	**11 166**

Condensed Consolidated Balance Sheet

SEK million	Note	30 June 2019	30 June 2018	31 Dec 2018
Intangible assets		220	245	233
Property, plant and equipment		20	16	20
Deferred tax		3 676	6 014	5 689
Investment assets	3, 4, 5	913 477	857 675	827 037
Receivables	3	5 822	4 124	3 646
Cash and bank balances	3	3 063	2 806	3 392
Prepaid expenses and accrued income	3	7 466	7 456	8 094
Total assets		**933 744**	**878 336**	**848 111**
Equity		347 439	356 932	315 423
Provision for life insurance		542 528	480 284	495 679
Claims outstanding		17 888	17 205	17 470
Pensions and similar commitments		1	3	2
Other provisions		15	28	9
Current tax		30	5	0
Deferred tax		1 686	1 615	1 639
Liabilities related to direct insurance operations	3	763	730	732
Derivatives	3, 4	13 141	14 257	9 139
Other liabilities	3	4 919	2 506	2 999
Other accrued expenses and deferred income	3	5 334	4 771	5 019
Total equity and liabilities		**933 744**	**878 336**	**848 111**

Consolidated Statement of Changes in Equity

SEK million	Jan–June 2019	Jan–June 2018
Opening equity	**315 423**	**355 602**
Profit for the period	43 226	11 022
Other comprehensive income	57	144
Total comprehensive income for the period	**43 283**	**11 166**
Guaranteed refunds		
Pension supplements, defined benefit plan	*–1 360*	*–1 216*
Supplementary amounts, defined contribution plan	*–78*	*–73*
Adjustment of paid-up values	*–7 203*	*–6 294*
Premium reduction	*–2 171*	*–2 059*
Change in indexation funds		
Collective risk premium [1)]	*–60*	*–58*
Other changes	–395	–136
Closing equity	**347 439**	**356 932**

[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 2019	Jan–June 2018
Cash flow from operating activities	1 552	1 420
Cash flow from investing activities	–3	–5
Cash flow from financing activities	–1 892	–1 348
Cash flow for the period	**–343**	**67**
Cash and cash equivalents, opening balance	3 392	2 731
Foreign exchange differences in cash and cash equivalents	14	8
Cash and cash equivalents, closing balance	**3 063**	**2 806**

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 2019	Jan–June 2018
TECHNICAL ACCOUNT		
Premiums written	28 991	26 417
Return on capital, income	15 631	20 516
Unrealised gains on investment assets	61 091	15
Claims paid	–10 675	–10 475
Change in provision for claims outstanding	–417	36
Change in other technical provisions	–46 849	–18 711
Operating expenses	–296	–295
Capital return, expenses	–1 706	–856
Unrealised losses on investment assets	–145	–5 791
Life insurance, balance on the technical account	**45 625**	**10 856**
NON-TECHNICAL ACCOUNT		
Profit before appropriations and tax	**45 625**	**10 856**
Tax	–2 803	–174
Profit for the period	**42 822**	**10 682**

Parent Company Statement of Comprehensive Income

SEK million	Jan–June 2019	Jan–June 2018
Profit for the period	**42 822**	**10 682**
Items that can subsequently be reclassified to profit or loss		
Foreign exchange differences	–	–
Other comprehensive income	–	–
Comprehensive income for the period	**42 822**	**10 682**

Condensed Parent Company Balance Sheet

SEK million	30 June 2019	30 June 2018	31 Dec 2018
Intangible assets	220	246	233
Investment assets	905 426	850 151	819 590
Receivables	9 258	9 811	10 160
Other assets	2 625	2 746	2 984
Prepaid expenses and accrued income	7 459	7 452	8 065
Total assets	**924 988**	**870 406**	**841 032**
Equity	340 373	350 767	308 818
Technical provisions	560 416	497 489	513 149
Other provisions	4	25	5
Liabilities	19 103	17 610	14 311
Accrued expenses and deferred income	5 092	4 515	4 749
Total equity, provisions and liabilities	**924 988**	**870 406**	**841 032**

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 2019, including the Group.

The Interim Report comprises pages 1–15. The interim information on pages 1–6 thus constitutes an integrated part of this financial report. The amounts indicated in the notes refer to millions of Swedish kronor unless otherwise stated.

Group

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and IFRIC interpretations, as adopted by the EU. In preparing the financial statements, the Swedish Insurance Companies Annual Accounts Act (ÅRFL), the Regulations and General Guidelines on the Annual Accounts of Insurance Companies (FFFS 2015:12) of the Swedish Financial Supervisory Authority and Recommendation RFR 1 Supplementary Accounting Rules for Corporate Groups of the Swedish Financial Reporting Board have also been applied.

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

A new IFRS standard became effective on 1 January 2019, IFRS 16 Leasing. IFRS 16 supersedes IAS 17 Leases and IFRIC 4 Determining whether an arrangement contains a lease. For the lessee, IFRS 16 means that the classification of leases as either operating or finance leases has been eliminated and replaced by a model in which the assets and liabilities for all leases must be recognised in the balance sheet, unless the remaining lease term is shorter than 12 months and/or the leased asset has a low value. The right to use the leased asset is recognised as an asset and the present value of the leases is recognised as a corresponding liability in the balance sheet. In the capacity of lessee, Alecta conducted a detailed review and analysis of the Group's leases, whereby leasehold agreements were identified as the single most material leases.

Alecta has chosen to apply the simplified transition approach, with the cumulative effect of an initial application of the standard on the first date of application, 1 January 2019. Comparative figures for 2018 have not been restated in accordance with the simplified approach. The right-of-use assets have been measured at an amount equal to their lease liability on the transition date. On 1 January 2019, the change related to leasehold agreements had an impact of SEK 29 million on total assets under the items of investment assets and other liabilities, with no impact on equity.

Due to the transition to IFRS 16, the cost of land lease payments has been recognised as a financial expense in its entirety, in contrast to the previous policy, where these costs were recognised as an operating expense and deducted from operating profit.

At 30 June 2019, the aggregated value of leasehold agreements was approximately SEK 33 million.

Alecta has chosen to postpone the adoption of IFRS 9, Financial Instruments, as stated in Note 1 of the 2018 Annual Report and Sustainability Report. The assessment is that adoption of the standard would not have any significant effect on the financial statements.

Changes in existing standards have not had any material impact on the financial statements. Accounting principles and calculation methods are otherwise unchanged compared with the most recent Annual Report 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 on the Annual Accounts of Insurance Companies (FFFS 2015:12) 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 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 most recent Annual Report 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
- Associates and joint ventures
- The occupational pension information centres Collectum AB and Fora AB (the main owner of Collectum being PTK and the Confederation of Swedish Enterprise, which also owns half of Fora).

A description of related-party transactions is given in Alecta's Annual Report and Sustainability Report for 2018, Note 51.

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 2019 Financial assets	Financial assets and liabilities measured at fair value through profit or loss on initial recognition	Financial assets and liabilities measured at fair value through profit or loss through trading	Loans and receivables/ other financial assets and liabilities	Total carrying amount	Total fair value
Shares and participations in jointly controlled entities (joint ventures)	23 956	–	–	23 956	23 956
Loans to jointly controlled entities (joint ventures)	–	–	626	626	626
Shares and participations	414 981	–	–	414 981	414 981
Bonds and other debt securities	424 192	–	–	424 192	424 192
Loans secured by real estate	–	–	4 046	4 046	4 046
Other loans	5 770	–	–	5 770	5 770
Derivatives	–	8 457	–	8 457	8 457
Receivables related to direct insurance operations	–	–	2 091	2 091	2 091
Other receivables	–	–	2 531	2 531	2 531
Cash and bank balances	–	–	3 063	3 063	3 063
Accrued interest and rental income	–	–	7 317	7 317	7 317
Total	**868 899**	**8 457**	**19 674**	**897 030**	**897 030**
Financial liabilities					
Liabilities related to direct insurance operations	–	–	14	14	14
Derivatives	–	13 141	–	13 141	13 141
Other liabilities	–	–	4 713	4 713	4 713
Other accrued expenses and deferred income	–	–	4 784	4 784	4 784
Total	**–**	**13 141**	**9 511**	**22 652**	**22 652**

Group, 31 Dec 2018 Financial assets	Financial assets and liabilities measured at fair value through profit or loss on initial recognition	Financial assets and liabilities measured at fair value through profit or loss through trading	Loans and receivables/ other financial assets and liabilities	Total carrying amount	Total fair value
Shares and participations in jointly controlled entities (joint ventures)	23 870	–	–	23 870	23 870
Loans to jointly controlled entities (joint ventures)	–	–	1 857	1 857	1 857
Shares and participations	352 238	–	–	352 238	352 238
Bonds and other debt securities	405 487	–	–	405 487	405 487
Loans secured by real estate	–	–	2 777	2 777	2 777
Other loans	3 133	–	–	3 133	3 133
Derivatives	–	5 841	–	5 841	5 841
Receivables related to direct insurance operations	–	–	1 726	1 726	1 726
Other receivables	–	–	966	966	966
Cash and bank balances	–	–	3 392	3 392	3 392
Accrued interest and rental income	–	–	8 028	8 028	8 028
Total	**784 728**	**5 841**	**18 746**	**809 315**	**809 315**
Financial liabilities					
Liabilities related to direct insurance operations	–	–	6	6	6
Derivatives	–	9 139	–	9 139	9 139
Other liabilities	–	–	2 898	2 898	2 898
Other accrued expenses and deferred income	–	–	4 458	4 458	4 458
Total	**–**	**9 139**	**7 362**	**16 501**	**16 501**

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 Thomson Reuters and Bloomberg are used. Under the concluded agreements, Alecta has the right to inspect the price provider's valuation data to assure the quality of the provided price information.

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

Level 3: Measurement based on unobservable inputs

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

Financial assets at this level mainly comprise financial instruments with real estate and debt securities as 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 2019 or 2018.

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.

No financial instruments were transferred from Level 2 to Level 3 in either 2019 or 2018. In 2019, however, three debt securities were transferred from Level 3 to Level 2, as observable market inputs became available and external price providers have been able to measure the investments at fair value. For the corresponding period of 2018, there were no transfers from Level 3 to Level 2.

Principle for reclassification between Level 1 and Level 3

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

In 2019, no financial instruments were transferred from Level 1 to Level 3 or from Level 3 to Level 1. In 2018, one shareholding was transferred from Level 3 to Level 1 after the shares were listed on an active market and one shareholding was transferred from Level 1 to Level 3 after the shares were delisted.

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 underlying asset and, to a smaller 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 investments in debt securities are mainly subject to interest rate and credit risk, and unlisted shares and venture capital investments are subject to 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 percentage points, an interest-rate increase of 1 percentage point and a share-price decrease of 10 per cent.

Sensitivity analysis

Group (SEK million)	Total fair value	Value-influencing factor	Effect on fair value
Real-estate-related holdings	42 017	Return requirement increase of 0,5 percentage points	–4 669
Interest-related holdings	18 413	Interest-rate increase of 1 percentage point	–385
Equity-related holdings	4 842	Share price decrease of 10 per cent	–484
Total Level 3	**65 272**		**–5 538**

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

Group	Fair values of financial instruments, 30 June 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 30 June 2019
Assets				
Shares and participations	387 033	–	27 948	414 981
Shares and participations in jointly controlled entities (joint ventures)	–	–	23 956	23 956
Bonds and other debt securities	207 978	208 616	7 598	424 192
Other loans	–	–	5 770	5 770
Derivatives	–	8 457	–	8 457
Total assets	**595 011**	**217 073**	**65 272**	**877 356**
Liabilities				
Derivatives	–	13 141	–	13 141
Total liabilities	**–**	**13 141**	**–**	**13 141**

Group	Fair values of financial instruments, 31 December 2018 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 2018
Assets				
Shares and participations	330 327	–	21 911	352 238
Shares and participations in jointly controlled entities (joint ventures)	–	–	23 870	23 870
Bonds and other debt securities	212 358	186 874	6 255	405 487
Other loans	–	–	3 133	3 133
Derivatives	–	5 841	–	5 841
Total assets	**542 685**	**192 715**	**55 169**	**790 569**
Liabilities				
Derivatives	–	9 139	–	9 139
Total liabilities	**–**	**9 139**	**–**	**9 139**

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

Group	Fair value, 30 June 2019 Shares and participations	Shares and participations in jointly controlled entities (joint ventures)	Bonds and other debt securities	Other loans	Total
Opening balance 2019	21 911	23 870	6 255	3 133	55 169
Purchased	6 350	898	2 524	3 289	13 061
Sold	–1 279	–1 318	–166	–714	–3 477
Gains and losses					
Realised gains/losses, sold entire holding	*130*	*1 033*	*–*	*184*	*1 347*
Realised gains/losses, sold portion of holding	*0*	*–*	*0*	*–*	*0*
Unrealised gains/losses	*–905*	*–549*	*0*	*–144*	*–1 598*
Unrealised foreign exchange gains/losses	*1 740*	*23*	*157*	*23*	*1 943*
Transferred from Level 3	–	–	–1 173	–	–1 173
Transferred to Level 3	–	–	–	–	–
Closing balance, 30 June 2019	**27 947**	**23 957**	**7 597**	**5 771**	**65 272**
Total unrealised gains and losses recognised in the income statement for financial instruments held at the end of the period	1 046	359	158	22	1 585
Gains and losses recognised as return on capital during the period	965	507	157	63	1 692

Group	Fair value at year-end 2018 Shares and participations	Shares and participations in jointly controlled entities (joint ventures)	Bonds and other debt securities	Other loans	Total
Opening balance 2018	15 310	15 359	–	2 039	32 708
Purchased	7 565	6 815	6 327	1 069	21 776
Sold	–275	–141	–	–109	–525
Gains and losses					
Realised gains/losses, sold entire holding	*–40*	*0*	*–*	*–*	*–40*
Realised gains/losses, sold portion of holding	*7*	*25*	*–*	*–*	*32*
Unrealised gains/losses	*458*	*1 760*	*–1*	*84*	*2 301*
Unrealised foreign exchange gains/losses	*742*	*52*	*–71*	*50*	*773*
Transferred from Level 3	–1 856	–	–	–	–1 856
Transferred to Level 3	0	–	–	–	0
Closing balance 2018	**21 911**	**23 870**	**6 255**	**3 133**	**55 169**
Total unrealised gains and losses recognised in the income statement for financial instruments held at the end of the period	1 167	1 837	–72	134	3 066
Gains and losses recognised as return on capital during the period	1 167	1 837	–72	134	3 066

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

Stockholm, 17 July 2019

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.

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 the 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 policyholders and the insureds.

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

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 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 amount of pension capital on retirement.

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 service provider in the procurement for the management of the plan.

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 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.

Insured
The person covered by the insurance contract.

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

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

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

Management expense ratio
Operating expenses in the insurance business (acquisition and administrative expenses) and claims settlement expenses for the past twelve-month period, in relation to average assets under management during the same period. The key ratio is calculated on an aggregate basis and for 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 pension. Under the applicable actuarial guidelines, the rebate 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 pension supplement is determined by the Board each year.

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

Premium reduction
Distribution of surplus funds through a reduction of premiums.

Refund
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 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. Allocated refunds are not formally guaranteed.

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. 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 commitments.

Technical provisions
Provisions in the balance sheet for an insurance company's obligations arising from insurance contracts. Technical provisions comprise the capital value of the insurance company's guaranteed obligations. 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, according to 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 regarded 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 SEK 900 billion on behalf of our owners – 2,5 million private customers and 35 000 corporate customers.

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