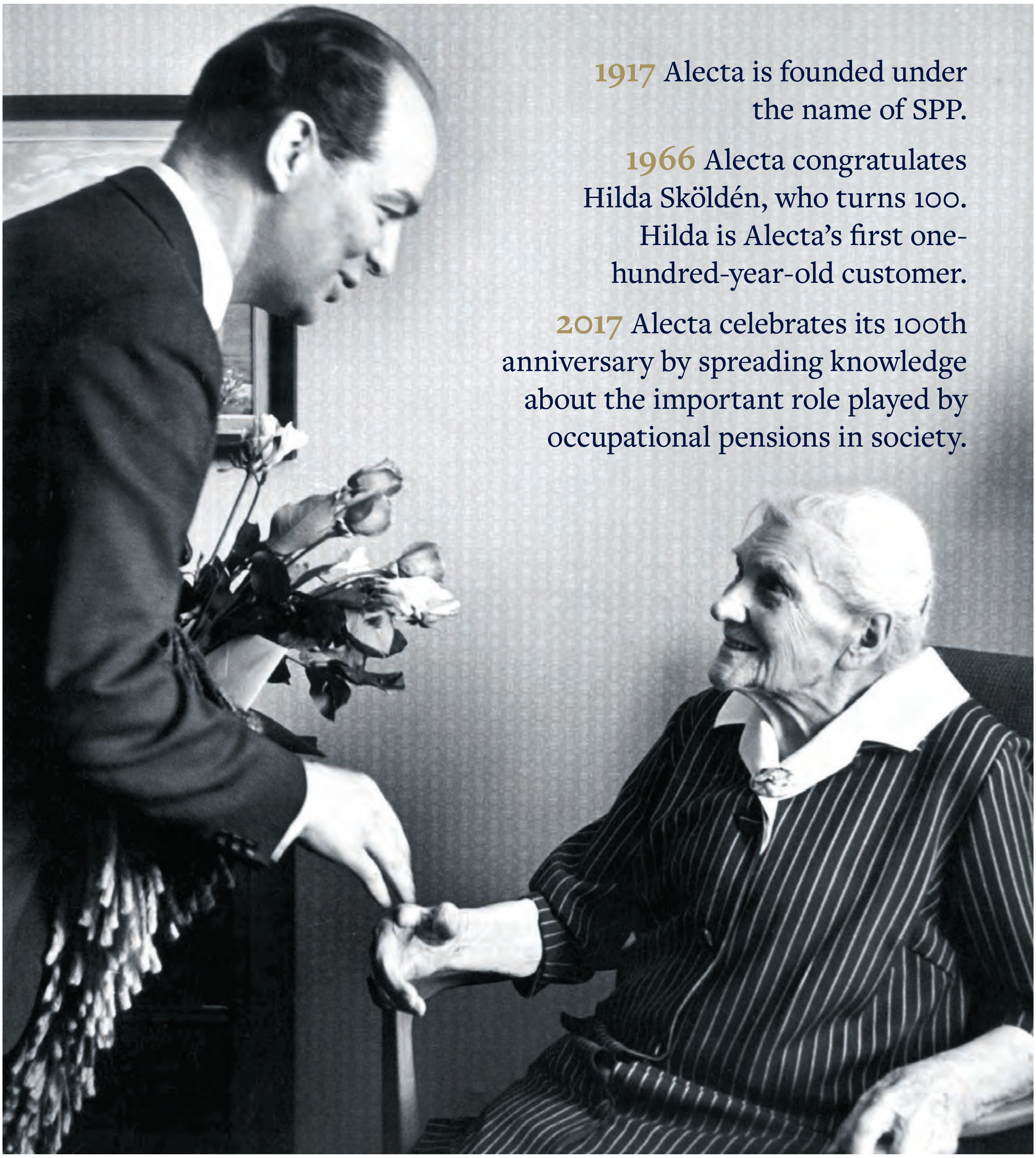
alecta

100 Trusted with the future since 1917



Annual Report 2016
including Sustainability Report

CONTENTS

The formal annual report and consolidated financial statements are presented on pages 34–101

Ever since 1917 Alecta has been taking responsibility for the future by managing occupational pension plans. Our mission is to maximise the value of collectively agreed occupational pension plans for our corporate and private customers.
We do this through strong returns, good customer service and low costs.
We manage SEK 774 billion on behalf of our owners – 2,3 million private customers and 34 000 corporate customers.

This document is a translation of the Swedish original. While every effort is made to ensure the accuracy of the translation, portions may be incorrect. In the event of any discrepancies between this version and the Swedish original, the Swedish original shall prevail.

Simplicity. Customer Benefit. Responsibility.

NOTE:
Figures in parentheses refer to the same period in the previous year unless otherwise indicated.

Alecta – the year in brief

The return for our defined contribution product, Alecta Optimal Pension, was 5,8 per cent. The average annual return over the past five years is 12,5 per cent, 4,1 percentage points above our benchmark index.

Page 36

The return on our defined benefit insurance was 5,1 per cent. The average annual return in the last five years is 8,9 per cent.

Page 36

Invoiced premiums, which are a component of premiums written, were SEK 29,9 billion (31,6). The change represents the net balance of a reduced redemption volume of recognised pension commitments and an increase in current premiums.

Page 35

Alecta's management expense ratio for pension products excluding selection centre costs has remained low, at 0,06 per cent (0,06).

Page 39

In 2016 and early 2017 Alecta sold its **directly owned property portfolios in the US and UK.** The total sale price was SEK 20 billion.

Pages 40–41

The guarantee reserve was eliminated in late 2016 and the funds held in the reserve, SEK 1,95 billion, were transferred to the new Guarantee Foundation for ITP and TGL, which is entirely independent of Alecta and has the same purpose as the guarantee reserve.

Page 40

Despite lower interest rates, Alecta's **financial position** remains strong. The solvency ratio at year-end 2016 was 166 per cent (171).

Page 40

As of 2017 Alecta Optimal Pension has been designated as the **default option for defined contribution retirement pension** in the FTP plan.

Page 41

We have **raised our ambitions in sustainability** by participating in the European Commission's High-Level Expert Group on Sustainable Finance and in the Swedish International Development Cooperation Agency's working groups on the United Nations' Sustainable Development Goals. Alecta has also joined PRI and CDP and recruited a Chief Sustainability Officer.

Page 12

On 18 April 2016 **Magnus Billing** took up the post of CEO of Alecta.

The year in figures

Group

Return Defined contribution insurance, Alecta Optimal Pension	5,8 % (7,9 %)
Management expense ratio For pension products excl. selection centre costs	0,06 % (0,06 %)
Solvency ratio	166 % (171 %)

Message from the CEO: Security increases when it is shared – 100 years of collaboration

Having completed a year in which we comfortably achieved our targets, implemented further efficiencies and won a procurement, we look forward to continuing our work to create good pension solutions, ensure financial stability and promote sustainable investment. Last but not least, we also look forward to celebrating a 100-year-old model for collaboration between unions and employers.

2016 was an eventful year, not least in global politics. For Alecta it was yet another good year. We achieved practically all our targets for customer satisfaction, cost effectiveness and return on investment.

Alecta's strong financial position enabled us to protect the value of our customers' pensions in the defined benefit plan, ITP 2. In January 2017 our Board of Directors decided to increase pensions by 0,59 per cent – a token of strength.

We were also delighted to be designated as the first choice provider in a procurement in a different collective bargaining area than ITP – the supplementary pension plan for salaried employees in the insurance sector (FTP). Our success provides yet another confirmation of the competitiveness of our defined contribution product, Alecta Optimal Pension.

In 2016 and early 2017 we sold all our directly owned properties outside Sweden. This will enable us to concentrate our property management activities to Sweden, which will improve efficiency. We have also signed a new agreement with our IT partner, CGI, that will cut our costs over the next five years.

For me personally, 2016 was a particularly exciting and enjoyable year. Having had the privilege of taking over as chief executive of Alecta, I would like to thank all my new colleagues for the fantastic welcome that you have given me.

I am impressed by the expertise and commitment of all our employees, and by the efficiency that we are achieving. Having established a strong consensus around our core values – simplicity, customer benefit and responsibility – we are making big strides towards realising our vision of being the world's most efficient occupational pension provider. In the global CEM benchmark study we are ranked the third most cost-effective company in the world.

A 100-year-old model for collaboration

During my initial period as CEO of Alecta, I have been deeply impressed by the pride that our employees take in our mission. While working on the preparations for our anniversary, I and many of our employees have taken a closer look at our history. We are fascinated by the far-sightedness shown by the two sides – the white-collar employees at the Uddeholm and Munkfors mills, and industrialists Knut Wallenberg and Olof Söderberg – when they established what was later to become Alecta. They created a flexible solution in which the pension earned followed the employee when he moved to another employer. This radically improved the employees' security and reduced the inertia in the labour market. The new model of collaboration between unions and employers spread rapidly and became a key factor in Sweden's twentieth-century success story.

The same occupational pension solution works just as well now, and is becoming increasingly significant as the national retirement pension loses its importance. It is today a key part of our social security system. Collective agreements create security for 3,7 million employees in case of illness and in old age as well as providing compensation to survivors in case of death, all at very low fees. An occupational pension is for many people an important part of their total pension.

For the employer, a collectively agreed pension plan is a way to offer a good pension at a favourable cost and with good terms for the employee, including the option of a lifelong pension. It is an inexpensive way to become a more attractive employer. Our calculations show that it costs on average around 30 per cent more for an employer to offer an equivalent pension outside the collectively agreed system.

Seeing the bigger picture

We need to ensure that we are as far-sighted as our founders were in 1917. In the longer term, many developments will have an impact on our future role: a sharp increase in life expectancy as pensioners become healthier and more active, the process of digitalisation, which is giving our customers demand-driven information, and increased automation and efficiency improvements, which are driving down costs.

Alecta's clear mission, clearly defined goals, firmly established core values, and efficient and skilled employees put us in a strong position to face the future. Yet we need to ensure that we have a clear understanding of what is happening in our society. We have introduced procedures and assigned responsibilities across the organisation to ensure good and continuous monitoring of developments in society while inspiring our employees to look at the bigger picture.

The first question we need to ask is how to make collectively agreed pensions more customer-friendly and easier to understand.

> "Our founders were driven by an important insight – security increases when it is shared. That is a conviction that we still hold.

One initiative was the reorganisation of Alecta in the autumn, which resulted in clearer responsibilities and a stronger collaborative framework that is aimed at increasing our customer focus and ensuring greater uniformity. We concentrated our core activities to three departments: Customer, Product and Asset Management. We also defined the responsibilities of our support functions more precisely.

Another key task is to ensure that national and international legislators and regulators understand the importance of occupational pensions now and in the future. The current low interest rate environment is a challenge in itself, so it would be particularly unfortunate if new laws, regulations or taxes put future pensions at further risk. We are trying to clarify the impact the various proposals, such as the proposed new traffic light model, would have on pensions. Our focus, nationally and at the EU level, is always on the best interests of the customer and it is, therefore, good to note that our arguments are being heard and are having an effect, not least with regard to the previous proposed financial services tax. In 2017 we will be making an extra effort to spread knowledge about what is needed to ensure a good pension for all our customers and build a sustainable pension system in Sweden.

Security increases when it is shared

Our founders were driven by an important insight – security increases when it is shared. That is a conviction that we still hold. Collaboration among different players in society, mutually owned organisations and collective insurance solutions have an important role to play also in future, whatever happens in the labour market and demographically.

That insight is especially important for a pension provider. We take joint responsibility across generational boundaries to create security for our customers. Sustainability is integral to our mission. In 2016 we took several important steps towards establishing a bolder and more extensive approach to sustainability. We view the United Nations' Agenda 2030 and its 17 Sustainable Development Goals (SDGs) as guiding principles for establishing a structure and setting priorities for our sustainability work. That's why we have also chosen to take an active role in the work of the Swedish International Development Cooperation Agency (Sida) in this area. I am glad to be leading the work of one of the working groups set up by Sida to produce guidelines and indicators for the UN's Sustainable Development Goals. The group that I am in charge of is focusing on Goal 8, Decent Work and Economic Growth.

I am also happy to have been selected, as the only Swede, to take part in the European Commission's High-Level Expert Group on Sustainable Finance, which is tasked with drawing up an international framework. The Commission's interest was prompted by the sustainability benefits created by Alecta's unusual asset management model, which is based on active, in-house management of our pension portfolio and a small number of holdings that gives us significant ownership interests.

To conclude, I will simply say that the idea of a collectively agreed occupational pension plan that is managed by Alecta on behalf of the unions and employers is as strong as ever in an ever faster changing world. It is with confidence and pride that we will be celebrating an extraordinary collaborative solution that will mark its 100th anniversary in 2017. We will also be welcoming the tremendous changes that will be taking place in technology, medicine and labour markets over the coming one hundred years, safe in the knowledge that security increases when it is shared.

Magnus Billing
CEO

100 years of looking ahead

A hundred years ago social security systems in Sweden were rudimentary and few in number. That's why Alecta was established in 1917, making Sweden a little more modern. Thanks to occupational pensions, several million people have been given greater security over the years. We are now entering our second century, still with our gaze firmly fixed on the future.

Beginnings

"I thus propose that we establish an association which should take on the mission of [...] *solving the important issue of the retirement of our white-collar workers".* In November 1906 a social gathering has been organised at the temperance society building in Munkfors. The white-collar workers at the Munkfors mill have invited their colleagues at Uddeholms A/B to the party, and a young employee from Uddeholm has stood up to speak. At the time pensions were a sporadic phenomenon in the private sector and if they did exist they were offered as a reward for long and faithful service, not as part of the remuneration for the work performed. What's more, the promise of a pension in old age could easily prove worthless if the company went bust or changed ownership.

In April 1908, the same issue is raised when the Swedish Engineering Union (now Ledarna) holds its congress in Norrköping. One of the speakers *"urges that we address the issue of pensions".*

In July 1909 all white-collar workers at mills in Sweden joined forces to establish the Swedish Union of White-Collar Mill Workers. In the following year Olof Söderberg, Consul General at the Swedish Chamber of Commerce, and bank director Knut Wallenberg approached the Swedish Association of Industries to discuss the issue of pensions. At the same time Association of Industries receives the same petition from the Union of White-Collar Mill Workers. The threads are tied together and from this point on employers and employees will be working hand in hand.

Their game-changing idea is to create pensions that are vested. This means that the employee will be entitled to the pension he has earned even if his employment is terminated. And by placing pensions in a separate company, outside the balance sheet of the employer, the employees' pensions will be protected in case of insolvency or a change of ownership. The objective is to give employees and their families security in case of illness or death and in old age, but also to increase individual freedom. The era of serfdom is over.

In autumn 1916 Sveriges Privatanställdas Pensionskassa is established and on 24 March 1917 the company starts operating after its by-laws are approved by the National Board of Health and Welfare. The Handarbetets Vänner (Friends of Handicraft) association becomes our first client company and the youngest employee, Agda Österberg, is the first person to be insured. To this day, Friends of Handicraft insures its employees through Alecta, and Agda has given her name to Alecta's intranet.

The early years

In the first decades operations expand at a rapid pace driven by a strong entrepreneurial culture that sees hard-working field officers recruit customers through site visits as well

1 Olof Söderberg, one of Alecta's founders

2 Handarbetets vänner (Friends of Handicraft) becomes Alecta's first client company and Agda Österberg is the first person to be insured.

3 Aftonbladet's cartoonist MEM in "Aktuellt från SPP" (News from SPP), No. 1/1957

4 "A powerful computer", 1959

Sveriges Privatanställdas Pensionskassa, SPP, 1917

1917 Alecta is founded under the name of Sveriges Privatanställdas Pensionskassa.

1922 We are given the contract to administer Sveriges Kommunalanställdas Pensionskassa (SKP).

1929 We merge with Pensionsanstalten Sverige and change our name to Svenska Personal-Pensionskassan.

1939 Karin Koch becomes the first woman to take a seat on the company's Council of Administration.

1960 We are awarded the contract to manage the new pension plan for private-sector employees, ITP, supplementary pension plan for salaried employees in industry and commerce.

1973 Privately employed workers are offered occupational pensions. The plans are administered by Arbetsmarknadsförsäkringar (AMF), which is a part of Alecta.

1974 ITP becomes a comprehensive collective agreement.

1977 ITPK is introduced after the normal retirement age is lowered in Sweden.

1990 A market for "ten times earners" comes into being as employees with an annual salary in excess of ten basic amounts are permitted to partly leave the ITP plan. Employees are given the right to choose their ITPK manager.

as by changes in the labour market. The farming population declines as the number of office workers grows. Promoting growth in the emerging industrial enterprises requires a flexible labour market. Pension promises that are tied to long and faithful service are therefore seen as an obstacle. The vested pension, which is not terminated if the beneficiary changes employment, becomes an important factor in encouraging employees to change jobs and enabling businesses to recruit the right people.

Alecta is awarded the ITP contract

In the latter part of the 1950s, it was decided, with broad consensus, to raise the State pension. A dispute erupted, however, as to whether occupational pensions should be paid in addition to the State pension. The dispute led to a referendum in 1957. The government then failed to win approval for its proposal in the second chamber of Parliament, prompting new elections. After the elections, the issue was raised again. In a dramatic vote in the second chamber in 1959, the Government's proposal was endorsed, resulting in the introduction of a national supplementary pension scheme (ATP), which became effective on 1 January 1960. Shortly thereafter, in June of the same year, the Swedish Employers' Association (SAF, now the Confederation of Swedish Enterprise), the Swedish Union of Clerical and Technical Employees in Industry (SIF, now Unionen after the merger with the Swedish Union of Commercial Salaried Employees, HTF) and the Swedish Association of Managerial and Professional Staff (SALF, now Ledarna) sign the ITP pensions agreement (supplementary pension plan for salaried employees in industry and commerce) as a complement to the new national supplementary pension scheme (ATP). This gives white-collar workers in the Swedish private sector a modern occupational pension package consisting of retirement pension, disability pension and survivor's pension. The contract to act as main service provider for the ITP plan is awarded to Alecta, which has retained that contract ever since.

The nursery

Over the years a number of entities and businesses which today operate independently with their own staff have been more or less integrated with Alecta. These include Sveriges Kommunalanställdas Pensionskassa (now KPA), FPG/PRI (now PRI Pensionsgaranti), Arbetsmarknadsförsäkringar (now AMF), Debiteringscentralen (now Fora) and Collectum. Many heavyweights in the field of pensions have also worked at Alecta over the years.

Alecta's 100-year anniversary will be marked by the release of a book about the company, Medelklassens guldägg – från SPP till Alecta 1917–2017, 100 år med tjänstepension (The Golden Egg of the Middle Class – from SPP to Alecta 1917–2017, 100 Years of Occupational Pensions), to be published in March 2017 by Dialogos Förlag.

The IT pioneer

Alecta processes vast amounts of data and had the ambition early on to be at the forefront in terms of administrative efficiency and information security. In 1934 punch cards are introduced for fund calculations and in 1946 the first step towards computerisation is taken as the company's punch cards are processed in Hollerith machines. A "powerful IBM computer" is taken into use in 1959 and in the early 1960s work begins on developing the SESAM insurance system. Today Alecta has one of the industry's most modern IT systems for pension administration.

Always looking ahead

For a company like Alecta error-free disbursement of payments to pensioners, survivors and those on disability pensions is a fundamental requirement. Yet working with pensions also involves a responsibility for the future of the human beings concerned. A long-term approach and sustainability are therefore key concepts, and have been throughout our history. After all, the company was founded for the purpose of ensuring that people could feel confident that they would receive the pensions they had been promised, and that confidence is just as important today. That's why we are today factoring in commitments that extend all the way to the end of the current century, and why we want to use the experience we have gained to help develop tomorrow's pension systems. Like our founders, we believe that intelligently structured social security systems play a big role in giving people a sense of security while also contributing to a well functioning economy. For a hundred years we have been taking responsibility for the future, and our journey has only just begun.

In 2001 the name of the company is changed to Alecta

- **1991** Alecta initiates a merger with Trygg-Hansa. AMF is spun off to become an independent company.
- **1994** The merger with Trygg-Hansa is called off. The subsidiary company SPP Fritt Val, later SPP Liv, is formed.
- **2000** The subsidiaries SPP Liv and SPP Fonder and the SPP brand are sold to Handelsbanken.
- **2001** The name of the parent company is changed to Alecta.
- **2003** Collectum is established. Its operations are managed by Alecta.
- **2005** Collectum becomes an independent company.
- **2007** A new ITP agreement with a defined contribution (ITP 1) and a defined benefit (ITP 2) component takes effect. Alecta is designated as the default service provider.
- **2009/2010** Alecta becomes an option for manual workers covered by the occupational pension plans collectively agreed between the Confederation of Swedish Enterprise and the Swedish Trade Union Confederation (Avtalspension SAF-LO) and for government employees covered by the PA 03/PA 16 pension agreements.
- **2013** Alecta is designated as the default option under the ITP plan for another five years.
- **2015** Alecta becomes an option for local authority and county council employees covered by the KAP-KL/AKAP-KL agreements.
- **2016** Alecta becomes the default option for insurance company employees under the FTP supplementary pension plan.

Alecta in brief

Alecta is a pure-play occupational pension provider with a remit of creating security for people during and after their working lives. We do so by offering pensions, disability insurance and survivor's pension.

Our owners

Our owners are the 34 000 companies and 2,3 million private customers who are policy holders of and insured by Alecta. Alecta's owners and customers exercise their influence in the company through the Council of Administration, which is Alecta's shareholders' meeting. The Council of Administration is appointed by the employer organisation the Confederation of Swedish Enterprise and the employee organisations Unionen, Ledarna, the Swedish Association of Graduate Engineers and the Council for Negotiation and Cooperation (PTK). The Council in turn elects Alecta's Board of Directors and auditors. This structure, in which our customers are represented by strong interest groups, ensures effective customer influence.

Our mission

Alecta's mission is to maximise the value of collectively agreed occupational pension schemes for our corporate and private customers. To realise this mission, Alecta works to achieve the highest possible pension for each krona that is set aside for pensions and insurance cover, while also providing service and information to our customers in a correct, helpful and easily accessible manner. Through low costs, strong returns and good customer service, we give our private customers economic security during and after their working lives, and we give our corporate customers, who pay for their employees' occupational pension benefits, a cost-effective pension solution. Mutuality is a fundamental principle for us, and a key reason behind our success.

ITP – our core business

Ever since the 1960s we have been engaged as the main service provider for the pension plan covering white-collar workers in the Swedish private sector, ITP. The fact that the ITP plan is today our core business is a natural consequence of our long-standing involvement in the plan and of the fact that some 92 per cent of our customers and owners are covered by ITP.

We are now also a selectable option for the other three big collective bargaining areas: SAF-LO for privately employed blue-collar workers, PA16 for government employees and, from 2016, also for local authority and county council employees covered by the KAP-KL/AKAP-KL plans. Our presence in other collective bargaining areas is motivated by a desire to ensure that our customers are able to gather all their pension savings at Alecta if they move to another collective bargaining area, and by the fact benefits are created when the costs are shared by a greater number of people. This allows us to further reduce our already low fees.

ALECTA'S LONG-TERM OPERATIONAL GOALS		FOLLOW-UP	OUTCOME 2016
Secure and satisfied customers	Our customers should feel secure and satisfied, and have confidence in Alecta. That's why it is particularly important to ensure that customers who contact us receive good customer service, and that Alecta enjoys a good reputation as a responsible player in society.	Alecta measures customer satisfaction through customer surveys, based on a customer satisfaction index (CSI), for private and corporate customers. The surveys cover customers who contact Alecta as well as customers who are receiving their first payments from Alecta. The target for 2016 was 8,0 for customers contacting Alecta and 7,7 for private customers receiving their first payments from Alecta.	A CSI score of 8,0 for customers contacting Alecta. A CSI score of 7,2 for customers receiving their first payments.
High cost-effectiveness	Alecta's goal is to maintain a level of cost-effectiveness that is world-class. Through our mission, we have every opportunity to achieve that goal.	Costs are monitored through key performance indicators such as management expense ratio and cost per insured. As the KPIs are strongly influenced by other factors than operating expenses, the ambition is translated into a cost target defined in millions of kronor. For 2016 the target was operating expenses of less than SEK 890 million.	SEK 874 million
A robust return and strong financial position	Alecta's return should be competitive, both in terms of the overall return and the return for each asset class.	We compare our return over time with that of the industry. Our target for our defined benefit portfolio is an average annual return that is 0,5 percentage points higher than the average for the life insurance industry, excluding Alecta, over the past five-year period.	Our average annual return over the past five years is 8,9 per cent, which is 1,3 percentage points better than the industry.
		The return for our defined contribution savings product, Alecta Optimal Pension, should exceed Morningstar's SEK Aggressive Balanced funds index by 1,5 percentage points per year.	The average annual return over the past five years is 12,5 per cent, which is 4,1 percentage points better than benchmark index.

> “Alecta is today the third most cost-effective occupational pension provider in the world.

Alecta and ITP

- Defined benefit retirement pension under ITP 2
- Defined contribution pension under ITP 1 – Default provider
- Disability pension and waiver of premium under ITP

Alecta in a nutshell

- Founded in 1917.
- Owned by its customers.
- Focuses exclusively on collectively agreed occupational pensions.
- 389 employees.
- 34 000 corporate customers.
- 2,3 million insureds.
- SEK 774 billion in assets under management.
- One of the largest shareholders on the Stockholm Stock Exchange.
- One of Sweden’s largest property owners.
- An investment management expense ratio of 0,02 per cent.
- A management expense ratio of 0,09 per cent
- Invoiced premiums of SEK 29,9 billion in 2016.
- Paid out SEK 19,8 billion in pensions in 2016.

Vision

A few years ago Alecta adopted the vision of becoming “the world’s most efficient occupational pension provider”. This is an ambitious vision, but entirely realistic. With over 2 million customers and SEK 774 billion in assets under management, we enjoy economies of scale that have a major impact on our efficiency. Add in our long experience of administering insurance schemes, settling claims and providing customer service, and we are in a prime position to challenge the very best in the industry, not just in Sweden but globally. To ensure that we stay on the right track, we regularly benchmark our efficiency and competitiveness against other companies. Alecta is today the third most cost-effective pension company in the world, according to a global benchmark study (CEM) that we participate in. Our vision is about to become our goal.

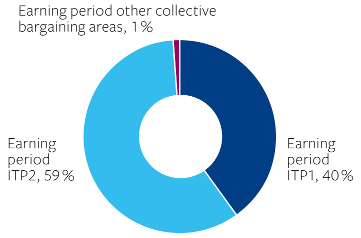
A pension provider with a difference

In many ways Alecta is a different type of pension provider. We do not sell any funds, do not offer private savings and do not advertise. We do not pay commissions, have no sales force and no costly network of offices. All our asset management activities are conducted in-house and we believe strongly in active management. We avoid middlemen that add to the cost and strive for simplicity in everything that we do.

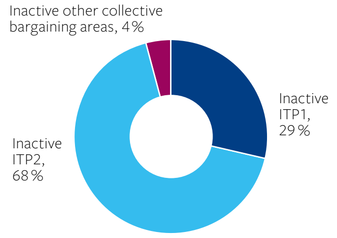
Our clear focus on our mission, our deeply rooted cost consciousness and our economies of scale enable us to keep our fees very low. That benefits our customers in the form of lower pension costs for the companies and higher pensions for the employees.

ALECTA’S PRIVATE CUSTOMERS

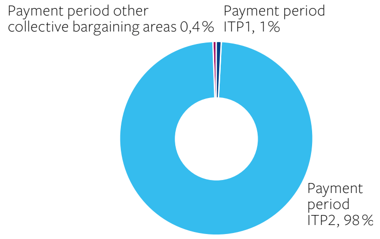
Earning period
Customers whose employers are paying premiums



Inactive
Customers who are covered by an occupational pension plan administered by Alecta but for whom no premiums are currently being paid and who have not yet started to draw their pensions



Payment period
Customers whose pensions are being paid



The occupational pensions market

An occupational pension has a very concrete value on the day when the customer retires or goes on long-term sick leave. To pay an occupational pension is to deliver customer value, and Alecta is the biggest payer of pensions in the Swedish market.

Occupational pensions paid – the customer value

In 2016 Alecta paid out around SEK 20 billion (19) to insureds in the form of retirement pension and compensation to people on sick leave and survivors.

To this amount which Alecta paid out to private customers should be added SEK 1,3 billion (1,5) in premium waiver insurance payments. Premium waiver insurance covers the employer's pension premiums for employees who are on sick leave, for example. It thus represents a direct saving for the employer.

Flexible pension withdrawal

To a large extent, employees covered by the ITP plan who started drawing their occupational pensions in 2016 chose to avail themselves of the option of flexible withdrawal, which has existed since 2007. The dominant method of pension withdrawal so far – lifelong and from your 65th birthday – has declined from 70 per cent in 2008 to 49 per cent in 2016.

Increasing life expectancy has given rise to a concern that newly retired people are choosing to draw their occupational pensions over a short period rather than on a lifelong basis. The concern is that many people will lose their pension income later on and become a burden on society. While we are seeing an increase in the share of retirees that are choosing to draw their ITP pensions over a shorter period than lifelong, from 19 per cent in 2008 to 30 per cent in 2014, the trend has since been broken. In 2016, 25 per cent chose to draw their pensions over a time-limited period.

Another noticeable change is a shift in the period of time over which pensions are drawn. Out of ITP beneficiaries who opted for a time-limited period in 2008, 72 per cent chose to draw their pensions over the shortest possible period, five years. Since then the share of retirees opting to draw their pensions over five years has declined every year, dropping to 56 per cent last year. Instead, a growing number are choosing to draw their pensions over 15 or 20 years, a share that has increased from around seven per cent in 2008 to 17 per cent in 2016.

The occupational pensions market in premiums

Along with salaries, occupational pensions are one of the big expense items for Sweden's employers. In 2016 around SEK 192 billion (193) in occupational pensions for employees were secured. The majority was secured through the payment of insurance premiums by employers to life insurance companies or pension funds, but about a fifth was secured in other ways, normally through the recognition of pension commitments as liabilities in the company's own balance sheets.

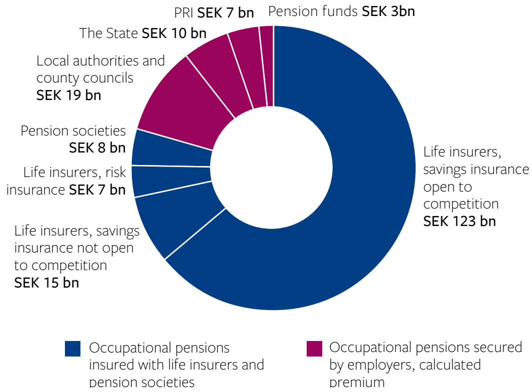
In the public sector defined benefit occupational pensions are reported as liabilities in the balance sheet. In the private sector the applicable scheme is defined benefit ITP 2, under which some employers choose to secure their pension liability in-house through the PRI system, or through a pension fund. In this way, an amount equivalent to SEK 39 billion (37) in premiums was secured in 2016, calculated as if the pensions had instead been secured through insurance.

Actual contributions to occupational pension schemes totalled SEK 153 billion (156). The majority was paid to life insurers or unit-linked insurance plans, but around SEK 8 billion was paid to pension societies. Out of the total premiums paid to life insurers, around SEK 15 billion referred to occupational pension schemes that are not subject to competition, mainly the ITP 2 plan administered by Alecta.

Occupational pensions that are open to competition

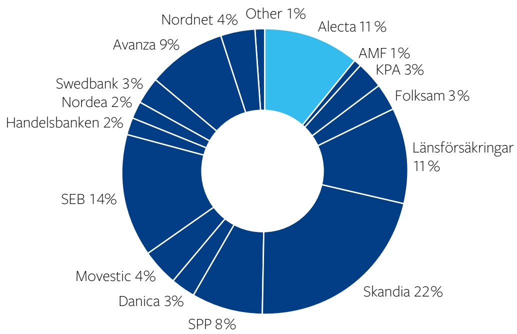
Contributions to occupational pension schemes subject to competition that were paid to life insurers and unit-linked

OCCUPATIONAL PENSIONS, TOTAL
SEK 192 BILLION IN PREMIUMS IN 2016



Source: Collectum's monthly statistics

OCCUPATIONAL PENSIONS OPEN TO COMPETITION,
NOT CHECK-THE-BOX, SEK 65 BILLION IN PREMIUMS IN 2016



Source: Collectum's monthly statistics

insurance funds totalled SEK 125 billion (126). Alecta's share of occupational pensions that are open to competition was 15 per cent (13). Alecta's premiums that are exposed to competition come from the check-the-box plans, mainly ITP 1 and ITPK, and from those parts of the defined benefit ITP 2 plan that are exposed to competition. This mainly includes premiums for insureds with an income exceeding ten income basic amounts.

The nature of the competition varies from one sub-market to another, however. Outside those plans for which the choice of pension provider is made through the selection centres for the collective agreements, known as the "check-the-box" plans, the decision on which occupational pension is offered to the employees and with what degree of choice is made primarily by the employer. This includes voluntary occupational pensions and individual contracts, which are sometimes concluded directly between the employer and insurer but normally through an insurance broker. A case in point is the "ten times earner" market, where the employer decides whether high-earning employees should be permitted to opt out of the defined benefit ITP 2 plan and choose a different pension solution. The occupational pension market outside the selection centres generated a premium volume of SEK 65 billion (70) in 2016. Alecta's share was 11 per cent.

The competitive check-the-box market

In the check-the-box market it is in the first hand the individual employee that decides how his or her occupational pension should be administered. The parties to the collective agreement decide which companies and savings options should be made available and the distribution is handled by the selection centres. In this market, which had a premium volume of SEK 60 billion (56), many insureds have neither the knowledge nor the interest to make a decision on where to invest the capital. Many therefore refrain from making a selection. To address this situation, the parties to the collective agreements put a lot of care into selecting the default option for each plan and set strict requirements for the selectable products. Employees who do not make a choice are assigned a good product while those who want to can choose among a number of good-value investments. The fact that a significant volume of premiums go to the default-option pension providers is a natural consequence of a mandatory system.

Alecta's share of the total check-the-box market was 18 per cent (17) and Alecta Optimal Pension is a selectable option under all the big collective agreements. It is in the ITP plan, however, where Alecta has been designated as the default option, that the premium volume is most significant. ITP is also our main focus and accounted for 98 per cent of all premium payments to Alecta in 2016.

The ITP check-the-box plans

At year-end 2016 the ITP 1 and ITPK check-the-box plans covered 906,000 white-collar workers in the private sector (885,000), who have the option of choosing who will manage their occupational pension premiums. Not everyone makes that choice, however. At year-end 45 per cent (44) had not made an active choice of administrator for their ITP 1 or ITPK pensions. The share was largest for ITP 1, where 66 per cent (66) failed to make an active choice. Premiums paid into the ITP 1 and ITPK plans totalled SEK 18,1 billion (16,0) in 2016. Alecta's average share for the year was 59 per cent (58).

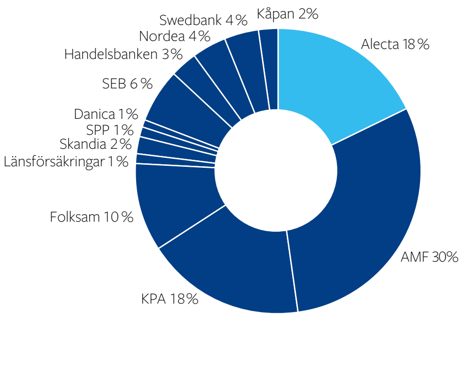
The ten times earner market

In the defined benefit ITP 2 plan insureds with an annual salary exceeding ten income basic amounts, known as "ten times earners", have the option of choosing a different pension solution if this is permitted by the employer. These pension solutions can take a variety of forms depending on what the employer chooses to offer its employees.

In December 2016 there were 125,000 ten times earners, down from 127,000 in 2015. At the same date the share choosing a different pension solution than defined benefit ITP 2 was 43 per cent (44).

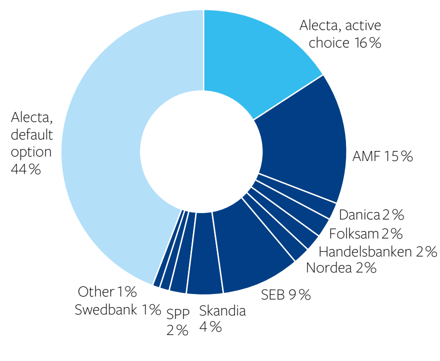
In 2016 around 2,900 ten times earners (3,000) chose to opt out of ITP 2. Although ten times earner solutions are facing increasing criticism and many big employers no longer offer such agreements, nearly the same number of people chose to opt out of defined benefit ITP 2 as in previous years.

OCCUPATIONAL PENSIONS OPEN TO COMPETITION, CHECK-THE-BOX
SEK 60 BILLION IN PREMIUMS IN 2016



Source: Collectum's monthly statistics

CHECK-THE-BOX, ITP SUB-MARKET
SEK 18 BILLION IN PREMIUMS IN 2016



Source: Collectum's monthly statistics

Sustainability – embedded in our business

Alecta works to promote and develop a sustainable pension system. Sustainability is thus embedded in our business. We administer pension schemes with the aim of providing a good return and security for our customers, and we have chosen an asset management model which ensures that our sustainability work has a real impact.

> “Our approach to sustainability has a real impact on the future

Alecta’s asset management model is unique in that it is based on active management of a limited number of holdings. This has significant advantages compared with index management. Each investment decision is preceded by a sustainability review of the company being considered. If we decide to invest, we often become one of the largest shareholders, which enables us to engage in a close dialogue with and influence the company in the desired direction.

We are a front runner in terms of sustainable investment and work continuously to develop our asset management model. Yet we need to improve our communication and explain why our active management model is good from a sustainability perspective, given that the conventional model is based on a very large number of holdings and the routine exclusion of certain industries and companies. We have developed carefully considered strategies and procedures for ensuring that we deliver on our mission over the long term.

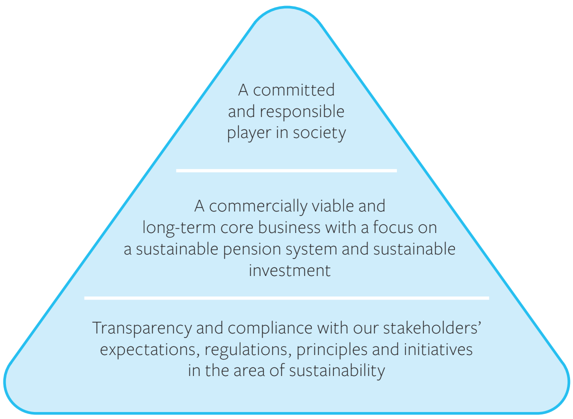
But sustainability is about more than that. For us, it is about how we as a company relate to our stakeholders: our customers, employees, shareholders, suppliers, service providers and business partners, and also about how we, as an important player in society, act and contribute to a great future society. In this perspective, Alecta still has more to do, especially in structuring and formulating goals for the work that we are already doing. In 2016, we created a new function for our sustainability work, in our Communication and Sustainability department. During the coming year, we will formulate overall goals and strategies, decide how we should approach and monitor Agenda 2030 and the UN’s 17 global Sustainable Development Goals, and how we can improve the way we measure and follow up our work.

In 2016, we accepted an invitation to participate in the European Commission’s High-Level Expert Group on Sustainable Finance. Our active management model has attracted considerable interest in the EU. We have also accepted an invitation to lead one of the Swedish International Development Cooperation Agency’s working groups on the UN’s Sustainable Development Goals. The group is working on Goal 8, Decent Work and Economic Growth, and I look forward to leading this group personally.

2017 will thus be another year in which Alecta takes yet a big step towards becoming an even more sustainable company. In accordance with the internationally recognised Global Reporting Initiative (GRI) standard, our activities are based on dialogue with our stakeholders and a materiality analysis that is used to identify focus areas and priorities. In late 2016, we expanded our dialogue with our stakeholders on sustainability.

Our mission and our business are about taking responsibility. It is a responsibility that we take seriously. At the end of the day, it is about what kind of society and welfare we want to have in future.

Magnus Billing, CEO



Our sustainability work can be viewed from three perspectives, each of which makes a different but valuable contribution. All three sections of the pyramid are equally important but it needs to be built up from the foundation to be stable.

The issues that matter

Materiality analysis

In our sustainability work we have identified those issues which are most material to our stakeholders and to Alecta. The most recent materiality analysis was performed in 2015. In 2016 we focused on our dialogue with Alecta's stakeholders, using our previous analysis as a basis. The analysis is based on a continuous dialogue with our stakeholders as well as ongoing monitoring of regulations, developments in society and at peer companies. The materiality analysis provides guidance for Alecta's sustainability work and is used as a frame for our reporting.

The most important sustainability aspects were identified and prioritised at a workshop with representatives from Alecta's various operations.

The identified priority aspects have been grouped under Alecta's four main areas of sustainability work as shown in the table below and described on the following pages.

MATERIAL ASPECT	RISK	ACTIVITIES	AREA
Compliance	• Financial loss for Alecta • Loss of licence • Damage to Alecta's brand/reputation • Loss of public trust in the welfare system and financial system	A pension provider operates in a strongly regulated environment and regulations are updated continuously. We attach the greatest importance to ensuring compliance with laws, regulations, internal rules and good practices so that our customers feel secure.	AN IMPORTANT PLAYER IN SOCIETY Page 15
High customer integrity	• Damage to Alecta's brand/reputation • Violations of integrity • Financial loss for Alecta	Alecta processes large volumes of sensitive personal information and other customer data. We do our utmost to protect our customers' information in all situations.	
A good pension at a low cost	• Loss of default option role for Alecta • Damage to Alecta's brand/reputation • Customers migrate from Alecta • Increased costs for society	We avoid complex solutions, are cost-aware and make use of economies of scale to ensure that we offer the lowest fees in the industry. For private individuals paying into a defined contribution scheme the size of the fee has a significant impact on the size of the pension.	A SUSTAINABLE PENSION SYSTEM Page 19
Economic value for many	• A generally weaker perception of the value of collective bargaining agreements • Alecta's legitimacy is challenged • Increased costs for society	By providing a good, stable pension Alecta adds value to the national social security system and to the economy. We therefore have a strong focus on our general business goals – secure and satisfied customers, a high level of cost-effectiveness, and a good return and strong financial position.	
Responsible investment	• Negative impact on society and the environment • Financial loss for Alecta and therefore for our customers, who are our owners • Damage to Alecta's brand/reputation	We work closely and in dialogue with the companies that we have invested in and are involved in the work of nomination committees. We assess the companies' activities from a sustainability perspective, in accordance with Alecta's corporate governance policy. The properties we own have a significant direct impact on the environment that Alecta is working actively to minimise.	RESPONSIBLE INVESTMENT Page 21
Skills development	• Increased health problems among Alecta's staff • Reduced competitiveness • Less attractive as an employer • Increased staff turnover	We work continuously on skills development with the aim of ensuring a continued high level of expertise in all departments. We use mandatory skills development plans, knowledge seminars, introduction courses for new employees and regular assessments of our employees' ITP expertise.	A LONG-TERM EMPLOYER Page 26

Dialogue with our stakeholders – a key success factor

Because of the nature of our mission, we have a significant impact on the lives of many people. In 2016, in addition to a structured stakeholder dialogue, we engaged in continous open dialogues with our stakeholders. It is important that we understand how our stakeholders perceive Alecta and what their expectations are. This allows us to develop our business in a responsible way – to ensure a continued mandate from our stakeholders to administer occupational pension schemes.

ONGOING CONTACTS WITH OUR CUSTOMERS

WHO?
- 2,3 million private customers
- 34 000 corporate customers

Read more on page 19

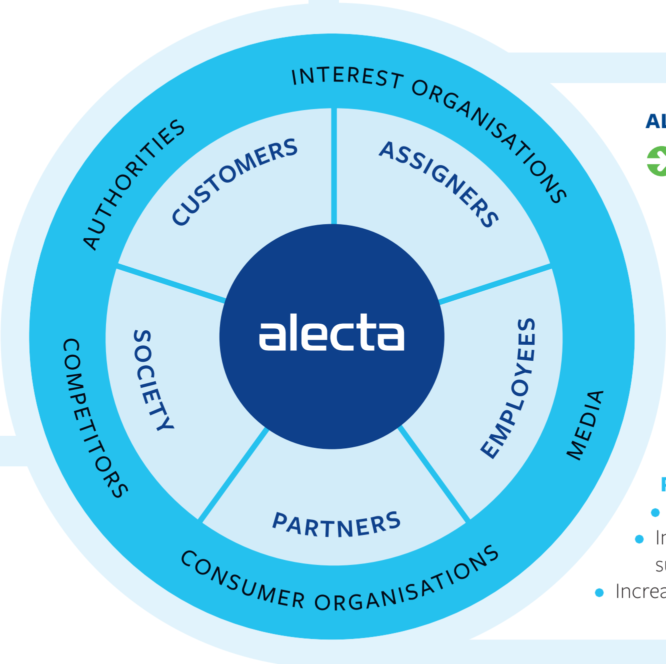
HOT TOPICS IN 2016:
- Secure pensions
- Low costs
- Effective asset management
- Ethical business behaviour
- Responsible investment

EXAMPLES OF ALECTA'S RESPONSE:
- A focus on returns and low management costs.
- Increased transparency on sustainability work.
- Registered with UN PRI, initiative for responsible investment.

THE VITAL DIALOGUE WITH OUR ASSIGNERS

HOT TOPICS IN 2016:
- Responsible investment
- The supply chain in our shareholdings

EXAMPLES OF ALECTA'S RESPONSE:
- Review of Alecta's investment strategy and processes for integrating sustainability in our asset management activities.
- Field study trip to the Ivory Coast to meet with local interest groups and suppliers to portfolio companies.



ALECTA'S EMPLOYEES

Read more on page 26

HOT TOPICS IN 2016:
- Workplace equality
- Development and health and safety
- Efficient resource use
- Ethical business behaviour
- Responsible investment
- Sustainability requirements for suppliers

EXAMPLES OF ALECTA'S RESPONSE:
- A focus on diversity in recruitment.
- Increased transparency on sustainability work.
- Increased investments in green bonds.

ALECTA'S ROLE IN SOCIETY

WHO?
- Authorities
- Politicians
- Opinion-leaders
- Universities

Read more on page 15

HOT TOPICS IN 2016:
- Stable pension management
- Knowledge about occupational pensions

EXAMPLES OF ALECTA'S RESPONSE:
- Monitor and drive the debate on better terms for pensions.
- Initiated a Pension Studies project as part of the "Gilla Din Ekonomi" personal finance network.
- Participate in expert group on sustainable finance in the EU.
- Participate in the work of the Swedish International Development Cooperation Agency (Sida) on Agenda 2030.

ALECTA'S SUPPLIERS AND PARTNERS

PRIMARILY:
- Selection centres for the collective bargaining areas
- Service providers in IT, property and asset management
- PRI Pensionsgaranti

Read more on page 17

EXAMPLES OF PARTNERSHIPS IN 2016:
- More efficient and improved handling of sick leave reporting together with Collectum.
- Conducted an analysis and training activities together with PRI to highlight the consequences of exchanging salary for pension contributions.
- We have joined the Kivra digital mailbox to meet the demand from customers who wish to be able to read their letters digitally – a partnership that benefits the environment and is cost-effective.

An important player in society

Simply put, a pension is a deferred salary that provides financial security after the end of your working life. As an occupational pension provider, Alecta also administers many of the risk insurance schemes which cover employees during their working lives. We are proud to be an important part of the Swedish welfare system. The work that we do has a big impact for many businesses and private individuals, now and in future.

Alecta's business is based on long-term responsibility. Ever since the company was founded in 1917 we have been working to give people financial security during and after the end of their working lives. That ambition inspires everything we do: how we use our resources, how we keep our costs down and how we base everything we do on the customers' perspective. We also strive to be a responsible asset manager and generate a high long-term return on the investments that are required to secure future pensions. We want to be the world's most efficient pension provider. For us, nothing could be more obvious, as we are owned by our customers and the money we manage belongs to them. We are owned by 2,3 million private customers and 34 000 corporate customers.

Supplementary security

Our products begin where the social safety net ends. An occupational pension is a supplement to the national retirement pension. Today around nine out of ten Swedes of working age can look forward to a collectively agreed occupational pension. What was previously viewed as a complement is today an important part of the financial equation for a pensioner. In addition to paying retirement pensions, Alecta protects its customers in the event of long-term sick leave and death.

Security depends on a solid return

Our investments are important for securing pensions and insurance policies. For our private customers a solid return on investment will translate into a higher pension in cases where the risk is borne by the saver, i.e. in a defined contribution plan. If the risk is borne by the company – in a defined benefit plan – the return that is generated will be used for the promised pension and to reduce the premiums paid by the employer. Our investing activities ensure that pension money is put to use as risk capital in society, helping listed companies to grow, and our investments also take the form of lending to businesses and governments through purchases of corporate and government bonds. Alecta is also a significant investor in green bonds.

We are owned by our customers and the money we manage belongs to them.

We are owned by:

2,3 million private customers and

34 000 corporate customers

Knowledge needs to be shared more equally

Alecta's impact on society is based on that which we know a lot about – pensions and savings. The market for pensions is out of balance; buyers and sellers are not meeting on equal terms. There are a number of issues that we are highlighting and seeking to address. The main issue is that the seller has a knowledge advantage, partly because of the complex fee system, which results in excessive fees. The seller's knowledge advantage also arises from the fact that as a product a pension can be evaluated only long after it is purchased. Not infrequently we meet consumers whose pensions have unnoticeably been eroded by high fees. And if the commitment is short-term there is scope for exploitation.

Alecta takes the interests of the consumer seriously and consequently introduced some time ago, the role of Pension

An important player in society, *cont.*

Economist. For the past ten years Alecta's Pension Economist has had a mandate to challenge the pensions industry, including Alecta, and transfer knowledge to the buyers – the consumers. Alecta's advocacy activities are also inspired by this perspective.

Decision-makers and politicians should be able to feel confident that we always look at things from the consumer's perspective. We look after the interests of our owners, just like any other company.

Increased knowledge leads to a healthier market

Alecta takes the side of the consumer in an industry which is often driven by other interests than genuine customer benefits. We share our experience with others and seek to foster a fact-based and balanced discussion on pension-related issues. Alecta regularly meets with politicians and opinion-leaders, takes part in debates and has contacts with media with the aim of strengthening consumer protection.

To help increase consumers' knowledge about pensions, we are participating in the Swedish Financial Supervisory Authority's "Gilla Din Ekonomi" personal finance network, an educational partnership between regulators and the financial industry. As part of this collaboration, we have initiated a Pension Studies project. Under the project, the universities of Dalarna, Skövde and Kristianstad are offering a Pension Studies course as part of their human resources specialist programmes. The course is the first of its kind. The first students took the course in 2015 and in 2016 Pension Studies was also made available to students on the economist programme at Kristianstad University and the HR specialist programme at Linnaeus University. This is an important project, as HR specialists and economists are often the people that procure pensions for employees at businesses that are not covered by a collective agreement. We see a big difference in fees between procured collectively agreed pensions and pension solutions that have been procured outside the collective agreements. The difference in fees for the same pension outcome is paid by both employers and employees.

Our Pension Economist is also engaged in promoting equality. Alecta's report "The part-time trap – how an unequal labour market leads to unequal pensions" shows clearly how working part-time has a negative impact on your pension and had a big impact on the debate in 2016. We have also highlighted how important the age at which a person enters working life is for the size of their pension. A late entry in the labour market can have a significant impact on your pension, often as big as the effect of retiring later.

High customer integrity

For an organisation that processes large volumes of sensitive personal data, ensuring compliance with applicable laws and industry agreements on the processing of personal data is a crucial requirement, but Alecta also performs its own risk and vulnerability analyses. Alecta takes a systematic approach to information security, and training employees in how to handle personal data is a key element.

Alecta has appointed a Data Protection Officer who is tasked with ensuring that Alecta complies with the Personal Data Act and acts as the company's point of contact for communications with the Swedish Data Protection Authority. The Data Protection Officer is appointed by the CEO and reports to the head of Alecta's Risk unit. Alecta also appoints two Data Protection Coordinators, who assist the Data Protection Officer. In 2016 Alecta started working on assessing the EU Data Protection Regulation to ensure that the necessary changes can be implemented before the new regulations become effective in May 2018.

Environmental impact and supply chain

An awareness of how we affect the environment and use our resources is important for Alecta. Our activities have a direct impact on the environment, mainly in the form of heating of offices, electricity use, paper consumption and recycling. Like other service-sector companies, Alecta's direct environmental impact is modest compared with the indirect impact we have as owners. This is described in the sections Carbon footprint of Alecta's equity portfolio on page 23 and A sustainable real estate owner on pages 23–24.

One of Alecta's largest expense items is purchases of goods and services. Alecta's purchasing policy is aimed at ensuring a high cost-effectiveness and high ethical business standards. In choosing a supplier, we emphasise the importance of a collective agreement and look at the supplier's sustainability work and anti-corruption measures. In the parent company we evaluate our Swedish suppliers each year and perform various checks, for example against the Tax Agency's register. In 2017 we will be expanding our review to include the 25 largest foreign suppliers to the parent company.

Each year, we purchase goods and services for around SEK 560 million from over 600 suppliers and service providers, mainly the election centres and providers of IT and asset management services, including property management. In 2016 our three largest suppliers accounted for 58 per cent of our total purchase volume. Suppliers and service providers for real estate in our investment portfolio are followed up as part of our investing activities and are therefore not included here.

Compliance

Alecta operates in a sector that is covered by a host of regulatory requirements. The company's activities are subject to licensing and regulatory monitoring of compliance with applicable regulations. In recent years significant changes have been made to existing regulations and Alecta has been working hard to try and influence the framing of the regulations to ensure that they are adapted to the type of business that Alecta is engaged in. Much effort has also been put into adapting Alecta's activities to the new requirements.

Over the coming years Alecta will need to address several new European and Swedish regulatory changes that will require significant work, both internally and externally. This work is a priority area for a company with Alecta's mission. For more information, see the section on compliance on page 29.

> "Alecta takes the interests of the consumer seriously. Our Pension Economist plays an important role as a spokesperson and opinion-leader.

Read more about Alecta's Pension Economist on the next page

On the customers' side in the debate

Through Alecta's Pension Economist we share our knowledge about occupational pensions with others. We also have a passionate commitment to strengthening the position of the consumer and are pushing for better terms for pension savers.

Eva Adolphson's job description has always included a duty to stand on the side of savers. Now Eva herself will become a full-time customer of Alecta as she goes into retirement. Eva is best known for her pioneering report *"The exploitation of pension savers"*, which opened many people's eyes to how high fees can eat up a large chunk of an employee's pension pot. Eva has also been active in the debate on women's pensions and has frequently been called in as an expert contributor to newspaper articles on pensions. In recent years she has been working to add pension studies to the curriculum for students on HR specialist programmes at universities. But the tradition of having a pension economist who works for the interests of savers, now over ten years old, won't come to an end with Eva's retirement, **as Staffan Ström will be taking over as Alecta's new Pension Economist.**

"I am driven by an ambition to make pensions easier to understand and to strengthen pension savers' self-confidence. A lot of people agonise over pensions completely unnecessarily, and I want to change that", Staffan Ström says.

Having previously worked as a lecturer, as head of Alecta's corporate customer service and most recently as Head of Information, Staffan has over 15 years' experience of occupational pensions. Over the years he has acquired a deep knowledge about pensions and has witnessed many examples of how pension savers have ended up in a tight spot.

"Unfortunately, not everyone in the financial industry puts the interests of the customer first. Many have strong economic interests of their own. That's why it is such a relief to be working for Alecta, which is customer-owned. All the value that we create goes directly to our customers, and everything we do is aimed at giving them a better deal".

The role of a pension economist is about acquiring an in-depth understanding of things like the effects of working part-time, a late entry into working life, the impact of retiring at different ages and, not least, the enormous impact that fees have on your pension. The next step is to describe the insights gained in a way that everyone can understand and take in. The pension economist does that by being visible in the media, participating in studies and panels, meeting with researchers and politicians, and arranging courses and talks.

The pension economist also produces reports which put the spotlight on specific issues. In recent years reports such as *"The part-time trap"*, *"Is your pension leaking?"*, *"A long working life begins early"* and *"In the mind of a future pensioner"* have attracted considerable attention.

Photo: Rickard Kilström, Kontinent

A sustainable pension system

In Sweden security in case of illness and after retirement is a key element of the social contract – the contract between society and the citizens. As the national retirement pension is reduced and the right to claim deductions for private pensions is curtailed the importance of occupational pensions for the pension system and for society is increasing.

We need to ensure that our pension system works not just when the citizens go into retirement, but that they feel confident that the system will work in future. That's why Alecta's handling of customer relations is an important part of our mission and a key to maintaining confidence in the social contract.

The administration of pensions is a long-term commitment. Our relationship with a private customer can extend over more than 60 years. With a corporate customer the relationship may last even longer. We need to ensure that pension capital is managed effectively and responsibly so that the money is there when it is needed. Solvency is the measure of our financial strength and of the extent to which the assets cover our commitments. It also shows how much latitude we have in managing the assets. At year-end 2016 Alecta had a solvency ratio of 166 per cent, which is well above the statutory requirement of 104 per cent for traditional insurance.

Alecta's mission is to maximise the value of the occupational pension benefit for our corporate and private customers. We do so by providing high-quality customer service, effective pension administration and competitive returns on the pension money that we have been entrusted to manage. We also create value by helping to spread knowledge about occupational pensions, in society and for our customers.

A good pension at a low cost

Alecta is today one of the world's most cost-effective occupational pension providers. By avoiding complex solutions, keeping an eye on costs and making use of economies of scale we are able to offer the lowest fees in the industry. Our management expense ratio for pension products is 0,06 per cent and our investment management expense ratio is 0,02 per cent. Our efficient management of pension products, disability insurance and survivor's pension is a key factor in keeping down our corporate customers' costs for occupational pensions. In defined contribution plans our low fees ensure a good pension for our private customers.

0,06 management expense ratio for pension products, excluding selection centre costs

0,02 investment management expense ratio

A good return over time is also essential to a good pension. In traditional insurance Alecta's defined contribution product, Alecta Optimal Pension, has generated the best return under the ITP plan since its launch in 2007.

Economic value for many

In Alecta's business you need to look at the value that is generated and distributed from a long-term perspective. The value that is generated during the year will be distributed over many years to come and the value that is distributed during the same year has accrued over previous years. Alecta creates economic value by delivering a good return over time. In 2016 Alecta generated a return on capital, before operating expenses, of SEK 37,8 billion (39,3), which will be saved for future disbursements.

The value that Alecta creates benefits our customers in the form of higher insurance payouts and refunds. On top of that, we also compensate our employees, suppliers and business partners, and pay taxes and fees to the government.

In 2016 we paid out a total of SEK 19,8 billion (19,2) to our private customers. The majority, SEK 16,8 billion (16,3), was in the form of retirement pensions. Payments for disability pension, a smaller but important benefit that is paid in case of extended illness or disability during a person's working life, totalled SEK 1,5 billion (1,5) in 2016, and SEK 1,5 billion (1,5) was paid in the form of survivor's pension.

Alecta also creates benefits for employers and their employees through our premium waiver insurance, under which Alecta assumes responsibility for premium payments in case of illness and in some cases also in case of parental leave. In 2016, SEK 1,3 billion (1,2) was paid in the form of premium of waiver insurance.

SOCIO-ECONOMIC VALUE, Group (SEK million)	2016	2015	2014
Economic value, generated			
Return on capital, before operating expenses [1]	37 783	39 252	76 078
	37 783	**39 252**	**76 078**
Economic value, distributed			
Claims incurred	–19 786	–19 235	–18 759
Waiver of premium, corporate customers	–1 882	–1 765	–1 482
Refunds in the form of adjustments to earned pension entitlement and premium reductions	–3 638	–2 796	–10 977
Salaries and remuneration	–409	–385	–379
Payments to suppliers and partners	–451	–496	–513
Yield tax and income tax in Sweden and abroad, and social security contributions for employees	–3 414	–1 790	–1 705
	–29 581	**–26 467**	**–33 815**

[1] Includes unrealised gains/losses of SEK 4 074 million (2015: 1 441, 2014: 37 530).

A sustainable pension system, *cont.*

Employers also have a strong interest in Alecta's ability, through expert asset management and efficient administration, to offer a good return on the premiums they pay.

In 2016 Alecta allocated refunds to its corporate customers in the form of premium reductions totalling SEK 3,6 billion. The refunds represent the surplus resulting mainly from a decrease in claims and a higher than expected return.

PAYMENTS TO PRIVATE CUSTOMERS IN 2016 [1)]

Retirement pension	
Number of people	Amount in SEK
533 000	16 759 000 000
Survivor's pension	
Number of people	Amount in SEK
50 000	1 517 000 000
Disability compensation	
Number of people	Amount in SEK
45 000	1 511 000 000

[1)] The indicated amounts include distributed refunds.

Satisfied customers

It is crucial that our customers feel secure and satisfied, and have confidence in Alecta. Yet we also know that there is little interest in the subject of pensions and that many people are unaware of who is managing their occupational pension or even that they have one. We continuously strive to gain a better understanding of our customers' needs and how they perceive Alecta.

Each day, we interact with our customers through our customer service department, on our website and through other personal contacts. By engaging in an open dialogue with our customers we can develop our business in a good and sustainable way while also meeting our customers' needs.

Twice a year we conduct surveys based on the customer satisfaction index (CSI) model where we ask our private and corporate customers to rate the service they have received through different channels: telephone, e-mail and login-protected pages on alecta.se. We work continuously to improve the information we provide, and to make it easier to understand and access the information through digital channels and various self-service solutions. Our CSI score for 2016 was 8,0 (8,1) for customers that have been in contact with Alecta, which was in line with our target. We did not, however, reach our target of 7,7 for customers that have received their first pension, where the outcome was 7,2 (–).

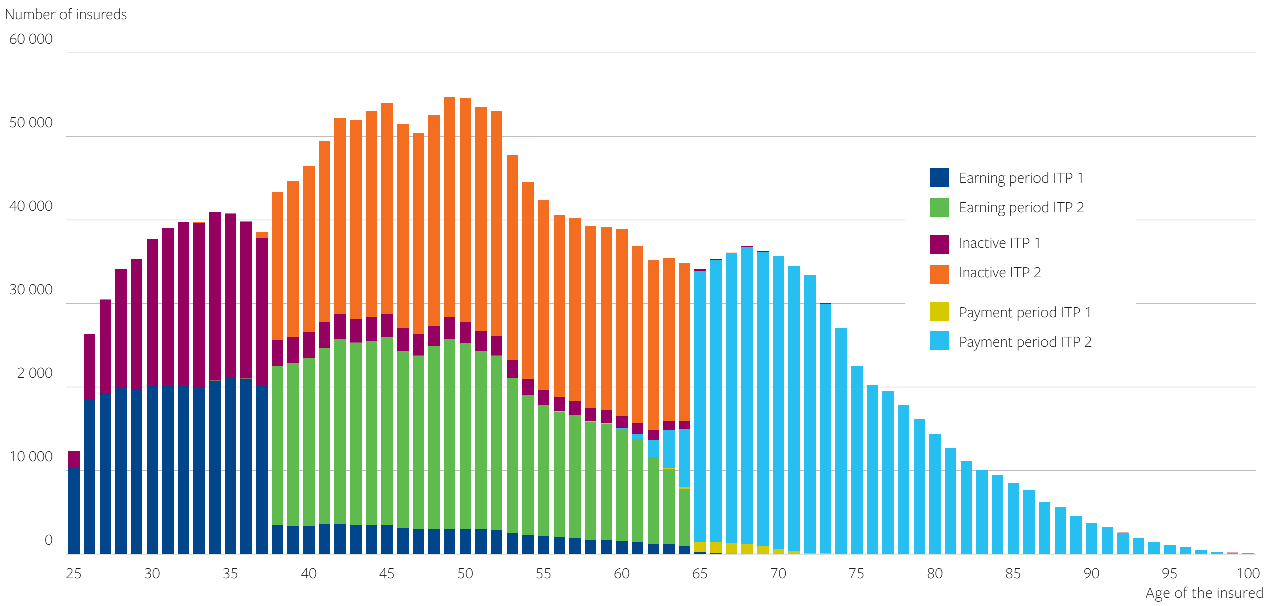
Alecta's long-term goals are described on page 8

In 2016 we made payments totalling **19,8 billion SEK** to our private customers.

NUMBER OF INSUREDS COVERED BY AN ITP RETIREMENT PENSION PLAN WITH ALECTA

Alecta's core business is the ITP plan. Only eight per cent of Alecta's customers come from other collective bargaining areas, but the number is growing.

Source: Alecta



Responsible investment

Alecta invests in a small number of carefully selected holdings. With a total capital of around SEK 770 billion, Alecta is a significant international pension fund manager and of the largest operators in the Swedish financial market.

Alecta's investments at 31 December 2016 → **SEK 770 000 000 000**

We are one of the largest owners of listed Swedish companies, one of Sweden's largest real estate owners and the fifth largest pension fund in Europe. Through our investing activities we influence the sustainability work of the companies we invest in.

We exercise our influence as a shareholder partly by voting at shareholders' meetings and taking part in the work of nomination committees. Our ambition is to contribute to creating long-term value in businesses and in society at large. Alecta believes a sound attitude to environmental, business ethical and social issues is essential to a company's ability to remain competitive and achieve sustainable profitability.

Investments in a few, select companies

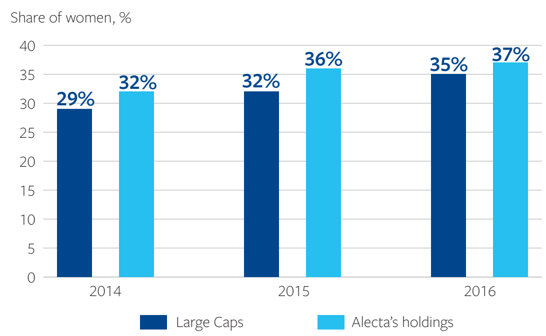
Alecta's model involves investing in a small number of carefully selected listed companies. At year-end 2016 our equity portfolio consisted of slightly more than 100 listed shareholdings, which are presented at alecta.se. The companies must have a business model that we understand and that we believe will help our customers' pension capital to grow. To ensure that the capital is invested in sustainable long-term businesses, Alecta's Board of Directors has adopted a Corporate Governance Policy. The fundamental principle underlying the policy is that the companies in which Alecta invests must follow the international conventions and agreements that the Swedish State has endorsed. These include conventions on the environment, human rights, labour law, corruption and controversial weapons as well as initiatives such as the UN Global Compact and the OECD Guidelines for Multinational Enterprises. Alecta's portfolio consists exclusively of companies which abide by such international conventions.

Active, internal portfolio management

Alecta is able to keep its operating costs very low because we have cut out the expensive middlemen. We manage our customers' pension capital ourselves and only engage in active asset management. This means that we are not constrained by the need to track an index and that each investment is the result of a thorough internal analysis. Alecta invests in carefully selected shares, debt securities and real estate in Europe and the United States, and holds personal meetings on an ongoing basis with nearly all companies in our portfolio.

In 2016 we continued to invest in green bonds, where the capital raised is used for various environmental projects. At year-end 2016 Alecta held green bonds worth over SEK 7 billion. Active, in-house portfolio management and judicious diversification increase the prospects of achieving a high return. The composition of the portfolio is presented on page 38 and at alecta.se.

SHARE OF WOMEN ON CORPORATE BOARDS



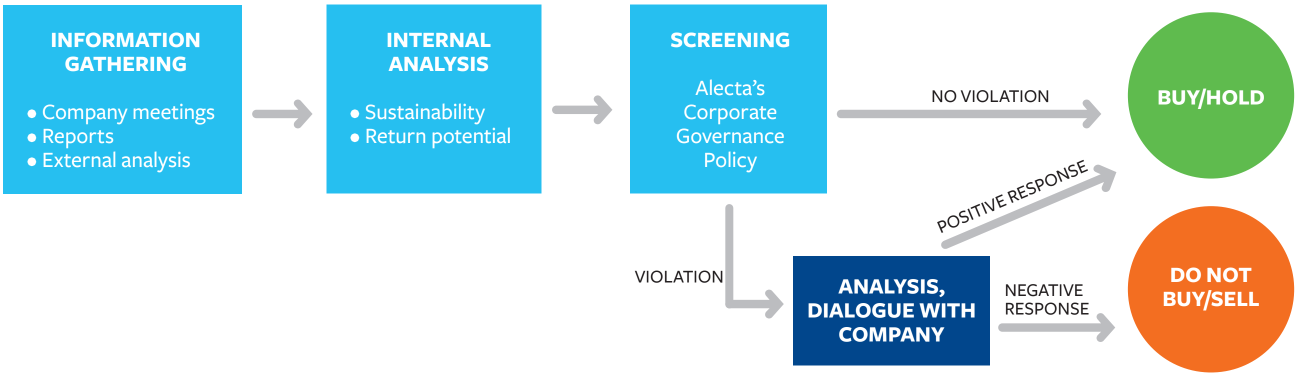
Share of female AGM-elected directors, excluding the CEO, in companies where Alecta has a seat on the nomination committee compared with the average for Large Cap companies in accordance with the Female Representation Index of the Second Swedish National Pension Fund (AP2).

104 shareholdings ...

... in Alecta's actively managed portfolio, 2016

→ A concentrated portfolio allows for greater influence

ALECTA'S INVESTMENT PROCESS



Active ownership

Alecta is an active owner which influences the companies it invests in, mainly by ensuring, through nomination committees, that the Board of Directors has a strong pool of expertise and diverse composition. In 2016 we voted at the annual general meetings of all companies in which we own shares apart from one. Since the mid-1990s Alecta has been actively engaged in nomination committees of Swedish listed companies and has acquired considerable experience of nomination committee work. Alecta's participation in nomination committees is based on our long-term ownership commitment and our belief in the future of the company. Our activities are guided by the ambition to ensure that the company's Board of Directors has the best possible composition. Particular emphasis is placed on increasing the share of female directors. In the run-up to the 2016 AGM season Alecta participated in 19 nomination committee processes.

Our decision-making process for investments

Alecta's decision-making process for investments comprises internal as well as external analyses in which sustainability is a key criterion. The process is applied for all equity and credit investments, which account for over 70 per cent of our total assets.

Information gathering and internal analysis

The investment process begins with an assessment of the company from a sustainability perspective. The assessment covers the sustainability of the business model, our confidence in management and sustainability risks related to the company or industry. To assist us in our sustainability analysis, we use information provided by Sustainalytics, a company specialising in sustainability analyses. We also perform a financial analysis to assess the company's return potential, which includes an assessment of the risk level.

Alecta always engages in a dialogue with its portfolio companies and the companies we are planning to invest in. Unlike many other investors, we meet with representatives of all the companies that we are invested in. These dialogues allow us to gain a better understanding of how the companies are managed and to discuss sustainability issues.

Initiatives and partnerships

Alecta is a member of several partnerships and industry initiatives. The aim is to enable collaboration with other investors on sustainability issues and strengthen our ability to engage in a fruitful dialogue with the companies we have invested in.

UN PRI (Principles for Responsible Investment)	The UN Principles for Responsible Investment is a global initiative for institutional investors. By signing up to UN PRI Alecta undertakes to integrate six principles for responsible investment in its operations.
CDP (previously Carbon Disclosure Project)	By supporting the work of the CDP investors seek to encourage businesses to increase transparency, improve their environmental reporting and work actively to reduce their environmental impact.
Hållbart Värdeskapande	A partnership among Sweden's largest institutional investors that is aimed at highlighting the importance of taking a structured approach to sustainability issues.
Institutionella ägares förening (Swedish Institutional Investors Association)	An association that is working to facilitate collaboration on developing best practices in corporate governance and influencing the continued development of the Swedish Corporate Governance Code.
The Montreal Pledge	An initiative in which investors pledge to measure and report the carbon footprint of their investments.
The European Commission's High-Level Expert Group on Sustainable Finance	Alecta is participating in an expert group that has been tasked by the European Commission to draw up political measures for fulfilling the Paris Agreement and the UN's Sustainable Development Goals.
Working group of the Swedish International Development Cooperation Agency (Sida)	Alecta's CEO is leading a working group on UN Sustainable Development Goal No. 8, Decent Work and Economic Growth.

Responsible investment, *cont.*

Screening of potential holdings

Each decision to invest in a new company is preceded by a specific screening carried out by research firm GES Investment Services, which assesses whether the company is complying with international conventions and standards. Alecta refrains from investing in companies which violate or are suspected of violating the conventions.

Screening of existing holdings

Alecta's holdings are screened on the basis of our Corporate Governance Policy. The screening is performed on an ongoing basis and, in a more detailed form, twice a year with the help of GES. In case of criticisms Alecta will contact the company to engage in a dialogue on those areas where the company needs to take action. If it is not expected that the dialogue will achieve the desired result Alecta will sell its holding. In 2016 we held five dialogues in response to suspected violations of Alecta's Corporate Governance Policy and a further ten sustainability-related dialogues with other companies. A selection of our dialogues is presented at alecta.se.

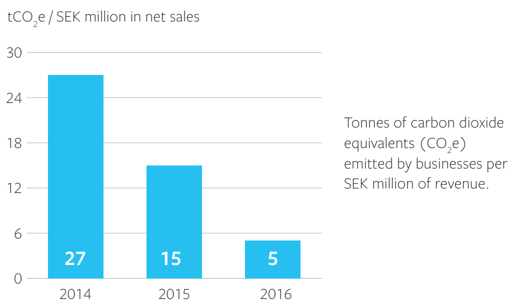
Carbon footprint of Alecta's equity portfolio

By measuring the carbon footprint of our equity portfolio we obtain knowledge about the emissions of individual companies and industries. The carbon footprint is used to assess certain climate-related financial risks, such as the price of carbon dioxide. Carbon dioxide measurements also provide a basis for Alecta to use its position as an asset manager to influence companies to reduce their emissions, for example by introducing targets for emissions cuts, risk management, business strategies and transparency.

The carbon footprint does not measure the total climate impact of an investment, however, as not all emissions are included, the emissions data is not always complete, and climate-friendly measures such as emissions reductions through products and services are not included. Nor does the carbon footprint measure the overall climate risk in the equity portfolio, such as physical risks in case of extreme weather or the consequences of changed legislation on energy efficiency.

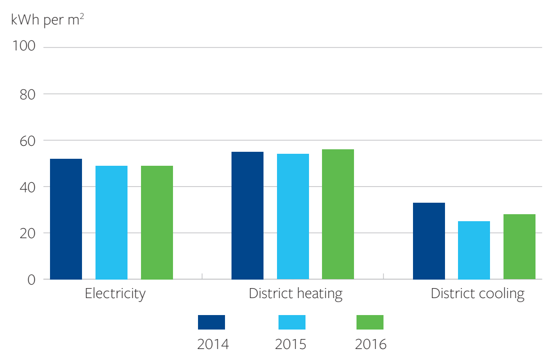
Our measurement of the carbon footprint of Alecta's equity portfolio covers all companies in the portfolio as of December 31, 2016. At the same date the market value of the equity portfolio was around SEK 337 billion, or 44 per cent of Alecta's total investment portfolio. The carbon footprint of Alecta's equity portfolio decreased in 2016. This is mainly because Alecta continued to reduce or sell a number of CO2-intensive holdings during the year. Out of the companies in Alecta's equity portfolio, 70 per cent (70) publish emissions data. These account for around 86 per cent (88) of the market value of the portfolio. For the remaining holdings the emissions data has been estimated by research firm South Pole Group.

CARBON FOOTPRINT,
ALECTA'S EQUITY PORTFOLIO



The emission measurements follow the global GHG Protocol standard and are based on the latest available carbon dioxide data for direct (Scope 1) and indirect emissions in connection with consumption of energy (Scope 2). Emissions of greenhouse gases are expressed in terms of carbon dioxide equivalents (CO2e), a unit of measurement which makes it possible to measure greenhouse gases in the same way.

ENERGY CONSUMPTION,
ALECTA'S SWEDISH REAL ESTATE PORTFOLIO



Consumption in kWh per m2 (leased area) in Alecta's Swedish real estate portfolio. For comparative purposes, only properties that were owned throughout the comparative period of 2014–2016 have been included. The figures reported in last year's annual report have therefore been slightly adjusted. Indirectly owned and residential properties are not included in the comparison.

> We own 15 properties, worth SEK 10,3 billion, that have some form of environmental certification.

Alecta's Mektagonen property on Mölndalsvägen in central Gothenburg is Green Building-certified. The building houses office and retail space and a hotel.

A sustainable real estate owner

Alecta owns real estate in Sweden and abroad. Alecta's directly owned foreign real estate were sold in 2016 and early 2017 but the company still has indirectly owned real estate outside Sweden worth around SEK 15 billion. In Sweden we are a significant real estate owner, holding assets with a total market value of around SEK 35 billion, which represents 5 per cent of Alecta's total assets. As a real estate owner, Alecta has a significant direct impact on the environment, mainly through energy use, consumption of materials and waste management. Alecta is a member of the Sweden Green Building Council, which promotes sustainability in the construction and real estate industries. We establish and regularly follow up environmental goals for our external property managers and the construction projects that we participate in. We also specify environmental requirements for procurements of operations and maintenance work. An Environmental Officer is appointed for each contract and specific targets are defined in an environmental action plan. The plan, which is reviewed and revised continuously, contains explicit targets, such as requirements on the use of specific materials in construction projects or energy reduction targets for individual properties.

Alecta's target is to reduce energy consumption in its Swedish-owned properties, measured as a normal year's consumption of electricity, district heating and cooling in terms of kWh per square metre, by 3 per cent each year. In 2016 energy consumption increased by 4 per cent, which means that we did not achieve our target. The increase was in large measure due to technical problems in a number of individual properties.

Alecta owns two Green Building-certified properties, one LEED Platinum-certified property and twelve properties classified as Environmental Buildings. As of 2015 all electricity consumed at Alecta's directly owned Swedish properties, including the head office, comes exclusively from renewable energy sources.

LEED is the world's most widely used environmental certification system for buildings. LEED looks at a range of factors, including immediate surroundings, water and energy use, and materials. Buildings can qualify for four levels of certification: Certified, Silver, Gold and Platinum, which is the highest level. To obtain **GREEN BUILDING** certification, a building must use 25 per cent less energy than previously or compared with the new building requirements specified in the building codes of the Swedish National Board of Housing, Building and Planning. **ENVIRONMENTAL** BUILDING is a certification system for buildings in which qualities such as energy, indoor environment and materials are evaluated. Buildings can qualify for Bronze, Silver or Gold certifications.

ALECTA'S GOALS FOR RESPONSIBLE INVESTMENT	OUTCOME 2016	TARGET 2017
Increase the share of companies that report their carbon footprint.	The same share as in 2015	Increase
Increase Alecta's investments in green bonds.	Increased by SEK 3 billion	Increase
Participate in nomination committees when this is warranted by Alecta's ownership interest in the company.	100 per cent (19 nomination committees)	100 per cent
Vote at all shareholders' meetings, in Sweden and abroad.	99 per cent	100 per cent
By 2020 the underrepresented sex should account for at least 40 per cent of the AGM-elected directors.	The share of women increased to 37 per cent	Strive to achieve the long-term target

Green bonds

In 2016 Alecta increased its investments in green bonds by over SEK 3 billion. In a green bond the capital is earmarked for various environmentally oriented projects, such as investments in renewable energy, water purification or environmentally beneficial infrastructure. At the beginning of 2017 Alecta held investments in green bonds worth over SEK 10 billion. The issuers include the World Bank, the Stockholm County Council and Sveaskog.

"We have the same required rate of return for an investment in a green bond as for other bonds, but we demand additional documentation for a green bond. We want to find out how the money will be used, and ensure that the issuer applies an industry standard for green bonds and that an independent party has confirmed that the issuer is following industry practice. The supply of green bonds in the market is clearly too small, which means that we do not always receive as large an allocation as we would have wished. We are therefore hoping that the market will mature further so that we can make bigger investments each time we find a green bond", says Peter Lööw, who is in charge of sustainability at Alecta's Investment Management department.

Alecta has, for example, invested SEK 1 billion in green bonds issued by the German bank KfW. The capital raised is being used to fund the expansion of German wind power as part of an energy transition that will reduce carbon dioxide emissions by 80,000 tonnes of carbon dioxide equivalents per year.

Swedish government-owned Sveaskog is Sweden's largest forest owner. The company sells timber, pulpwood and biofuel from FSC-labelled forests. Forest in itself is a sustainable resource, as it can be recycled and binds carbon dioxide. Each year, Sweden's forests bind some 140 million tonnes of carbon dioxide. That is twice the amount of carbon dioxide that is emitted in Sweden in a year.

Sveaskog has been classified as a fully green company by international certification agency DNV GL, which means that the company's green bonds can be used for general operational financing. For Alecta, forest is attractive as an investment because of the very long-term nature of the business. A fifth of Sveaskog's forest was planted more than 40 or 50 years ago. An Alecta customer who is retiring today probably received his or her first premium payment the same number of years ago.

Photo: Sveaskog / Leif Öster

A long-term employer

We want to be an attractive workplace that offers working conditions which promote motivation, job satisfaction and efficiency in all periods of our employees' lives. We have strong confidence in each employee's commitment, drive and responsibility, and avoid micromanagement whenever possible. This approach encourages active employee involvement, enabling each employee independently to drive their work forward, solve problems and make good decisions.

A strong company culture

Committed and experienced employees are essential to Alecta's ability to provide good customer service, keep costs low and generate robust returns. Ensuring that employees are actively involved requires managers with the ability to delegate tasks and authority, and a coaching and situational leadership style.

Alecta's core values – simplicity, customer benefit and responsibility – have been formulated to help our employees to prioritise the right things in their daily work. We have put a lot of energy into giving concrete form and meaning to the words. For each core value, two questions have been formulated. By asking ourselves these questions on a daily basis we ensure that our work is guided by our core values.

Sustainable skills – now and in the future

Alecta attaches great importance to finding people with the right skills profiles through structured interviews, tests and work samples. New employees are required to take a comprehensive introduction course, which is followed six or twelve months later by a review where we discuss their expectations of Alecta and whether these have been fulfilled. These discussions provide a continually up-to-date picture of the situation among our employees and supplement the annual employee survey.

One of our most important areas of expertise is in the ITP occupational pension plan. To ensure that we maintain this expertise, we conduct an annual survey in which we identify areas of potential improvement and dependence on key individuals, and discuss how to handle skills transfers when employees retire. With the aim of raising our level of expertise, we have conducted two training programmes, called ITP academies, at which eleven employees were given the opportunity to deepen their knowledge of ITP and Alecta's products over an 18-month period.

The opportunity to develop and broaden their skills plays an important role in ensuring that our employees enjoy working at Alecta and want to stay with us. In 2016 Alecta's employees spent an average of four days on skills development activities. The emphasis is on internal training in insurance, which is Alecta's core area of expertise. For our 2017 report we intend to analyse the results in greater detail to identify any differences between groups and departments.

An attractive employer

To be able to retain skilled employees and attract new talent, Alecta needs to ensure that it remains an attractive place to work. We need to ensure that we offer a good working environment with an open atmosphere as well as good development opportunities, competitive salaries and a well thought out package of benefits. In our 2016 employee survey Alecta scored high on being a good place to work. Trust in one's manager and in Alecta's management is high and over 90 per cent would recommend us as an employer.

The average age at Alecta is high and many of our employees have been here for a long time. They have known their colleagues for many years and work well together. Making the most of the seniority that exists while bringing in new knowledge and ideas through younger recruits is an exciting challenge. This requires a good work climate,

GENDER DISTRIBUTION	2016		2015		2014	
Group	Women	Men	Women	Men	Women	Men
Number of employees	232	157	236	156	244	162
in Sweden	*224*	*153*	*226*	*152*	*233*	*158*
abroad	*8*	*4*	*10*	*4*	*11*	*4*
Permanent employees	230	157	234	156	241	160
full-time	*194*	*146*	*190*	*143*	*196*	*153*
part-time	*36*	*11*	*44*	*13*	*45*	*7*
Temporary employees	2	0	2	0	3	2
Number of consultants	9	21	11	26	15	27

A long-term employer, *cont.*

a down-to-earth attitude and openness, and the feedback we have received so far is encouraging. New employees feel included and that they have a steep learning curve thanks to the strong support they receive from their colleagues. This challenge is a good gauge of Alecta's quality as a place to work for both new and old employees.

Diversity

The promotion of equal rights and opportunities is an ongoing task and is part of the remit of each manager. Ultimate responsibility for the company's diversity plan rests with the CEO. Alecta's efforts to promote diversity focus on increasing awareness of the benefits of diversity and of the prejudices that exist in this area. We want to create a shared will and ability to be a diverse workplace. We believe that groups which consist of people with different experiences and perspectives are more effective and dynamic.

Among Alecta's employees there is a strong will to work together to create a diverse workplace that is free from discrimination, bullying and harassment. This becomes clear in recruitments, where a key objective is to create groups with a mixed composition in terms of gender, age, ethnicity, experience, etc. In the areas of training, promotion and wage setting we want to ensure that decisions are based on objective arguments and that no one is discriminated against.

EMPLOYEE STATISTICS

Group	2016	2015	2014
Number of employees at 31 December	389	392	406
Average age of all employees	48	48	47
Staff turnover [1]	6,0 %	5,6 %	4,8 %
Sick leave [1]	3,7 %	3,2 %	3,1 %
Percentage covered by collective bargaining agreements [1, 2]	100 %	100 %	100 %
Percentage of female employees	60 %	60 %	60 %
Percentage of female managers	44 %	46 %	46 %
Percentage of women in management	25 %	36 %	36 %
Percentage of women on the Board	23 %	17 %	17 %

[1] Refers to the parent company in Sweden. [2] Does not include employees in senior management, see page 110.

Health and wellbeing

Alecta offers its employees every opportunity to get and stay in good health. However, the rate of sick leave at Alecta has been trending slightly higher for some time. In 2017 we will be focusing on developing our health promotion activities in order to reach out to all those who want to change their behaviours and improve their health. We will also continue to address the issue of sick leave, through company-wide initiatives and on an individual basis.

Another aspect of our efforts to promote good health is to ensure that we are a good place to work during all periods of our employees' lives. We offer good opportunities to combine work and parenthood but know that employees may need extra flexibility also during other periods of life to get all the pieces of life to fit together. In these situations Alecta can accommodate such needs, for example by extending flexitime limits, if this can be done without affecting the operations.

ALECTA'S GOALS AS A LONG-TERM EMPLOYER	OUTCOME 2016	TARGET 2017
All employees should have a skills development plan.	No target defined in 2016.	100 %
A review of ITP expertise should be made to ensure a high level of expertise in ITP.	An annual skills review was conducted to assess the general level of ITP expertise at Alecta. A competency mapping exercise was carried out in the Customer department with the aim of raising the general level of ITP expertise.	Conduct an annual skills review to assess the general level of ITP expertise at Alecta. Skills development in the Customer department based on the results of the 2016 competency mapping exercise.
Diversity should be a key element in all Alecta's recruitment processes, both internal and external. In all recruitments there must be at least one person of the underrepresented sex among the final candidates.	In 60 per cent of Alecta's recruitments there was one person of either sex among the final candidates.	100 %
An action plan for increased diversity should be prepared and presented.	An action plan was prepared.	Communicate the action plan in the organisation.

Governance

Alecta is a mutual pension provider which does not have any shareholders but is owned by its customers. Alecta's highest decision-making body is the Council of Administration, which consists of representatives of our customers. The Council of Administration appoints Alecta's Board of Directors, which has overall responsibility for the governance of Alecta and the company's sustainability work.

The Board of Directors determines Alecta's strategic direction and the company's long-term operational goals. It is responsible for ensuring that Alecta has appropriate corporate governance, risk management and internal control systems, and defines the internal rules for the operations.

The Board has appointed separate committees from among its members to prepare and decide on specific matters. The Presidium acts as the Board's remuneration committee and is tasked with drafting Board decisions on matters relating to remuneration policy and variable remuneration. The Finance Committee monitors financial risks in Alecta, defines guidelines for the company's investing activities and prepares investment management-related matters, which are submitted for adoption to the Board. The Audit Committee is responsible for ensuring that Alecta's financial reporting is reliable and that the internal control is effective. The Audit Committee is also tasked with monitoring the impartiality and independence of the auditor.

The Board appoints Alecta's CEO and defines the framework for the CEO's work. The CEO in turn is responsible for the day-to-day management of the company in accordance with the guidelines and directions of the Board and for ensuring that the operations are organised so that the company complies with applicable laws and regulations. The CEO is also required to ensure that the Board receives reports on the performance, results and financial position of Alecta on an ongoing basis, and is kept up to date on significant operational events.

Code of Conduct and monitoring

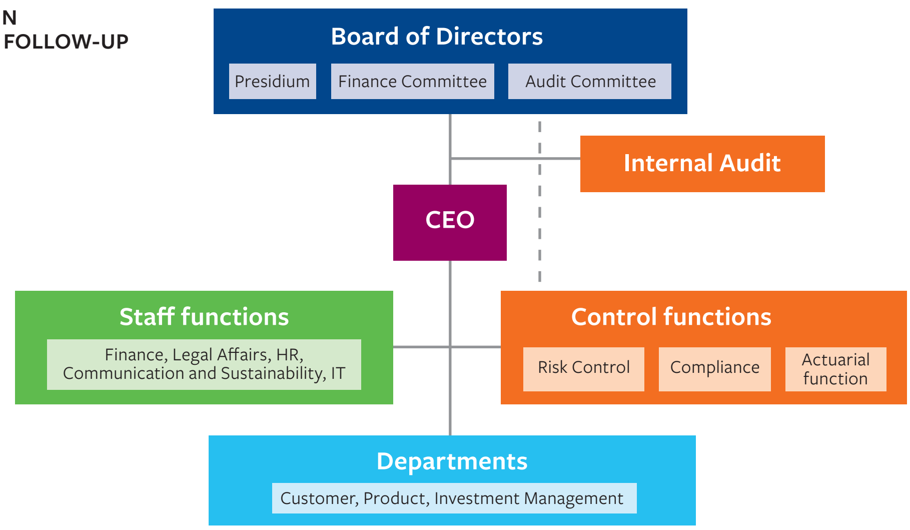
Everyone who works at Alecta has a responsibility to help ensure good internal control and is required to follow Alecta's Code of Conduct. The Code of Conduct consists of internal rules for how employees should act in different situations in order to maintain Alecta's good reputation among its customers, in the market and in society. The rules cover ethics, conflicts of interest, complaints handling and handling of personal data. We also have a Corporate Governance Policy.

The internal rules are defined by the Board of Directors or the CEO and are revised when required or at least annually. All employees are informed of changes to the internal rules by their managers but are also required to keep themselves up to date on those internal rules which affect them. The internal rules are easily accessible for all employees on Alecta's intranet. For new employees the ethical rules form part of the mandatory introduction course.

Regular monitoring and reporting of outcomes are essential to effective governance, ensuring that governance processes are adapted to new requirements or circumstances. The heads of department are responsible for ensuring appropriate monitoring and that controls are in place in their respective areas of responsibility. The Controller continuously monitors operational outcomes and target achievement in relation to the adopted business and operational plans.

The Internal Audit function and the Compliance, Risk Control and Actuarial control functions are responsible for independent company-wide monitoring in their respective

RESPONSIBILITIES IN GOVERNANCE AND FOLLOW-UP



Governance, *cont.*

Alecta is a mutual company. This means that we are owned by our **customers** – the insureds and their employers. Our customers are represented by **Alecta's Council of Administration.** The Council of Administration appoints **Alecta's Board of Directors**, which in turn appoints **Alecta's CEO.**

areas of responsibility. These functions use a risk-based approach and therefore give priority to activities and controls in those areas where Alecta's risks are greatest.

Compliance

A pension provider is subject to stricter operational regulation and supervision than many operators in society. Alecta's operations are to a large extent regulated by laws, regulations, internal rules and good practices. In recent years regulatory supervision has increased and several new regulations have been or will shortly be introduced.

To ensure that Alecta's customers feel secure, it is of the utmost importance that we monitor these activities and comply with the applicable regulations. The key resources for this work are Alecta's external and internal auditors, legal experts and the Compliance function. Compliance independently monitors coming regulations affecting activities subject to licensing requirements, which are regulated by the Swedish Financial Supervisory Authority.

Compliance regularly reviews and assesses whether Alecta's operations, the measures taken and the procedures adopted comply with the applicable regulations, and ensures that the employees and Board of Directors receive information and training on the rules.

Risk management

Risk management is an integral part of Alecta's governance. To safeguard the interests of its customers and of other parties, Alecta applies strict standards for how risks are controlled and managed. Inadequate management of risks could result in financial or reputational damage for Alecta. More information on risks and risk management is provided in the Administration Report, on page 44.

Sustainability governance

Sustainability should be integrated in all activities at Alecta, both internally and in our business relations. We should conduct our operations in such a way that public trust in Alecta is maintained and that our business is considered sound. Sustainability is therefore an integral part of our day-to-day activities.

The CEO has operational responsibility for sustainability issues, which are also reported to the Board and its committees as part of Alecta's regular reporting activities. The CEO has delegated general responsibility for Alecta's sustainability work to the Communication and Sustainability department, which includes Alecta's Head of Sustainability.

The Head of Sustainability defines the general strategy, goals and processes/procedures for monitoring Alecta's overall sustainability work, including sustainable investment. This includes determining how Alecta should work towards the realisation of the UN's Sustainable Development Goals and leading Alecta's cross-functional sustainability group, which consists of participants from different areas of operation, including Investment Management.

A separate role with responsibility for responsible investment has been established in Alecta's Investment Management department. This person is tasked with supporting Alecta's analysts and portfolio managers in dealing with sustainability risks and other sustainability issues, for example by engaging in dialogue with the companies we invest in and acting as an external contact point for questions regarding sustainability issues that relate to Alecta's investments.

Internal rules and instructions governing Alecta's sustainability work

Code of Conduct

Ethics policy
Describes how Alecta's activities, business relations and investments should be marked by an ethical attitude. The ethics policy also regulates the whistleblower function and confidentiality.

Management of conflicts of interest
Identifies the risk of conflicts of interest and describes how we should handle conflicts of interest or situations where it may be difficult to be objective.

Complaints handling
Describes how we should respond to any complaints from our customers.

Handling of personal data
Describes how we should work to ensure that we fulfil the requirements of the Swedish Personal Data Act on protection of customers and employees from breaches of privacy.

Other

Corporate Governance Policy
Describes how Alecta intends to use its influence as a shareholder of listed Swedish companies. The Corporate Governance Policy describes Alecta's position on sustainability issues, which is based on the principle that the companies in which Alecta invests must follow the international conventions and agreements that the Swedish State has entered into. The policy is available to read at alecta.se

Investment guidelines
Describe the focus and guidelines for risk-taking in the Investment Management department.

Internal risk management rules
The general governing document for Alecta's risk management.

Information security
Describes what we need to consider when handling and spreading verbal and written information.

Anti-money laundering and anti-terrorism financing measures
Describes how Alecta should protect itself to avoid being exploited for such purposes.

Purchasing and procurement
Describes the procedures for purchasing and procurement.

Health and safety
Describes Alecta's general view on health and safety and the division of responsibilities on health and safety issues.

Gifts and other benefits
Provides guidance on how employees should act with regard to gifts and other benefits. Based on the Code of Business Conduct issued by the Swedish Anti-Corruption Institute.

About the sustainability report

Alecta's sustainability report for 2016 has been prepared in accordance with the Global Reporting Initiative's G4 Guidelines, Core option. The report has been reviewed by Alecta's auditors, Ernst & Young AB.

The sustainability report covers the year 2016 and forms part of Alecta's annual report. Alecta's annual report and sustainability report are published annually in March.

Scope and limits
The report covers the parent company, Alecta pensionsförsäkring, ömsesidigt, and Alecta's subsidiaries. The objective of the subsidiaries is to own properties directly or indirectly. Property companies that are joint-owned by Alecta are defined as joint ventures and are handled as financial instruments in our investment strategy. Exceptions to the scope are indicated in the report.

Alecta manages collectively agreed occupational pension plans in Sweden.

Alecta's investment management activities comprise investments in shares, debt securities and real estate. Alecta's real estate portfolio is concentrated to Sweden. In 2016 Alecta sold the majority of its directly owned foreign real estate, which were located in the US and UK. Alecta's remaining directly owned foreign real estate were sold in early 2017.

No other significant changes to the size, structure or ownership of the organisation or to its suppliers took place during the reporting period.

Calculation methods and definitions
Indicator PR9: Serious shortcomings refer to an event which constitutes a serious failure in relation to external regulations that has prompted criticism from the regulators.

Indicator PR8: Serious shortcomings refer to an event which constitutes a serious breach of the privacy of an individual customer or which has prompted criticism from the regulators.

Indicator LA9 and Alecta's goals as a long-term employer on page 27: Employees refer to permanent employees with the exception of employees on long-term leave, including employees on parental leave, sick leave or unpaid leave.

CONTACT
The contact for Alecta's sustainability report is Carina Silberg, Head of Sustainability, carina.silberg@alecta.se.

GRI G4 Index 2016

GENERAL STANDARD DISCLOSURES		REFERENCE	COMMENT
STRATEGY AND ANALYSIS			
G4-1	Statement from the organisation's most senior decision-maker about the relevance of sustainability to the organisation and its strategy	*pages 4–5, 12*	
ORGANISATIONAL PROFILE			
G4-3	Name of the organisation	*Cover and page 34*	
G4-4	Primary brands, products and/or services	*page 34*	
G4-5	Location of the organisation's headquarters	*Note 1 page 60*	
G4-6	Countries where the organisation operates	*page 30*	
G4-7	Nature of ownership and legal form	*page 34*	
G4-8	Markets served	*pages 10–11 and 34*	
G4-9	Scale of the organisation	*pages 10–11, 27 and 45*	
G4-10	Employee data (total number of employees, by employment type, employment contract and gender)	*pages 26–27*	
G4-11	Percentage of total employees covered by collective bargaining agreements	*page 27*	
G4-12	The organisation's supply chain	*page 16*	No significant changes to the supply chain during the year
G4-13	Significant changes during the reporting period	*page 30*	
G4-14	Application of the precautionary principle	*See comment*	Alecta does not have any product development activities with a significant environmental impact but takes account of environmental issues in its investing activities.
G4-15	Externally developed charters, principles and initiatives to which the organisation subscribes or which it endorses	*page 22*	Voluntary initiatives
G4-16	Memberships of organisations and associations	*page 22*	
IDENTIFIED MATERIAL ASPECTS AND BOUNDARIES			
G4-17	Entities included in the organisation's financial statements	*page 30*	
G4-18	Process for defining the content of the report	*page 13*	
G4-19	Identified material aspects	*pages 13 and 32*	
G4-20	For each material aspect, the aspect boundary within the organisation	*page 32*	
G4-21	For each material aspect, the aspect boundary outside the organisation	*page 32*	
G4-22	Explanation of any restatements of information provided in previous reports	*See comment*	No significant adjustments have been made.
G4-23	Significant changes in the scope, aspect boundaries or measurement methods	*See comment*	No significant adjustments have been made.
STAKEHOLDER ENGAGEMENT			
G4-24	Stakeholder groups	*page 14*	
G4-25	Identification and selection of stakeholders	*page 14*	
G4-26	Approach to stakeholder engagement	*page 14*	
G4-27	Key topics and concerns that have been raised through dialogue	*page 14*	
REPORT PROFILE			
G4-28	Reporting period	*Cover and page 30*	
G4-29	Date of most recent previous report	*See comment*	Financial year 2015, published in March 2016.
G4-30	Reporting cycle	*page 30*	
G4-31	Contact point for questions regarding the report	*page 30*	
G4-32	The chosen 'in accordance' option, GRI Content Index and reference to External Assurance Report	*pages 30–32*	

GENERAL STANDARD DISCLOSURES		REFERENCE	COMMENT
G4-33	Policy and current practice for external assurance	*Page 30 and External Assurance Report*	
GOVERNANCE			
G4-34	Governance structure of the organisation	*pages 28–29*	
ETHICS AND INTEGRITY			
G4-56	Description of the organisation's values, principles, standards and norms of behaviour, such as codes of conduct and codes of ethics	*page 28*	

MATERIAL ASPECTS: GOVERNANCE AND INDICATORS

MATERIAL ASPECT	GRI ASPECT	BOUNDARY (WO/OO*)	INDICATOR		REFERENCE	COMMENT
Sustainability governance			DMA	Disclosure on management approach for material aspects	*pages 28–30*	
ECONOMIC ASPECTS						
Economic value for many	Economic performance	Impact both WO and OO in the economic value distributed to customers, society and employees	EC1	Generated and distributed direct economic value	*pages 19–20*	
SOCIAL ASPECTS – employment relationship and working conditions						
Skills development	Training and education	Impact WO through increased competence and employee satisfaction and OO through increased customer benefits	LA9	Average hours of training per employee by gender and employee category	*page 26 and comment*	Reported from 2016. Measurements were initiated in 2015 and there is therefore insufficient data for 2015.
			LA11	Percentage of employees receiving regular performance and career development reviews	*See comment*	100 % of employees (excl. new employees during the year) have reported that they have received regular reviews in 2016 and 2015.
SOCIAL ASPECTS – product responsibility						
A good pension at a low cost	Product and service labelling	Impact OO in the form of increased value for private and corporate customers	PR5	Results of customer satisfaction surveys	*pages 8 and 20*	
Customer privacy	Customer privacy	Impact WO in the processing of customer data and in ensuring customer privacy OO	PR8	Total number of complaints regarding breaches of customer privacy and losses of customer data	*pages 16 and comment*	No serious shortcomings in Alecta's handling of customer information were identified in 2016 or 2015.
Compliance	Compliance	Impact WO, as compliance is the basis for Alecta's operations	PR9	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	*pages 17, 29 and comment*	No serious shortcomings in Alecta's compliance were identified in 2016 or 2015.
Responsible investment	Active ownership	Impact OO through activities related to the companies and real estate that Alecta invests in	FS10	Percentage and number of companies held in the company's portfolio with which the company has interacted on environmental or social issues	*page 23*	See the section Screening of existing holdings.
			FS11	Percentage of assets under management that is subject to environmental or social screening	*page 22*	See the section Decision-making process for investments.

* WO = Within the organisation OO = Outside the organisation

Administration Report

The Board of Directors and Chief Executive Officer of Alecta pensionsförsäkring, ömsesidigt hereby present their annual report for 2016, the company's one hundredth year of operations.

Corporate Identity Number: 502014-6865
Registered office: Stockholm, Sweden

Ownership and structure

Alecta is a mutual life insurance company. This means that the company is owned by the policy holders and the insureds, and that any surplus generated is returned to the policy holders and the insureds.

Alecta pensionsförsäkring, ömsesidigt is the parent company of the Alecta Group. In 2016 the operations of the Group were conducted in-house with the exception of some parts of Alecta's property management and IT operations, which were performed by external service providers under contract. Some of the tasks performed by Collectum and other selection centres outside the framework of the ITP and other pension plans are also considered to be performed on behalf of Alecta and the other participating insurance companies.

Operations and products

Alecta offers occupational pensions through selection centres under collectively agreed occupational pension plans, i.e. insurance schemes based on collective bargaining agreements that are tied to the employment relationship and for which the employer pays the premiums.

Alecta's principal mission is to manage the various parts of the ITP occupational pension plan on behalf of the Confederation of Swedish Enterprise and Council for Negotiation and Cooperation (PTK), which have concluded collective bargaining agreements. Alecta manages the ITP 2 defined benefit retirement pension plan and the ITP 1 defined contribution retirement pension plan. In addition to retirement pensions, the ITP 2 plan also comprises defined benefit family pensions and ITPK defined contribution supplementary retirement pensions. Defined contribution retirement pensions are offered through the Alecta Optimal Pension product, which is the default option and a selectable option for ITP 1 as well as ITPK. Alecta has also been contracted to manage the disability and life insurance products under the ITP plan. These include the risk insurance products disability pension, waiver of premium and family cover.

Under the ITP agreement, employers have the option of funding their employees' retirement pensions by recognising liabilities in their balance sheets under the "PRI model". Obligations that have been secured under the PRI model are administered by Alecta on behalf of PRI Pensionsgaranti. The level of service and quality are the same as if the employees' retirement pensions had been secured through insurance.

Alecta Optimal Pension is also a selectable option under the occupational pension plans for private-sector employees that have been collectively agreed between the Confederation of Swedish Enterprise and Swedish Trade Union Confederation (Avtalspension SAF-LO), government employees in the PA 16 collective bargaining area, employees of municipally owned enterprises covered by the PA-KFS occupational pension plan, employees covered by the FTP plan for the insurance industry and from 1 January 2016 also for local authority and county council employees covered by the KAP-KL/AKAP-KL plans. As of 1 January 2017 Alecta Optimal Pension will also become the default option for the FTP plan.

Alecta also offers occupational group life insurance (TGL).

Employees and organisation

In 2016 Alecta completed a reorganisation, including changes to management, to create a more efficient organisation in line with Alecta's vision of becoming the world's most efficient occupational pension provider. As a result of the changes three new departments have been created with the aim of increasing our customer focus, bringing together administrative functions, developing Alecta's pension products and centralising responsibility for communication and sustainability to a single department.

In 2016 the average number of employees in the Alecta Group was 390 (396), or 373 on a full-time equivalent basis (378).

At year-end 2016 the total number of employees in the Group was 389 (392), of whom 353 worked in the parent company (358). The share of female employees was 60 per cent (60) and the average age of employees was 48 years (48).

Information on the average number of employees, salaries and benefits is provided in Note 54 on pages 94–99. The note also describes the principles for determining the remuneration and benefits of senior executives as well as the applicable drafting and decision-making processes.

Net profit and financial position

The Group reports a net profit for the year of SEK 13,4 billion (52,2). Comments on Alecta's results and financial position are presented in the following.

Premiums written

Premiums written in 2016 totalled SEK 33,6 billion (34,4), see Note 4 on page 70. Premiums written can be divided into invoiced premiums and guaranteed refunds.

Invoiced premiums decreased to SEK 29,9 billion (31,6). This was due to a decrease in single premiums as a result of a reduced redemption volume of recognised pension commitments under ITP 2 ("PRI liabilities"). Current premiums increased both for defined benefit and defined contribution insurance products. For defined benefit insurance products the rise was due to increased benefits and for defined contribution pension products the main reason was a growing portfolio.

The sub-item guaranteed refunds, which totalled SEK 3,6 billion (2,8), 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).

Return on capital

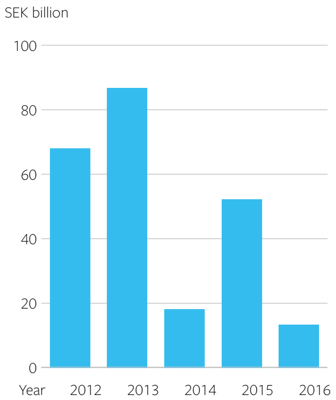
Financial markets

Politics and terrorism dominated the news flow in 2016. The British people's vote to leave the European Union initially triggered a sharp fall in stock markets, a decline in long-term interest rates and a plunge in the pound. Although stock markets subsequently recovered most of their losses there is still considerable uncertainty about what the economic impact of Brexit will be and how it will be realised in practice.

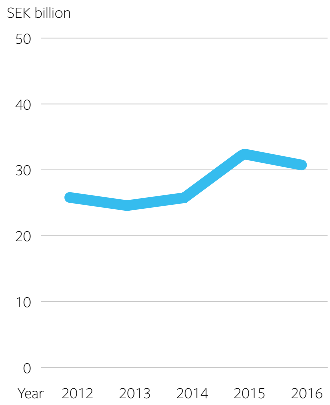
In late autumn Donald Trump emerged as the surprise winner of the US presidential election. Markets were on tenterhooks and the received opinion was that a Trump victory would lead to a sell-off in markets. In the event, US stock markets turned higher after Trump announced his intention to cut taxes and make major investments in infrastructure. In the short term this overshadowed the risks of a growing budget deficit and increased protectionism. Bond markets saw relatively dramatic moves as yields rose sharply after the election.

On the monetary front the European Central Bank and Sweden's Riksbank continued to pursue a loose monetary policy through rate cuts and asset purchase programmes aimed at boosting inflation and economic growth. The US

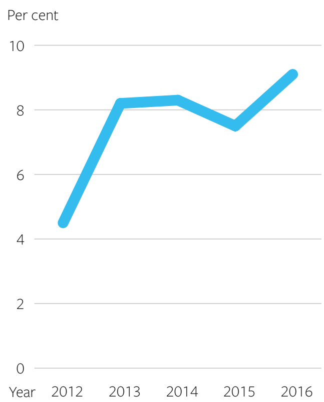
NET PROFIT FOR THE YEAR



INVOICED PREMIUMS



TOTAL RETURN, 5-YEAR AVERAGE



Federal Reserve, on the other hand, chose to raise its key interest rate in December. The decision was expected and therefore had a muted impact on financial markets.

Macroeconomic data pointed to stronger growth and lower unemployment in Europe and the US as well as higher inflation. Sweden's CPI index continued its steady rise and reached 1,7 per cent by year-end 2016, its highest level in six years.

The MSCI World equity index gained 9,7 per cent in local currency terms while the Swedish SIX 60 equity index increased by 9,6 per cent. Corporate bonds and government paper were weak despite periodically widening credit spreads and rising market interest rates. The property markets in Sweden, Europe and the United States had another good year with Sweden seeing the biggest gains.

Return

The total return on Alecta's investments in 2016 was 5,2 per cent (5,9). A sharp increase in property prices and a generally strong performance in equity markets were the main contributors to the return. A modest decline in bond yields over the year as a whole resulted in a positive return for Alecta's debt securities portfolio. Alecta's average annual return over the past five years is 9,1 per cent (7,5).

The return on shares was 7,2 per cent (9,0) while debt securities increased by 3,1 per cent (1,2) and real estate by 9,2 per cent (18,4).

The return for Alecta's defined contribution savings product, Alecta Optimal Pension, was 5,8 per cent (7,9), which is 0,3 percentage points less than Morningstar's benchmark index for balanced funds. Over the past five years Alecta Optimal Pension has had an average annual return of 12,5 per cent (9,6).

Total return table for investments, total	Market value 2016-12-31		Market value 2015-12-31		Total return, per cent	
	MSEK	%	MSEK	%	2016	Average 2012–2016
Shares	332 862	43,2	307 776	42,1	7,2	15,9
Debt securities	383 172	49,7	361 615	49,4	3,1	4,5
Real estate	54 409	7,1	62 159	8,5	9,2	11,8
Total investments	**770 444**	**100,0**	**731 550**	**100,0**	**5,2**	**9,1**

Total returns for each year and asset class for the period 2012–2016, which are included in the average total return, are presented in the five-year summary on page 45.

The total return table has been prepared in accordance with the recommendations issued by Insurance Sweden. The reporting and valuation of the investments do not agree with the accounting principles applied in the financial statements. A reconciliation between the total return table and the financial statements is presented in Note 53 on page 95.

Total return table for investments, defined contribution insurance (Alecta Optimal Pension)	Market value 2016-12-31		Market value 2015-12-31		Total return, per cent	
	MSEK	%	MSEK	%	2016	Average 2012–2016
Shares	43 947	63,4	34 785	62,2	7,2	15,9
Debt securities	20 401	29,4	16 298	29,2	3,2	4,6
Real estate	4 962	7,2	4 820	8,6	9,2	11,8
Total investments	**69 311**	**100,0**	**55 903**	**100,0**	**5,8**	**12,5**

The proportion of shares in Alecta Optimal Pension is higher than in Alecta's other products. The table above refers to the portfolio that constitutes Alecta's default option, which has a 60 per cent share component. The market value of the total Alecta Optimal Pension portfolio, i.e. including all investment plans, is SEK 73,6 billion (59,0).

Total return table for investments, defined benefit insurance	Market value 2016-12-31		Market value 2015-12-31		Total return, per cent	
	MSEK	%	MSEK	%	2016	Average 2012–2016
Shares	286 996	41,2	271 589	40,4	7,2	15,9
Debt securities	360 723	51,8	343 812	51,1	3,1	4,5
Real estate	49 141	7,1	57 066	8,5	9,2	11,8
Total investments	**696 860**	**100,0**	**672 467**	**100,0**	**5,1**	**8,9**

The total return tables refer to the Group. Due to rounding, the sum of the figures shown in the tables may differ from the totals.

The return for Alecta's defined benefit insurance product was 5,1 per cent (5,8). The average annual return over the past five years is 8,9 per cent (7,4).

In the income statement the consolidated return on capital, including unrealised changes in value, was SEK 37,5 billion (39,0).

The market value of Alecta's investments at year-end was SEK 770,4 billion (731,6), see the total return table on page 36. Alecta Optimal Pension has an asset allocation with a higher proportion of shares than Alecta's other products. The default option portfolio had a market value of SEK 69,3 billion (55,9) at 31 December 2016, see the total return table on page 36.

Portfolio

In 2016 the proportion of shares increased marginally from 42,1 per cent at the beginning of the year to 43,2 per cent at year-end. Alecta has maintained the proportion of US shares in its share portfolio at around 24 per cent while reducing the proportion of European shares by a couple of percentage points to 33 per cent. In the real estate portfolio the proportion of foreign properties has decreased following the sale of all directly owned properties in the UK and US. The sales were completed in the fourth quarter with the exception of seven properties in the US and one property in the UK, which were sold in early 2017.

The composition of the portfolio is presented on page 38.

Claims incurred

Claims incurred consist partly of insurance claims paid and partly of changes in provisions for claims outstanding.

Insurance claims paid, which mainly comprise benefits incurred in retirement pensions, disability and life insurance, increased to SEK 19,5 billion (18,7). The increase is largely attributable to a greater number of new retirees and a higher average pension amount than for retirees whose payments ended due to death or because the beneficiary reached the final payment age. Operating expenses incurred in connection with the settlement of claims are included in insurance claims paid and totalled SEK 134 million (132).

The change in the provision for claims outstanding was SEK 2,4 billion (1,6).

Technical provisions

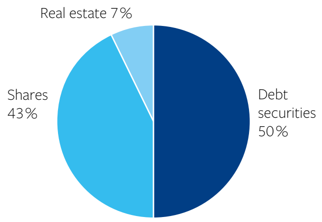
Technical provisions comprise the sum of provisions for life insurance and provisions for claims outstanding, and constitute the capital value of Alecta's guaranteed obligations for insurance contracts in force. Technical provisions were SEK 466,3 billion at 31 December 2016. This is an increase of SEK 38,4 billion (0,3) for 2016, which was due to the following reasons:

- Changes in the yield curve that is used to value technical provisions. The average cash flow-weighted rate decreased from 2,57 to 2,22 per cent in 2016. As a result, technical provisions increased by SEK 20,9 billion (–19,1).
- The return for the period and deductions for taxes and operating expenses, which resulted in an increase in technical provisions of SEK 12,6 billion (11,7).
- Premiums and outgoing payments for savings products, including the difference resulting from the fact that premium assumptions differ from the assumptions applied in calculating provisions. This resulted in an increase in technical provisions of SEK 3,9 billion (4,8).
- The provision for new insurance cases in Alecta's disability pension and waiver of premium products exceeded the reversal of provisions for existing insurance cases. The net increase was SEK 1,9 billion (1,6).
- Changed assumptions for family pensions, mainly as a result of a lower share of insureds with survivors who are entitled to payments, had the effect of reducing technical provisions by SEK 3,5 billion (–).
- A changed assumption about the share of insureds who are expected to alter their agreed payment period increased technical provisions by SEK 2,0 billion (0,7).
- A changed assumption for the number of insureds who are expected to transfer their savings from Alecta to other providers under the right of transfer increased technical provisions by SEK 0,2 billion (–).
- A changed operating expense assumption for disability and waiver of premium insurance reduced technical provisions by SEK 0,1 billion (–0,1).
- Other changes resulted in an increase in technical provisions of SEK 0,5 billion.

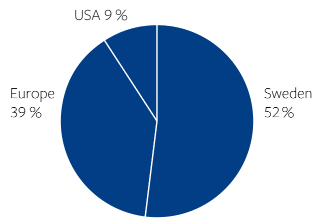
For further information, see Notes 39 and 40 on page 91.

Alecta's portfolio composition at December 31, 2016

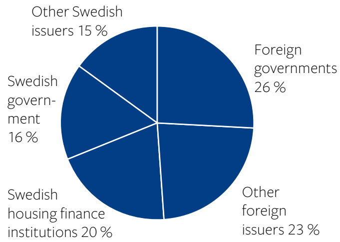
TOTAL INVESTMENT PORTFOLIO



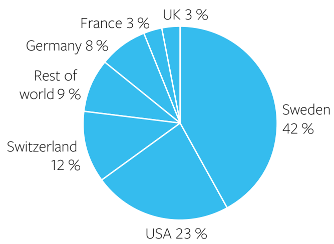
DEBT SECURITIES, geographic distribution



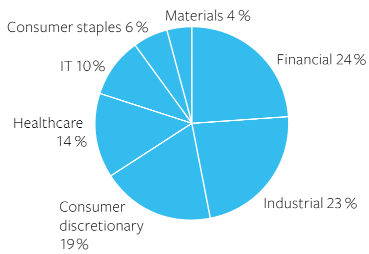
DEBT SECURITIES, type of issuer



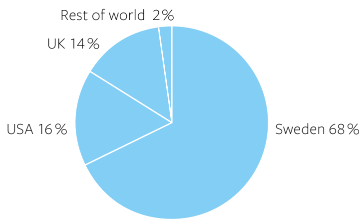
SHARES, geographic distribution



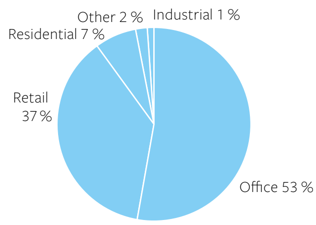
SHARES, sector



REAL ESTATE, geographic distribution



REAL ESTATE, category



**ALECTA'S FIVE LARGEST SHAREHOLDINGS
December 31, 2016**

STOCK	SECTOR	MARKET VALUE, SEK MILLION
Investor AB	Financial	15 323
Skandinaviska Enskilda Banken AB	Financial	14 780
Hennes & Mauritz AB	Consumer discretionary	12 925
Atlas Copco AB	Industrial	12 553
Alphabet Inc	IT	12 199

Market value according to the total return table.

Operating expenses

Operating expenses in the insurance business, which are termed operating expenses in the income statement, totalled SEK 560 million (547). This is an increase of SEK 13 million on 2015.

The increase in operating expenses was mainly due to higher costs for the Collectum selection centre and higher fees to the Financial Supervisory Authority.

Management expense ratio

Alecta's management expense ratio declined during the year to 0,09 (0,10) per cent due to an increase in average assets under management. For pension products excluding selection centre costs the same key ratio was 0,06 (0,06) per cent, which is in line with the previous year.

Tax expense

The yield tax expense, after deduction of foreign tax credits, was SEK 298 million (910). Despite an increase in the capital base, the yield tax expense was lower than in 2015, mainly due to a decrease in the average government borrowing rate from 1,62 to 0,58 per cent. Yield tax is payable on Alecta's pension products and on family cover.

The income tax item for 2016 was positive, at SEK 1 108 million, compared with an expense of SEK 682 million in the previous year. Income tax comprises current and deferred tax, and includes coupon tax and foreign income tax in addition to Swedish tax. The change compared with the previous year represents the net balance of the increase in current tax, which was due primarily to an increase in foreign taxes for properties, and deferred tax income, which is related mainly to a tax asset on tax losses and an asset linked to foreign tax that is expected to be available to offset future tax expenses. In Sweden the business segments disability pension, waiver of premium and TGL are subject to income tax.

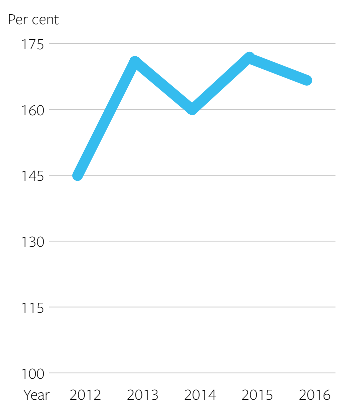
Distribution of surplus

A surplus arises when the return on Alecta's assets exceeds the financial cost of its guaranteed obligations but can also arise in other situations, for example when actual outcomes for mortality, morbidity and operational expenses are positive. A more detailed presentation of how the surplus arises is provided in the alternative income statement on page 46. Alecta is a mutual company, which means that any surplus generated is returned to our customers – the policy holders and the insureds. The surplus is returned in the form of refunds. Over the past 15-year period (2002–2016) Alecta has distributed SEK 113 billion in refunds. The refunds have been distributed to the policy holders and the insureds in the form of pension supplements, increases in earned pension entitlements, premium reductions and client-company funds.

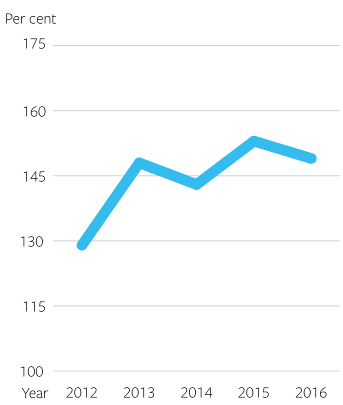
For Alecta's defined contribution insurance product, Alecta Optimal Pension, any surplus or deficit is allocated directly to the insureds on a monthly basis. For this reason the collective funding ratio is nearly always 100 per cent. Any surplus is distributed in the form of a supplement to the guaranteed pension, in accordance with the actuarial guidelines adopted by Alecta's Board of Directors.

For defined benefit insurance products Alecta's Board of Directors decides each year whether and in what form refunds should be distributed. For 2016 the Board decided not to change the pension supplements, as the consumer

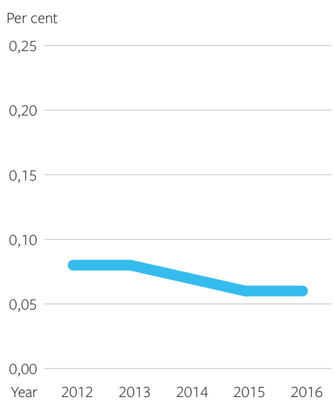
SOLVENCY LEVEL



COLLECTIVE FUNDING RATIO,
Defined benefit insurance



MANAGEMENT EXPENSE RATIO
for pension products, excluding selection centre costs



price index (CPI) in September 2015 remained below its level in September 2013, which had been used as a basis for the last adjustment. For insureds who retired in 2015 (base year 2015), however, the Board approved an upward adjustment of 0,07 per cent to compensate for inflation in the past year. Pension supplements are formally guaranteed only on payment. A portion of the pension supplements is paid in the year in which the supplement is authorised while the remaining portion is reserved for disbursement in later years. For 2016 the Board of Directors also approved a premium reduction of 75 per cent for disability and waiver of premium insurance as well as family cover.

For 2017 the Board approved an upward adjustment of defined benefit pensions by 0,59 per cent. The adjustment applies to pensions in payment as well as earned pension entitlements, known as paid-up policies, and is based on the change in CPI between September 2013 and September 2016. For insureds who retired in 2015 or 2016, however, the Board authorised an upward adjustment of 0,91 per cent to compensate for inflation in the past year. For 2017 the Board also approved premium reductions of 65 per cent for disability and waiver of premium insurance, 75 per cent for family cover and SEK 7 per insured per month for TGL.

Collective funding and solvency

Alecta's defined contribution insurance products have collective funding ratios of 100 per cent (100), which is the normal level, as any surplus or deficit is allocated to the insureds on an ongoing basis.

The collective funding ratio for the Group's defined benefit insurance products was 149 per cent (153) at the end of 2016. The collective funding capital was SEK 226,5 billion (228,4). Alecta's funding policy for its defined benefit insurance products states that the collective funding ratio may vary between 125 and 155 per cent in normal circumstances, with a target level of 140 per cent. If Alecta's collective funding ratio falls below 125 per cent or exceeds 155 per cent measures must be taken to create conditions that will allow the collective funding ratio to return to the normal range within three years, provided that such measures are not expected to impede Alecta's ability to fulfil its insurance commitments or ensure the indexation of pensions in payment.

At year-end 2016 Alecta had a solvency ratio of 166 per cent (171).

Significant events

The guarantee reserve has been transferred to an independent foundation

The guarantee reserve, which Alecta has been managing since it was established on 1 January 2007, was eliminated on 12 December 2016 and all funds in the reserve including accrued returns, totalling SEK 1 954 951 771, have been transferred to a new foundation, the Guarantee Foundation for ITP and TGL, which is entirely independent of Alecta. The elimination of the guarantee reserve and the transfer of its funds to the foundation were effected in accordance with the decisions adopted by Alecta's Council of Administration on 14 April 2016, which in turn were based on an action plan prepared jointly by Alecta and the Swedish Financial Supervisory Authority (FSA).

The Guarantee Foundation for ITP and TGL has the same purpose as the guarantee fund – in the first hand to fund the "collective agreement guarantee" for ITP and TGL and in the second hand to fund ITP- and TGL-related information activities of the parties to the collective agreements. The Foundation is subject to supervision by the County Administrative Board of Stockholm and is required, under its statutes, to submit documents and information on its activities to the FSA at the latter's request.

Sale of foreign properties

In 2016 Alecta made a strategic decision to sell its entire directly owned foreign property portfolio, which comprised 48 properties in the US and UK. The sale comprised properties owned by the parent company as well as Alecta's US subsidiaries. The total consideration was around SEK 20 billion and the sale was effected in two stages, with the majority of properties being sold in 2016 and the remaining properties in early 2017. The total consideration for the properties that were sold in 2016 was around SEK 14 billion.

Single premiums increased

On 1 October 2016 employers' single premiums payable on redemption of defined benefit retirement pensions were increased by an average of 9 per cent. Insurance premiums that are paid on a regular basis were not affected by the decision, which was prompted by the sharp decline in market interest rates in 2016.

Refunds in 2016

A premium reduction of 75 per cent for disability and waiver of premium insurance as well as family cover was made in 2016.

Defined benefit pensions in payment were kept unchanged in 2016. The reason is that the increase in CPI of 0,07 per cent was offset by the decision not to reduce payments by 0,38 per cent in the previous year.

Decision on refunds for 2017

Alecta's Board of Directors has decided to increase defined benefit pensions by 0,59 per cent in January 2017. The decision covers pensions in payment as well as earned pension entitlements, known as paid-up policies.

The Board also decided to raise the premiums payable for disability and waiver of premium insurance as a result of a rise in morbidity and a lower surplus for Alecta's risk insurance products. Premium reductions for disability and waiver of premium insurance, which have been set at 75 per cent in the last few years, will be reduced to 65 per cent for 2017. The changes are expected to lead to an increase in the net premiums paid by Alecta's corporate customers for these insurance products from SEK 1,2 billion to SEK 2,0 billion in 2017.

Default option for the FTP plan

Alecta Optimal Pension has been designated as the default option for occupational pensions under the FTP 1 plan and the FTPK supplementary occupational pension plan for employees covered by collective bargaining agreements in the insurance industry.

Alecta to become a mutual occupational pension provider?

Since Solvency 2 came into effect on 1 January 2016 Alecta has applied the transition rules which apply until 31 December 2019 for companies which exclusively or mainly provide occupational pensions. The question of which regulations Alecta will be operating under in the long term – the new Solvency 2-based Insurance Business Act or a new Swedish occupational pension law based on the IORP occupational pension directive – is of great import for Alecta.

Already in 2014 the Swedish government's Committee on Occupational Pension Service Providers presented a proposal for a new Swedish Occupational Pension Business Act, in the SOU 2014:57 report. Under the proposed Act, insurance companies which exclusively or mainly provide occupational pensions will be able to turn themselves into occupational pension providers and operate fully under the new Occupational Pension Business Act instead of the Insurance Business Act and Solvency 2.

On 5 October 2016 the Swedish government announced, after several years of deliberation, that it intends to prepare a new Occupational Pension Business Act that is essentially based on the report produced by the Committee on Occupational Pension Service Providers. The proposed new Act will also provide an option for insurance companies to turn themselves into occupational pension providers and introduces stronger, risk-based regulation of solvency capital requirements. Through the same Act, the government also intends to implement in Swedish law the new occupational pension directive, IORP 2, issued by the EU in December 2016. The government's plan is to publish a ministry report in late 2017 and present a government bill to parliament in mid-2018 with a target effective date of 1 January 2019. If the timetable holds Alecta will in early 2019 be able to consider whether to transform itself from a mutual insurance company into a mutual occupational pension provider.

Significant events after the balance sheet date

Sale of foreign properties completed

In early February 2017 the sale of Alecta's directly owned foreign properties in the US and UK, which was initiated in 2016, was concluded. The total consideration for the properties was around SEK 6 billion.

Adjustment of premiums

Alecta's Board of Directors has decided to adjust the premiums charged from 1 March 2017. The change will affect both current and single premium insurance policies.

For current premium defined benefit retirement pensions, premiums will be raised by an average of 15 per cent. The increase applies to new plans as well as increases in benefits. For redemptions the premium will be raised by an average of 3 per cent. The premiums have been adjusted in response to an increase in life expectancy and the current low interest rate environment.

Outlook

The beginning of 2017 has been marked by political uncertainty. The UK will be defining its negotiating position for its negotiations on leaving the EU, this at a time when anti-EU sentiment is running high in several member states. A case in point is France, which is going to the polls to elect a new president in the spring. Following the election in the United States, the world has had to get used to a different type of political leadership. This political uncertainty notwithstanding, the economic outlook appears to be more stable. The economic situation is slightly better than a year ago.

Depressed interest rates

Interest rates remained depressed but appear to have bottomed, and expectations for future interest rates are cautiously optimistic. A crucial factor in this context is monetary policy, where the leading role is played by the US Federal Reserve. Demand for risk assets remains strong. Equities attract higher valuations today and there are expectations of higher earnings in due course. Properties also have high valuations, which at the fundamental level is due to strong demand for commercial and residential space, but in a situation where interest rates are heading higher risks in the property market are set to increase.

The current low interest rate environment poses a challenge for Alecta as it seeks to secure returns and fulfil its pension commitments. The implementation of the many new regulations that have been initiated with the aim of preventing a new financial crisis is another challenge. It is likely that we will not see quite as many new regulatory initiatives from the EU going forward.

A changing market and regulatory environment

An important directive, which is scheduled to be implemented in Swedish law in January 2019, is IORP 2. This will require new occupational pension regulations that are specific to Sweden. Ensuring that these Swedish regulations do not contain unnecessarily strict capital requirements for occupational pension providers is an urgent imperative.

Looking further ahead, we need to draw attention to a number of fundamental changes that will have an impact on businesses and labour markets as well as politics and social security systems.

In addition to changing customer behaviour profoundly, digitalisation is also driving a structural transformation of the labour market, where many types of jobs have disappeared and continue to disappear as a result of automation and robotisation. Initially, it was mainly "simple" jobs that were in the danger zone, but today more qualified jobs are also coming under threat as services are digitalised. There is a clear pressure for transformation in many ordinary white-collar professions.

Yet digitalisation is also creating new jobs. This is a structural transformation that will require new types of skills as well as measures to smooth the adjustment of the labour market. The ability to give new content to jobs is crucial to further efficiency improvements in businesses. Digitalisation is thus enabling significant efficiency gains also in an economy that is increasingly based on the production of services.

> "Occupational pensions are becoming an increasingly important part of society.

Yet the potential for efficiencies is not the same everywhere and neither, therefore, is the scope for wage increases. This is a driving force behind ever widening wage gaps that is putting pressure on pension systems. These developments are creating an environment where the state pension is increasingly acquiring the character of basic pension while occupational pensions are becoming ever more important.

Around 17 per cent of private-sector employees are not covered by a collective bargaining agreement. Some companies that are not covered offer their employees the option of saving for an occupational pension, but far from all. Largely thanks to digitalisation, a growing number of jobs can now be performed on a freelance basis, without a strong link to employment. Since the mid-2000s the share of workers who are not employees but self-employed in some form has been growing. These people will therefore fall outside the normal occupational pension systems.

At a time when occupational pensions are becoming an increasingly important part of society Alecta's mission of increasing the value of occupational pensions for employers and employees is as important as ever.

Product reporting

Alecta operates in accordance with principles of mutuality and must ensure that income and expenses are allocated equitably among its various products. Our ability to use economies of scale and spread shared expenses across all products enables us to add value for our customers. Alecta's product areas are:

Pension insurance:
- Defined benefit pensions (primarily ITP)
- Defined contribution pensions (mainly ITP but also in other collective agreement areas)

Risk insurance:
- Disability and life insurance products (mainly ITP)
- Occupational group life insurance (TGL)

Alecta monitors the financial performance of its various products very closely. The allocation of operating expenses among the various products is based on specific allocation principles and allocation keys. The allocation keys are reviewed regularly to ensure as equitable an allocation as possible.

In addition to allocating income and expenses equitably among its various products, Alecta also seeks to ensure that risks are borne in an equitable manner. Alecta's monitoring of solvency and risk ensures that each product has a capital that is adequate to cover these risks.

Product calculation for Alecta Optimal Pension

Alecta Optimal Pension is a product that was introduced in connection with the ITP procurement in 2007. The pricing is based on the principle that the income, in the form of the fees charged, should balance the total operating expenses over time. For a number of years after its launch the expenses incurred for Alecta Optimal Pension will exceed the income. The deficit is funded through an interest-bearing capital contribution from Alecta's defined benefit collective. For the period 1 July 2013 to 30 June 2018 the interest rate was set at STIBOR (3-month) plus a fixed risk premium of 1,63 percentage points. The interest rate represents the four big Swedish banks' average financing cost for five-year debentures for the same period.

Alecta carefully distinguishes between operating expenses which have been incurred specifically as a result of the decision to invest in a defined contribution product, known as incremental costs, and the portion of the shared expenses to be borne by each product. It is the growth in the defined contribution product's income and incremental costs which creates the real financial risk for the defined benefit plan that is funding the deficit during the start-up phase.

In summer 2014 a milestone was passed as Alecta Optimal Pension's regular annualised income reached a level where it is sufficient to cover the incremental costs. Incremental costs comprise product-specific system administration and system development, direct customer service working hours and costs for information and marketing activities. The accumulated deficit (fees less incremental costs including interest) peaked in 2014 at just under 0,02 per cent of assets under management in the defined benefit plan that is funding the deficit in the start-up phase. The incremental cost deficit is expected to have been fully eliminated by 2018.

Shared expenses comprise costs for management and staff functions, shared systems and infrastructure. As of the second half of 2014 Alecta Optimal Pension has been contributing to covering shared expenses. Alecta Optimal Pension's total expenses, which comprise incremental costs, shared expenses and interest on the deficit, accounted for 0,11 per cent of the capital in 2016, which is close to Alecta's fee ratio of 0,10 per cent in its main ITP business.

The significant synergies that exist among Alecta's products also exist in the company's investment management activities. The capital is managed on the basis of an investment model that is used for all products. No separate decisions are therefore made in respect of the management of each asset class for Alecta Optimal Pension. The difference lies in occasional decisions to adjust the allocation among asset classes and in the requirement for separate monitoring and reporting. Alecta's total investment management expense is 0,02 per cent of assets under management, and is charged to all products. The incremental cost for the management of the Alecta Optimal Pension capital is significantly lower than 0,02 per cent.

The dominant risk in new pension products like Alecta Optimal Pension is the financial risk exposure, i.e. the risk that the product will not be able to bear the associated market risks. However, Alecta Optimal Pension has a higher solvency ratio than Alecta as a whole, mainly because the guarantees in Alecta Optimal Pension are lower than in the defined benefit pension products. At year-end 2016 Alecta Optimal Pension had a solvency ratio of 234 per cent compared with 166 per cent for Alecta as a whole.

Risk management and risk organisation

To protect the interests of our customers and other stakeholders, we need to ensure that we maintain strict control of risks and of how risks are managed. Insurance risks need to be managed in a way which ensures that Alecta is able to meet its insurance commitments. The financial risks taken must generate the highest possible return without jeopardising Alecta's commitments to the insureds. Other risks, such as compliance, sustainability and information security risks, need to be managed in a way that does not obstruct the achievement of Alecta's mission. Operational risks should be managed in a way that strengthens internal control.

It is the responsibility of the Board of Directors to ensure that Alecta has a well balanced risk exposure and good internal control. The Board has delegated the task of monitoring Alecta's investment activities to its Finance Committee and the task of monitoring Alecta's risks and management's handling of these risks to its Audit Committee. The CEO is responsible for the day-to-day management of Alecta's operations, which includes ensuring a high level of internal control.

Insurance risks

The Board of Directors defines actuarial guidelines, which describe the methods and principles to be used for actuarial assumptions. The CEO determines the basis of actuarial calculations, which contains more detailed calculation models as well as the assumptions to be applied in the actuarial calculations. The Chief Actuary is responsible for the management and monitoring of Alecta's insurance risks, which involves a responsibility continuously to adapt actuarial guidelines and the basis of actuarial calculations by submitting proposals for changes.

Financial risks

The Board of Directors adopts Alecta's investment guidelines, which regulate the portfolio structure, risk limits and other aspects. The Board is responsible for ensuring compliance with the guidelines. The Board's Finance Committee adopts guidelines for Alecta's day-to-day investment activities, prepares matters related to the company's investment management activities that will be addressed by the Board and makes decisions on investment-related matters which fall outside the remit of the CEO. The CEO is responsible for the investment activities under the mandate set forth in the investment guidelines and other resolutions of the Board and the Finance Committee. Subject to certain restrictions, this mandate has been sub-delegated to the Head of Investment Management, who is responsible for the management and monitoring of Alecta's financial risks.

Other risks

All managers and employees are responsible for ensuring good internal control in their respective areas of operation, which entails a responsibility for managing and controlling risks and their potential consequences.

Alecta's management of the above risk categories is described in greater detail in Note 3 on pages 68–70.

The following functions have been established to support Alecta's risk management:

- The independent control functions Compliance and Risk Control, and the Actuarial function, which makes independent assessments of Alecta's risks on behalf of the CEO. They also have a supporting role in relation to management and other operational functions.
- The Data Protection Officer, who helps to ensure compliance with the Swedish Personal Data Act.
- The Anti-Money Laundering and Anti-Terrorist Financing Officer, who is responsible for assessing the risk of Alecta's products and services being used for such purposes.
- The Complaints Officer, who is tasked with assisting in the management of customer complaints.
- Risk & Performance, an Investment Management function which operates independently from Alecta's business activities and is responsible for daily control of financial risks.
- The Internal Audit function, which audits and evaluates the company's internal control on behalf of the Board.

Corporate Governance Code

Alecta applies the Swedish Corporate Governance Code even though it has no formal obligation to do so. Those rules in the Code which are not adapted to mutual insurance companies are not applied, however. In accordance with this Code, a corporate governance report has been prepared, which is available at alecta.se.

Five-year summary

GROUP, SEK MILLION	2016	2015	2014	2013	2012
Profit/loss					
Premiums written	33 557	34 377	36 122	25 059	25 217
Invoiced premiums	*29 919*	*31 581*	*25 145*	*23 954*	*25 194*
Guaranteed refunds	*3 638*	*2 796*	*10 977*	*1 105*	*23*
Claims incurred	–21 907	–20 330	–20 195	–17 330	–15 583
Net return on capital	37 529	38 965	75 789	55 219	55 860
Profit before tax	12 320	52 916	18 876	87 620	69 438
Net profit for the year	13 428	52 234	18 216	86 716	68 053
Financial position					
Assets under management [1]	774 059	730 511	682 355	602 266	545 719
– of which pension products	735 430	692 150	645 726	565 903	510 750
Technical provisions	466 273	427 877	427 618	353 930	379 753
Collective funding capital	226 484	228 404	188 275	181 152	115 780
Capital base [2]	302 376	294 553	248 935	246 144	163 877
Required solvency margin [2]	19 231	17 668	17 658	14 648	15 698
Key Performance Indicators					
Total return for the Group, per cent [3]	5,2	5,9	13,0	10,2	11,4
– of which shares	7,2	9,0	17,5	25,3	21,4
– of which debt securities	3,1	1,2	9,4	1,6	7,3
– of which real estate	9,2	18,4	12,3	10,9	8,5
Total return, defined contribution insurance (Alecta Optimal Pension), per cent [4]	5,8	7,9	14,9	17,3	16,8
Total return, defined benefit insurance, per cent [4]	5,1	5,8	12,8	9,8	11,2
Direct return, Group, per cent	2,6	2,7	3,5	3,6	4,1
Management expense ratio [5]	0,09	0,10	0,11	0,12	0,13
– of which pension products excl. selection centre costs	0,06	0,06	0,07	0,08	0,08
Investment management expense ratio [6]	0,02	0,03	0,03	0,03	0,03
Collective funding ratio, defined benefit insurance, per cent	149	153	143	148	129
Collective funding ratio, defined contribution insurance, per cent [7]	100	100	100	100	100
Solvency level, per cent	166	171	159	170	144

1) Defined as equity, provisions for life insurance and claims outstanding.
2) Refers to the Parent Company.
3) Refers to the Group, defined benefit and defined contribution retirement pensions and risk insurance. Calculated for all years in accordance with the recommendations of Insurance Sweden.
4) Calculated for all years in accordance with the recommendations of Insurance Sweden.
5) Calculated as operating expenses and claims management expenses divided by average assets under management.
6) Calculated as operating expenses for investment management divided by average assets under management.
7) Any surplus/deficit is allocated to the insureds on a monthly basis. The collective funding ratio is therefore nearly always 100 per cent.

Alecta has conducted a review of which items are deemed to be relevant to report under Financial position and Key performance indicators. These items are presented in the five-year summary above. This means that there are items and KPIs specified in the general recommendations of the Swedish Financial Supervisory Authority (FFFS 2015:12) that are not presented here and that there are items in the five-year summary which do not appear in the recommendations. As Alecta does not apply Solvency 2 but the transitional provisions for occupational pension providers, Solvency 2-related data is not presented in the five-year summary.

Alternative Income Statement

Group

It can be difficult to obtain an understanding of how the profit of a life insurance company was achieved on the basis of the income statement. The main reason for this is that the changes made to the technical provisions (TP) during the year are recognised on a net basis in the income statement in the items Change in the provision for life insurance and Change in the provision for claims outstanding. As these figures are reported on a net basis, it is not possible to deduce, solely on the basis of the income statement, the company's mortality results or its combined financial results, which, in addition to capital return, also include interest rate effects for TPs.

The alternative income statement is intended to give readers a better understanding of the factors behind the reported results, and has been prepared by allocating the change in TPs and other items from the income statement among the four sub-results: administration result, risk result, financial result and tax result. For each sub-result, income and expenses are matched.

The consolidated profit was SEK 13,4 billion (52,2).

ALTERNATIVE INCOME STATEMENT (SEK MILLION)	2016	2015
Administration result	109	245
Risk result	241	–2 381
Financial result	11 855	55 411
Tax result	1 223	–1 041
Profit/loss for the year	**13 428**	**52 234**

The administration result was SEK 109 million (245) and represents the difference between Alecta's income and operating expenses (excluding investment management expenses, which are presented in the financial result).

TPs include a provision for future operating expenses for the company's current insurance portfolio. The provision for operating expenses is reversed on an ongoing basis and constitutes, together with operating expenses charged to premiums written, Alecta's income (released operating expenses).

Other income, which mainly comprises administrative fees from PRI Pensionsgaranti, is presented separately in the alternative income statement. In Note 8 Operating expenses, other income has instead been deducted from operating expenses.

ADMINISTRATION RESULT (SEK MILLION)	2016	2015
Income	856	980
– of which released operating expenses	*803*	*924*
– of which other income	*53*	*56*
Expenses	–747	–735
Total administration result	**109**	**245**

The risk result was SEK 0,2 billion (–2,4), and shows how closely Alecta's assumptions on mortality, morbidity and use of insurance options agree with actual outcomes. Insurance options refer to the insured's potential right to transfer the value of his or her insurance, decide when payments should begin or end, and discontinue regular premium payments.

The risk result also includes changes in the assumptions used in calculating TPs. The changes made to the assumptions in 2016 are described in the section Technical provisions on page 37.

RISK RESULT (SEK MILLION)	2016	2015
Annual mortality result	106	339
Annual morbidity result	–373	–896
Insurance options	–308	75
Changes in methods and assumptions applied in calculating TPs	1 460	–2 306
Other	–644	407
Total risk result	**241**	**–2 381**

The financial result was SEK 11,9 billion (55,4). The financial result is largely dependent on the performance of financial markets, and normally accounts for most of the net profit for the year. A favourable investment performance contributed to the financial result for 2016. A decrease in the discount rate used in the valuation had the result of increasing TPs. The financial result is also affected by the cumulative return on TPs and by actual operating expenses in investment management. Finally, the financial result is affected by the profit arising on the insurance contracts when the interest rate used in discounting the insurance obligation exceeds the contractual premium interest rate. This profit is recognised in the item other profit sources and is essential to Alecta's ability to distribute substantial refunds to the insureds and the policy holders over the long term.

FINANCIAL RESULT (SEK MILLION)	2016	2015
Result, return on capital	37 511	38 947
– of which investment management expenses	*–180*	*–201*
Released operating expenses for investment management	147	119
Cumulative return on TPs	–13 717	–13 133
Other profit sources	8 842	10 426
Changes in TPs as a result of changed market interest rates	–20 928	19 052
Total financial result	**11 855**	**55 411**

The tax result was SEK 1,2 billion (–1,0). TPs include a provision for future yield tax. The result for yield tax is thus the income which arises on an ongoing basis as provisions for tax are reversed, less the actual cost.

TAX RESULT (SEK MILLION)	2016	2015
Result, yield tax	115	–359
Income tax	1 108	–682
Total tax result	**1 223**	**–1 041**

Proposed appropriation of profits

The Board of Directors and Chief Executive Officer propose to the Council of Administration that the Parent Company's profit for 2016 of SEK 15 908 138 199 be transferred to the funding reserve.

The Board and CEO propose that the Council of Administration approve the resolution of the Board regarding refunds as set forth in the section Distribution of surplus in the Administration Report, pages 39–40.

It is noted that the total return on the guarantee reserve for 2016, after deduction of actual investment management costs and tax, was credited to the guarantee reserve in connection with the elimination of guarantee reserve on 12 December 2016. No decision transferring the return from the funding reserve to the guarantee reserve as in previous years is therefore required in respect of the return for 2016.

Financial statements
Contents

Financial statements

Income Statement

Group

SEK MILLION	NOTE	2016	2015
Premiums written	4	33 557	34 377
Invoiced premiums		*29 919*	*31 581*
Guaranteed refunds		*3 638*	*2 796*
Net return on capital		37 529	38 965
Return on capital, income	*5*	*35 482*	*39 377*
Unrealised gains on investment assets	*6*	*6 647*	*9 672*
Return on capital, expenses	*9*	*–2 027*	*–1 853*
Unrealised losses on investment assets	*10*	*–2 573*	*–8 231*
Claims incurred		–21 907	–20 330
Claims paid	*7*	*–19 494*	*–18 692*
Change in provision for claims outstanding		*–2 413*	*–1 638*
Change in other technical provisions		–35 983	1 379
Provision for life insurance		*–35 983*	*1 379*
Operating expenses	8	–560	–547
Depreciation of owner-occupied properties	17	–18	–18
Yield tax	11	–298	–910
Total operating profit		12 320	52 916
Profit before tax		12 320	52 916
Income tax	12	1 108	–682
NET PROFIT FOR THE YEAR		13 428	52 234

Statement of Comprehensive Income

Group

SEK MILLION	2016	2015
Net profit for the year	**13 428**	**52 234**
Items that can subsequently be reclassified to the income statement		
Foreign exchange differences	1 304	1 031
Accumulated foreign exchange differences reclassified to profit or loss	–1 470	–
Other comprehensive income	**–166**	**1 031**
COMPREHENSIVE INCOME FOR THE YEAR	**13 262**	**53 265**

The entire amount of comprehensive income for the year is attributable to the owners of the Parent Company.

Balance Sheet

Group

SEK MILLION	NOTE	2016-12-31	2015-12-31
ASSETS			
Intangible assets	14	285	310
Property, plant and equipment	15	11	33
Deferred tax	43	5 097	2 157
Investment assets			
Land and buildings			
Investment properties	16	25 447	42 545
Owner-occupied properties	17	855	870
Investments in jointly controlled real estate companies			
Shares and participations in jointly controlled entities (joint ventures) [1]	20, 23, 24, 58	6 045	4 059
Loans to jointly controlled entities (joint ventures) [1]	28, 58	3 655	2 388
Other financial investment assets			
Shares and participations [1]	20, 23, 24, 25	346 171	314 983
Bonds and other debt securities	20, 23, 24, 26, 49, 50	372 328	357 816
Loans secured by real estate [2]	20, 23, 27	–	135
Other loans [1] [2]	20, 23, 24, 28	2 284	2 063
Derivatives	20, 23, 29, 30	7 944	8 209
		764 729	**733 068**
Receivables			
Receivables related to direct insurance operations	20, 31	1 599	1 565
Current tax		728	65
Other receivables	20, 32	4 982	1 729
		7 309	**3 359**
Cash and bank balances	20, 49	**2 856**	**3 302**
Prepaid expenses and accrued income			
Accrued interest and rental income	20, 33	7 124	7 687
Other prepaid expenses and accrued income	20	99	164
		7 223	**7 851**
Assets held for sale	16	5 696	–
TOTAL ASSETS		793 206	750 080

[1] Adjustment compared with the Annual Report 2015 through the reclassification of participations in joint ventures and loans to joint ventures, in accordance with the amended rules in the Swedish Insurance Companies Annual Accounts Act concerning the format of the balance sheet.
[2] Adjustment compared with the Annual Report 2015 through the reclassification of SEK 183 million from the item Loans secured by real estate to Other loans.

Balance Sheet, *cont.*

Group

SEK MILLION	NOTE	2016-12-31	2015-12-31
EQUITY AND LIABILITIES			
EQUITY			
Translation reserve	34	1 487	1 653
Discretionary participation features reserve	34	70 855	60 943
Special indexation funds	34	10 445	10 559
Guarantee reserve	37	–	1 867
Retained earnings including net profit for the year	34	224 999	227 612
Total equity		**307 786**	**302 634**
LIABILITIES			
Provision for life insurance	39	449 546	413 563
Claims outstanding	40	16 727	14 314
Pensions and similar commitments	41	9	21
Other provisions	42	22	37
Current tax		29	37
Deferred tax	43	2 601	3 805
Liabilities related to direct insurance operations	20, 45	683	692
Derivatives	20, 23, 29, 30	8 552	6 020
Other liabilities	20, 46	4 475	5 229
Other accrued expenses and deferred income	20, 47	2 776	3 728
Total liabilities		**485 420**	**447 446**
TOTAL EQUITY AND LIABILITIES		793 206	750 080

Statement of Changes in Equity

Group

SEK MILLION	Translation reserve [1]	Discretionary participation features reserve [1,2]	Special indexation funds [1]	Guarantee reserve [3]	Retained earnings including net profit for the year [1]	Total
OPENING EQUITY AT 1 JANUARY 2015	622	53 348	10 710	1 756	188 301	254 737
Net profit for the year					52 234	
Other comprehensive income	1 031					
Comprehensive income for the year	1 031				52 234	53 265
Allocated refunds		12 218			–12 218	–
Guaranteed refunds		–5 236				–5 236
Collective risk premium [4]			–245			–245
Return on guarantee reserve [5]				231	–231	–
Other changes		613	94	–120	–474	113
Closing equity at 31 December 2015	1 653	60 943	10 559	1 867	227 612	302 634

SEK MILLION	Translation reserve [1]	Discretionary participation features reserve [1,2]	Special indexation funds [1]	Guarantee reserve [3]	Retained earnings including net profit for the year [1]	Total
OPENING EQUITY AT 1 JANUARY 2016	1 653	60 943	10 559	1 867	227 612	302 634
Net profit for the year					13 428	
Other comprehensive income	–166					
Comprehensive income for the year	–166				13 428	13 262
Allocated refunds		14 957			–14 957	–
Guaranteed refunds		–5 946				–5 946
Collective risk premium [4]			–109			–109
Return on guarantee reserve in previous year [5]				107	–107	–
Return on guarantee reserve in current year [5]				95	–95	–
Transfer of guarantee reserve to foundation [3]				–1 955		–1 955
Other changes		901	–5	–114	–882	–100
Closing equity at 31 December 2016	1 487	70 855	10 445	0	224 999	307 786

1) See Note 34 on page 88.
2) Discretionary participation features refer to allocated refunds. See Note 34 on page 88.
3) Reserve for financing the collective agreement guarantee and for use as information funds. The guarantee reserve was eliminated on 12 December 2016, at which date all funds held in the reserve were transferred to an independent foundation with the same purpose as the guarantee reserve. See Note 37 on page 90.
4) 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.
5) Until the financial year 2015 returns were transferred between the funding reserve and guarantee reserve in the following year subject to a decision by the Council of Administration. The return for 2016 was credited to the guarantee reserve in connection with its elimination on 12 December 2016. See Note 37 on page 90.

Cash Flow Statement

Group

SEK MILLION	2016	2015
OPERATING ACTIVITIES		
Profit for the year before tax	12 320	52 916
Interest received	8 581	7 903
Interest paid	–1 576	–52
Dividends received	10 354	9 202
Adjustment for non-cash items [1)]	–1 329	–38 970
Tax paid	–3 520	–1 319
Cash flow from operating activities before changes in assets and liabilities	24 830	29 680
Change in investment assets	–19 170	–22 428
Change in other operating assets	–3 222	–957
Change in other operating liabilities	1 584	–1 312
Cash flow from operating activities	4 022	4 983
INVESTING ACTIVITIES		
Investments in property, plant and equipment	–3	–6
Cash flow from investing activities	–3	–6
FINANCING ACTIVITIES		
Pension supplements/supplementary amounts	–2 308	–2 440
Payment from guarantee reserve	–2 069	–120
Payment of indexation funds	–110	–246
Cash flow from financing activities	–4 487	–2 806
Cash flow for the year	–468	2 171
Cash and cash equivalents at beginning of year	3 302	1 116
Exchange rate differences in cash and cash equivalents	22	15
CASH AND CASH EQUIVALENTS AT END OF YEAR	2 856	3 302
1)		
Depreciation/amortisation/impairment, Notes 14, 15, 17	69	46
Yield tax, Note 11	298	910
Foreign exchange gains, Note 5	–4 245	–7 377
Capital gains, Note 5	–10 283	–11 968
Capital losses, Note 9	0	1
Unrealised gains, Note 6	–6 647	–9 672
Unrealised losses, Note 10	2 573	8 231
Interest income, Note 5	–8 018	–8 122
Interest expenses, Note 9	808	692
Dividends, Note 5	–10 354	–9 220
Adjustment of paid-up values, Note 4	–3	–16
Premium reductions, Note 4	–3 635	–2 780
Change in provision for life insurance, Note 39	35 983	–1 379
Change in provision for claims outstanding, Note 40	2 413	1 638
Other	–288	45
	–1 329	–38 970

Income Statement

Parent Company

SEK MILLION	NOTE	2016	2015
TECHNICAL ACCOUNT, LIFE INSURANCE BUSINESS			
Premiums written	4	33 557	34 377
Invoiced premiums		*29 919*	*31 581*
Guaranteed refunds		*3 638*	*2 796*
Return on capital, income	5	39 891	40 543
Unrealised gains on investment assets	6	6 608	6 190
Claims incurred		–21 907	–20 330
Claims paid	*7*	*–19 494*	*–18 692*
Change in provision for claims outstanding		*–2 413*	*–1 638*
Change in other technical provisions		–35 983	1 379
Provision for life insurance		*–35 983*	*1 379*
Operating expenses	8	–560	–547
Return on capital, expenses	9	–6 057	–1 203
Unrealised losses on investment assets	10	–729	–8 231
Life insurance, balance on the technical account		14 820	52 178
NON-TECHNICAL ACCOUNT			
Life insurance, balance on the technical account		14 820	52 178
Profit before appropriations and tax		14 820	52 178
Appropriations	38	–	115
Profit before tax		14 820	52 293
Tax	13	1 088	–1 219
NET PROFIT FOR THE YEAR		15 908	51 074

Statement of Comprehensive Income

Parent Company

SEK MILLION	2016	2015
Net profit for the year	15 908	51 074
Other comprehensive income	–	–
COMPREHENSIVE INCOME FOR THE YEAR	15 908	51 074

Performance Analysis

Parent Company 2016

SEK MILLION	Total	DIRECT INSURANCE OF SWEDISH RISKS – Occupational pension insurance – Defined benefit insurance	Defined contribution traditional insurance	Occupational disability insurance and waiver of premium insurance	Other life insurance – Group life and occupational group life insurance
Premiums written	33 557	17 296	11 222	4 878	161
Return on capital, income	39 891	33 717	4 153	1 989	32
Unrealised gains on investment assets	6 608	5 585	688	329	6
Claims incurred	–21 907	–15 557	–426	–5 763	–161
Claims paid	*–19 494*	*–15 557*	*–426*	*–3 352*	*–159*
Change in provision for claims outstanding	*–2 413*	*0*	*–*	*–2 411*	*–2*
Change in other technical provisions	–35 983	–28 673	–7 310	–	0
Provision for life insurance	*–35 893*	*–28 673*	*–7 310*	*–*	*0*
Operating expenses	–560	–325	–55	–166	–14
Return on capital, expenses	–6 057	–5 122	–628	–302	–5
Unrealised losses on investment assets	–729	–616	–76	–36	–1
Life insurance, balance on the technical account	**14 820**	**6 305**	**7 568**	**929**	**18**
Technical provisions					
Provision for life insurance	449 546	418 055	31 491	–	0
Claims outstanding	16 727	19	–	16 641	67
Total technical provisions	**466 273**	**418 074**	**31 491**	**16 641**	**67**
Funding reserve	**286 753**	**233 799**	**34 038**	**18 460**	**456**
Total operating expenses, excluding property management expenses					
Operating expenses (administrative expenses in the insurance business)	–560	–325	–55	–166	–14
Claims management expenses (included in Claims paid)	–134	–77	–15	–40	–2
Investment management expenses (included in Return on capital, expenses)	–167	– 143	–16	–8	–0
Total operating expenses, excluding property management expenses	**–861**	**–545**	**–86**	**–214**	**–16**

Balance Sheet

Parent Company

SEK MILLION	NOTE	2016-12-31	2015-12-31
ASSETS			
Intangible assets			
Intangible assets	14	285	310
		285	**310**
Investment assets			
Land and buildings	16	10 741	16 622
Investments in Group companies and jointly controlled entities			
Shares and participations in Group companies	18	6 819	11 441
Debt securities issued by, and loans to, Group companies	19, 20	10 380	10 655
Shares and participations in jointly controlled entities (joint ventures)	20, 23, 24, 58	4 825	2 292
Loans to jointly controlled entities (joint ventures)	28, 58	3 366	2 099
Other financial investment assets			
Shares and participations	20, 23, 24, 25	345 710	314 646
Bonds and other debt securities	20, 23, 24, 26, 49, 50	372 328	357 816
Other loans [1]	20, 23, 24, 28	2 284	2 063
Derivatives	20, 23, 29, 30	7 944	8 209
		764 397	**725 843**
Receivables			
Receivables related to direct insurance operations	20, 31	1 599	1 565
Other receivables	20, 32	10 030	1 741
		11 629	**3 306**
Other assets			
Tangible assets	15	6	6
Cash and bank balances	20, 49	2 444	3 005
		2 450	**3 011**
Prepaid expenses and accrued income			
Accrued interest and rental income	20, 33	7 124	7 687
Other prepaid expenses and accrued income	20	20	38
		7 144	**7 725**
TOTAL ASSETS		**785 905**	**740 195**

[1] Adjustment compared with the Annual Report 2015 through the reclassification of participations in joint ventures and loans to joint ventures, in accordance with the amended rules in the Swedish Insurance Companies Annual Accounts Act concerning the format of the balance sheet.

[2] Adjustment compared with the Annual Report 2015 through the reclassification of SEK 183 million from the item Loans secured by real estate to Other loans.

Balance Sheet, *cont.*

Parent Company

SEK MILLION	NOTE	2016-12-31	2015-12-31
EQUITY, PROVISIONS AND LIABILITIES			
Equity			
Funding reserve	35	286 753	241 922
Guarantee reserve	37	–	1 867
Net profit for the year		15 908	51 074
		302 661	294 863
Untaxed reserves	38	–	–
Technical provisions			
Provision for life insurance	39	449 546	413 563
Claims outstanding	40	16 727	14 314
		466 273	427 877
Other provisions			
Pensions and similar commitments	41	8	20
Taxes	44	28	943
Other provisions	42	22	35
		58	998
Liabilities			
Liabilities related to direct insurance operations	20, 45	683	692
Derivatives	20, 23, 29, 30	8 552	6 020
Other liabilities	20, 46	5 193	6 435
		14 428	13 147
Accrued expenses and deferred income			
Other accrued expenses and deferred income	20, 47	2 485	3 310
		2 485	3 310
TOTAL EQUITY, PROVISIONS AND LIABILITIES		785 905	740 195

Statement of Changes in Equity

Parent Company

	FUNDING RESERVE [1]					
SEK MILLION	Collective funding	Discretionary participation features reserve [2]	Other reserves	Guarantee reserve [3]	Net profit for the year	Total
Opening equity at 1 January 2015	**164 453**	**53 348**	**10 710**	**1 756**	**18 889**	**249 156**
Net profit for the year					51 074	
Other comprehensive income						
Comprehensive income for the year					**51 074**	**51 074**
Appropriation of profits from previous years	18 889				–18 889	–
Allocated refunds	–12 218	12 218				–
Guaranteed refunds		–5 236				–5 236
Collective risk premium [4]			–245			–245
Return on guarantee reserve [5]	–231			231		–
Other changes	–474	613	95	–120		114
Closing equity at 31 December 2015	**170 419**	**60 943**	**10 560**	**1 867**	**51 074**	**294 863**

Opening equity at 1 December 2016	**170 419**	**60 943**	**10 560**	**1 867**	**51 074**	**294 863**
Net profit for the year					15 908	
Other comprehensive income						
Comprehensive income for the year					**15 908**	**15 908**
Appropriation of profits from previous years	51 074				–51 074	–
Allocated refunds	–14 957	14 957				–
Guaranteed refunds		–5 946				–5 946
Collective risk premium [4]			–109			–109
Return on guarantee reserve in previous year [5]	–107			107		–
Return on guarantee reserve in current year [5]	–95			95		–
Transfer of guarantee reserve to foundation [3]				–1 955		–1955
Other changes	–882	901	–5	–114		–100
Closing equity at 31 December 2016	**205 452**	**70 855**	**10 446**	**–**	**15 908**	**302 661**

1) See Note 35 on page 89.
2) Discretionary participation features refer to allocated refunds. See Note 35 on page 89.
3) Reserve for financing the collective agreement guarantee and for use as information funds. The guarantee reserve was eliminated on 12 December 2016, at which date all funds held in the reserve were transferred to an independent foundation with the same purpose as the guarantee reserve. See Note 37 on page 90.
4) 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.
5) Until the financial year 2015 returns were transferred between the funding reserve and guarantee reserve in the following year subject to a decision by the Council of Administration. The return for 2016 was credited to the guarantee reserve in connection with its elimination on 12 December 2016. See Note 37 on page 90.

Cash Flow Statement

Parent Company

SEK MILLION	2016	2015
Operating activities		
Profit for the year before tax and appropriations	14 820	52 178
Interest received	8 705	8 217
Interest paid	–1 576	–58
Dividends received	20 864	9 597
Adjustment for non-cash items [1]	–5 005	–39 321
Tax paid	–3 518	–1 320
Cash flow from operating activities before changes in assets and liabilities	**34 290**	**29 293**
Change in investment assets	–27 445	–23 968
Change in other operating assets	–4 141	614
Change in other operating liabilities	1 224	–967
Cash flow from operating activities	**3 928**	**4 972**
Investing activities		
Investments in property, plant and equipment	–2	–3
Cash flow from investing activities	**–2**	**–3**
Financing activities		
Pension supplements/supplementary amounts	–2 308	–2 440
Payment from guarantee reserve	–2 069	–120
Payment of indexation funds	–110	–246
Cash flow from financing activities	**–4 487**	**–2 806**
Cash flow for the year	**–561**	**2 163**
Cash and cash equivalents at beginning of year	3 005	842
Cash and cash equivalents at end of year	**2 444**	**3 005**

[1]

Depreciation/amortisation/impairment, Notes 14 and 15	28	28
Foreign exchange gains, Note 5	–2 776	–7 368
Capital gains, Note 5	–7 191	–11 560
Capital losses, Note 9	0	1
Unrealised gains, Note 6	–6 608	–6 190
Unrealised losses, Note 10	729	8 231
Reversal of impairment of shares in Group companies, Note 5	–	–2 753
Impairment/reversal of impairment of loans in Group companies, Notes 5 and 9	4 737	–10
Interest income, Note 5	–8 142	–8 255
Interest expenses, Note 9	808	696
Dividends, Note 5	–20 878	–9 627
Adjustment of paid-up values, Note 4	–3	–16
Premium reductions, Note 4	–3 635	–2 780
Change in provision for life insurance, Note 39	35 983	–1 379
Change in provision for claims outstanding, Note 40	2 413	1 638
Other	–470	23
	5 005	**–39 321**

Notes

NOTE 1 Group and Parent Company accounting principles

These annual financial statements for Alecta pensionsförsäkring, ömsesidigt, Corporate Identity Number 502014-6865, with registered office in Stockholm, cover the financial year 2016. The company's postal address is SE-103 73 Stockholm. The visiting address of the head office is Regeringsgatan 107.

The annual report was approved for publication by the Board of Directors on 21 March 2017 and will be presented to the Council of Administration for adoption on 26 April 2017.

Amounts indicated in the notes refer to millions of Swedish kronor (SEK million) unless otherwise indicated. Figures in parentheses refer to the previous year.

Basis of preparation of financial statements

Laws and regulations applying to the 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, 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.

Consolidation

The consolidated financial statements comprise the Parent Company, Alecta pensionsförsäkring, ömsesidigt, and those subsidiaries in which the Parent Company directly or indirectly owns more than half of the voting rights for all shares and participations or otherwise has control. Control means that Alecta has the ability to govern the company, is exposed to or has the right to returns that may vary and is able to govern those activities of the company which affect the returns. Disclosures on shares and participations in Group companies are provided in Note 18. Profits or losses from the operations of subsidiaries that were acquired or sold during the year are included in the consolidated financial statements from the acquisition date until the date when the Parent Company ceases to have control. All intercompany transactions, balance sheet items, income and expenses are fully eliminated on consolidation. Untaxed reserves in legal entities are eliminated in the consolidated financial statements and allocated to equity and deferred tax.

Basis of measurement

The basis of measurement applied in preparing the consolidated financial statements is historical cost, except for derivatives, and assets and liabilities classified to the category financial assets and financial liabilities at fair value through profit or loss. The breakdown by category is described in Note 20.

Technical provisions are calculated at present value and these calculations are based on prudent actuarial assumptions on interest rates, mortality, morbidity, operating expenses and other variables.

The preparation of financial statements in compliance with IFRS requires the use of critical accounting estimates. Management is also required to make certain judgements in applying the Group's accounting principles. Areas which involve a high degree of judgement, are complex or where assumptions and estimates have a material impact on the consolidated financial statements are described in Note 2.

Asset acquisitions and business combinations

In preparing the financial statements, the purchase method has been applied for the acquisition of participations in entities as well as for the direct acquisition of assets and assumption of liabilities of entities. Under this method, an acquisition of participations in an entity is regarded as a transaction in which the Group indirectly acquires the subsidiary's assets and contingent assets and assumes its liabilities and contingent liabilities. The consolidated cost is determined through a purchase price allocation (PPA) in conjunction with the acquisition. In the PPA the cost of the participations or assets and liabilities, and the fair value of acquired identifiable assets and assumed liabilities and contingent liabilities are determined.

When an entity is acquired an assessment is made of whether the acquisition should be classified as a business or an asset. If a property is acquired through the acquisition of a company, the acquisition is treated as if the property had been purchased directly. This type of company normally has no employees and no organisation, or any operations other than those directly linked to the holding of the property. The cost comprises the fair value of the assets and any associated loans. Deferred tax is not recognised as a liability on the surplus value attributable to the acquisition. Any deductions related to deferred tax received in addition to reported tax in the acquired entity are recognised as a reduction of the fair value of the acquired property, both on acquisition and in the subsequent financial statements.

If the acquired assets and assumed liabilities belong to an entity which also engaged in business activities through employees, Alecta will define the acquisition as a business combination. Business combinations are accounted for in accordance with IFRS 3, which means, for example, that acquisition costs are expensed directly and that deferred tax is recognised as the difference between the market value of the acquired assets and their tax residual value.

For each acquisition, Alecta determines whether the acquisition should be classified as a business or an asset. As at 31 December 2016 all of Alecta's acquisitions have been classified as asset acquisitions.

Translation of foreign currency

The Parent Company's functional currency is the Swedish krona and the financial statements are presented in Swedish kronor.

The balance sheets of foreign subsidiaries are translated at the closing rates at the balance sheet date while income statements of foreign subsidiaries are translated at the average exchange rate for the year. Translation differences arising on translation are recognised in Other comprehensive income and are transferred to the Group's translation reserve.

Monetary assets and liabilities in foreign currency have been translated into Swedish kronor at the closing rates at the balance sheet date. Realised and unrealised changes in value resulting from changes in exchange rates are recognised on a net basis in the income statement in Return on capital, income or Return on capital, expenses.

Insurance contracts

As an insurer, Alecta provides a range of insurance products. Alecta distinguishes between pension products and disability and life insurance products. Disability and life insurance products comprise risk insurance policies, for which the premium is determined for periods of one year at a time. These insurance policies do not include a savings component. For pension products, the pension entitlement is earned during the premium payment period. For accounting and actuarial purposes, all of Alecta's products are classified as insurance contracts. The defining feature of an insurance contract is the existence of a significant insurance risk of some kind.

Allocation of surplus and deficit funds

As regards Alecta Optimal Pension, which is a defined contribution product, all surpluses and deficits are allocated to the insureds on a monthly basis. An allocated surplus is disbursed in the form of a supplement to the guaranteed pension ("supplementary amount"). The surplus is not guaranteed but is part of Alecta's risk capital. The size of the surplus or deficit depends on changes in the pension capital, which in turn reflects actual outcomes for returns, tax, mortality and operating expenses in the relevant defined contribution insurance collective. The Company allocates surpluses and deficits by calculating the refund rate on a monthly basis in arrears, which means that the collective funding ratio always remains close to 100 per cent. The surplus is recognised in equity in the balance sheet.

NOTE 1 Group and Parent Company accounting principles, *cont.*

A surplus or deficit arising in other products is transferred to Alecta's funding reserve. The primary function of the funding reserve is to safeguard Alecta's ability to meet its insurance commitments. In the second hand, it is used for distribution of surpluses to policy holders and insureds. A surplus that is distributed to policy holders and the insureds can take the form of a pension supplement for pensions in payment, an increase in earned pension entitlements, a reduction of insurance premiums, cash payments and allocations to policy holders in the form of client company funds. Pension supplements, premium reductions and client company funds become guaranteed in conjunction with disbursement, deposit and use, respectively, and in connection therewith capital is transferred from the funding reserve. An increase in earned pension entitlements becomes guaranteed in conjunction with its allocation to the insurance policies and results in a technical provision.

Changes in accounting principles

New and revised accounting standards for the financial year 2016:

No new IFRS standards applicable from 1 January 2016 have become effective. Changes in existing IFRS standards have not had any significant impact on Alecta's financial statements.

Changes have been introduced in the Swedish Insurance Companies Annual Accounts Act as a result of the new EU Accounting Directive. Memorandum items have been removed, for example. The same information is now presented in a note. As a result of changes in the layout of balance sheets, Shares and participations in jointly controlled entities and Loans to jointly controlled entities are presented on separate lines in the balance sheet. In equity, a new reserve, Reserve for development costs, has been added that will contain internally generated development costs. The reserve constitutes restricted equity until it has been fully used up.

The Regulations and General Guidelines on Annual Accounts of Insurance Companies (FFFS 2015:12) of the Swedish Financial Supervisory Authority have replaced FFFS 2008:26. The new regulations introduce enhanced disclosure requirements for the discount rate used by the entity. The rules on disclosure of accounting-related information on remuneration and benefits of management have been transferred to FFFS 2015:12 from FFFS 2011:2 on remuneration policy.

New and amended standards or interpretations for financial years beginning in 2017 or later. Only those standards that are expected to have an impact on Alecta are described:

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments is a new standard for financial instruments that will replace IAS 39. The standard consists of three parts: classification and measurement, impairment and hedge accounting.

The ISBA's application date for IFRS 9 is 1 January 2018. The IASB has proposed that companies engaged in insurance activities be granted a temporary exemption allowing them to defer the transition to IFRS 9 until 1 January 2021. Alecta's preliminary assessment is that the new standard will not result in significant changes, as the majority of the Group's financial instruments are currently measured in the fair value through profit or loss category. As Alecta does not apply hedge accounting, this part of the standard will not have any impact on the financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers brings together in one standard all regulations on recognition of revenue. It supersedes the standards and interpretations which currently deal with the recognition of revenue.

The standard, which has been adopted by the EU and is applicable from the financial year 2018, does not cover Alecta's core business, insurance. Whether other parts of the Group's income will be covered by the standard has yet to be determined. Alecta's preliminary assessment is that the standard will have a very limited impact on the Group's financial reporting.

IFRS 16 Leases (Not adopted by the EU)

On 13 January 2016 the IASB presented its new financial reporting standard for leases. The standard introduces changes primarily for the lessee while the accounting treatment for the lessor remains essentially unchanged.

Provided the standard is adopted by the EU, it will become effective from the financial year 2019. It remains to be assessed whether it will have an impact on Alecta's financial reporting.

Premiums written

Premiums written can comprise paid-in and credited premiums as well as refunds in the form of adjustments of paid-up values and premium reductions. Reductions are made for special premium tax (relates to TGL). The accounting treatment of premiums written differs depending on whether the premiums relate to defined contribution or defined benefit insurance. The cash principle is applied for defined contribution insurance while the charging system is applied for defined benefit insurance when accounting for premiums written.

Premiums are recognised as income and affect different balance sheet items depending on whether the premium relates to pension insurance or risk insurance. For pension insurance, an increase is made in technical provisions on the liabilities side of the balance sheet while risk insurance premiums are allocated through profit or loss to equity.

Calculation of premiums

Premiums are intended to cover Alecta's commitments to its policy holders. The premium is determined on the basis of actuarial assumptions on interest rates, mortality, morbidity and operating expenses. These assumptions are based on experience and observations, and are broken down by insurance portfolio. Pension insurance can either be defined benefit or defined contribution. For defined benefit insurance, the benefits are specified in the insurance contract and premiums are determined on the basis of actuarial assumptions. Premiums are determined individually for each insured. For defined contribution insurance, the premium is specified in the insurance contract and the benefits are determined on the basis of actuarial assumptions.

The premium for risk insurance is either calculated individually for each insured or distributed collectively over a group of insureds and applies for one calendar year at a time.

Return on capital

Return on capital includes net operating income from investment properties, interest income, interest expenses, dividends on shares and participations, foreign exchange gains and losses, capital gains and losses, and unrealised changes in value on investment assets less operating expenses for investment management. Capital gains and losses are recognised on a net basis for each asset class in Return on capital, income and Return on capital, expenses, respectively. Unrealised gains and losses are also recognised on a net basis for each asset class. Unrealised gains and losses comprise the change for the year in the difference between cost and fair value. When an asset is sold the accumulated unrealised changes in value are reversed as unrealised gain or loss. Changes in value for the year, both realised and unrealised, are recognised through profit or loss in the period in which they arise. Return on capital is presented in Notes 5, 6, 9 and 10.

Claims incurred

Benefits can either be guaranteed under the concluded contract or contingent in the form of a pension supplement, for example. A guaranteed benefit is recognised in the income statement as an expense and reduces the technical provision in the balance sheet by the same amount. A contingent benefit does not affect profit or loss but is recognised directly in equity.

NOTE 1 Group and Parent Company accounting principles, *cont.*

Change in the provision for claims outstanding

The calculation of the provision for claims outstanding is based on Alecta's insurance portfolio and on actuarial assumptions made on the basis of Alecta's actuarial calculation data. Changes in the portfolio or in the assumptions lead to a change in the provision for claims outstanding. Such changes are recognised as an income or expense item in the income statement.

Change in the provision for life insurance

The change in the provision for life insurance reflects actual events during the period, such as premium payments received or outgoing payments made in conjunction with an insured event. The provision for life insurance is also adjusted by the period's return on investment, assumed operating expenses, mortality results and the exercise of the right to switch to pension providers, and by the amount of paid-up policies. In addition, the provision for life insurance is affected by any changes to the method of calculation and the assumptions applied. Examples of assumptions used in calculating the provision for life insurance are the discount rate, mortality and operating expenses. Changes in the provisions are recognised as an income and expense item in the income statement.

Operating expenses

Operating expenses are expenses for employees or temporary staff, costs for premises, IT costs, scheduled depreciation of property, plant and equipment and amortisation of intangible assets, costs for the agency agreement with Collectum, and other operations-related costs. These expenses are recognised as incurred. Operating expenses are divided into the following functions: acquisition, administration, claims management, investment management and property management. Acquisition expenses and administrative expenses are recognised in the item Operating expenses in the income statement. All of Alecta's operating expenses are accounted for in Note 8 to the income statement, broken down by function and type of cost. Alecta does not regard depreciation and impairment of owner-occupied properties as an operating expense in the insurance business. These are therefore recognised as a separate item in the income statement.

Acquisition expenses

Acquisition expenses refer to expenses incurred by the Company in acquiring new insurance contracts. Alecta does not capitalise its acquisition expenses, as the amount is insignificant.

Administrative expenses

Administrative expenses consist of operating expenses incurred by Alecta for the day-to-day administration of its insurance contracts as well as costs for central Group functions, such as finance and legal counsel.

Claims management

Expenses for claims management consist of expenses for managing contracts that are under payment. They also include a portion of the IT expenses incurred in supporting the claims management process and expenses allocated to cover a portion of costs for the central Group functions. Claims management expenses are recognised in the income statement in the item Claims paid.

Investment management

Investment management expenses are recognised in the item Return on capital, expenses in the income statement. These expenses consist of direct costs, primarily personnel, information and IT costs, as well as indirect costs, such as the share of costs for premises and costs allocated for central Group functions.

Property management

Like investment management expenses, property management expenses are recognised in Return on capital, expenses in the income statement. A significant expense item related to property management is external costs, as the management of Alecta's properties has to a large extent been outsourced to external service providers.

Depreciation and impairment of owner-occupied properties

Land and buildings owned by the Alecta Group that are at least 15 per cent used in the operations of the Group are accounted for as owner-occupied properties in the consolidated financial statements. The cost method is applied in measuring the value of owner-occupied properties. Owner-occupied properties consist of land and buildings, the latter of which are divided into different components and depreciated based on their estimated useful lives, which range from 20–50 years. The carrying amounts of owner-occupied properties are tested for impairment annually. In these tests the recoverable amount is assumed to approximate fair value. The full amount of depreciation and impairment (including reversal of impairment) of owner-occupied properties is recognised as depreciation and impairment of owner-occupied properties in the consolidated income statement.

Yield tax

Yield tax is payable on Alecta's pension products and on family cover. The calculation of the basis for yield tax is based on a capital base consisting of all assets at the beginning of the tax year less financial liabilities at the same date. The capital base is multiplied by the average government borrowing rate in the calendar year immediately preceding the beginning of the tax year, which results in a tax base in the form of a standardised return. Yield tax is levied at a rate of 15 per cent of the tax base.

Alecta has made the assessment that the standardised return on the basis of which the yield tax is determined does not constitute a taxable profit as defined in IAS 12. Yield tax is therefore not classified as income tax but is recognised as an expense in operating profit in the consolidated income statement.

Income tax

The tax is calculated individually for each company in each country based on the applicable tax rules. Income tax refers to current tax and deferred tax. Current tax includes tax on earnings and coupon tax on dividends received.

Deferred tax is calculated using the balance sheet method for temporary differences between the carrying amounts and tax bases of assets and liabilities as well as tax loss carry-forwards and other unused tax deductions. In an asset acquisition, the temporary difference arising on the initial recognition of assets and liabilities is not taken into account. Deferred tax assets are recognised to the extent that it is probable that they can be used.

Alecta is entitled to deduct foreign tax credits when calculating future yield taxes and income taxes. Alecta's tax expense (yield tax and income tax) will thus be reduced, resulting in future economic benefits. Alecta's assessment is that an asset should be recognised if the future tax credit can be reliably estimated. The offset of future tax credits against yield tax is not specifically regulated in IFRS. Alecta's assessment is that the right to future tax credits is of a similar nature to income tax credits under IAS 12. An asset related to future tax credits will therefore be recognised as a deferred tax asset even though it will largely be offset against yield tax.

Deferred tax assets and deferred tax liabilities are recognised on a net basis when there is a legal right of set-off and the assets and liabilities refer to taxes levied by the same tax authority.

The business segments in the Parent Company on which income tax is levied are disability pension, waiver of premium and occupational group life insurance (TGL).

NOTE 1 Group and Parent Company accounting principles, *cont.*

Intangible assets

Intangible assets comprise direct expenditure for in-house-developed software. Internally generated intangible assets in the Group are measured at cost. They are expected to generate future economic benefits. All internally generated intangible assets related to in-house-developed software are recognised only if all of the following criteria are met: an identifiable asset exists, it is probable that the asset will generate future economic benefits, the Company has control over the asset, and the cost of the asset can be reliably measured.

Capitalised development costs are amortised on a straight-line basis from the date on which the asset goes into production. Amortisation schedules are prepared based on the estimated useful lives. The amortisation period is 20 years for the insurance system's core system and five years for other, peripheral functions. For other capitalised development costs the amortisation period is three years. The insurance system's core system has functionality for managing Alecta's long-term insurance commitments. Amortisation methods and useful lives are reviewed at each closing date. An individual review is made for each asset. Amortisation is recognised as an operating expense. The value of Alecta's intangible assets is reviewed at each closing date through an assessment of internal and external indications of impairment. If there are indications of impairment, the asset's recoverable amount is determined, and if this amount is less than the carrying amount, the asset is written down to the lower amount.

Property, plant and equipment

Property, plant and equipment consist of IT equipment, machinery and equipment, and artwork, and are measured at cost less accumulated depreciation. Assets are depreciated on a straight-line basis based on their estimated useful lives. The depreciation period is three years for IT equipment and three to five years for machinery and equipment. Artwork is not depreciated. Depreciation methods and useful lives are reviewed at each closing date. At each closing date, an assessment is made of whether there are any indications of impairment of items of property, plant and equipment. If this is the case, the asset's recoverable amount is determined. If the recoverable amount is less than the carrying amount, the asset is written down to the lower amount.

Investment assets

General information

Investment assets consist of the balance sheet items Land and buildings, Investments in Group companies and jointly controlled entities, and Other financial investment assets.

Reporting of business events

Financial assets at fair value are recognised at fair value after the acquisition date. The cost of investment assets excludes transaction costs related to financial instruments. Purchases and sales of financial assets are recognised in the balance sheet on the transaction date. Transactions which have not been settled at the balance sheet date are recognised as a receivable from or liability to the counterparty in Other receivables or Other liabilities. Purchases and sales of land and buildings are recognised in the balance sheet on the completion date.

Transaction costs

Transaction costs which are directly attributable to purchases and sales of financial investment assets are recognised through profit or loss and included in net capital gain or loss in the items Return on capital, income or Return on capital, expenses. Transaction costs attributable to purchases and sales of land and buildings and assets measured at amortised cost are accounted for as an increase in cost or a decrease in capital gain or loss, respectively.

For acquisitions of companies classified as a business combination, the transaction costs are recognised through profit or loss and included in the item Return on capital, expenses.

Land and buildings

Land and buildings are divided into investment properties, owner-occupied properties and development properties. Investment properties are accounted for in accordance with IAS 40 Investment Property, as the purpose of the holding is to generate rental income and/or capital appreciation. In the consolidated financial statements properties which are used in Alecta's operations are accounted for as owner-occupied properties in accordance with IAS 16. Owner-occupied properties are recognised at cost less accumulated depreciation and any accumulated impairment. Owner-occupied properties are divided into components and the depreciation method used reflects the time at which the asset's future economic benefits are expected to have been exhausted. Development properties refer to properties that are being developed or exploited for future use as investment properties. Development properties are measured at fair value in accordance with IAS 40. If it is not possible to determine the fair value, the property may be measured at cost.

Investment properties are measured at fair value, which approximates the property's estimated market value. Changes in value are recognised in profit or loss (see Note 1, Return on capital). For Alecta's Swedish properties, which are externally valued twice a year, fair value is calculated using a return-based method coupled with a sales comparison approach. For the other two quarters of the year, an internal valuation is made using the most recent external valuation as a basis and taking account of subsequent events.

All external valuers base their valuations on information regarding each property's specific characteristics, such as rental income, operating expenses, and current and future leases. In connection with the external valuation the information is quality-assured by Alecta.

All remaining properties in the US have been reclassified in the consolidated balance sheet from Land and buildings to Assets held for sale, see Note 16.

Actual operating and maintenance expenses for Alecta's owner-occupied properties are recognised in the company's operating expenses. A more detailed description of the valuation methods applied can be found in Note 16.

Shares and participations in jointly controlled entities (joint ventures)

Joint ventures are defined as entities in which Alecta exercises joint control together with the other co-owners. Alecta has chosen to recognise joint ventures as financial instruments at fair value through profit or loss, in accordance with IAS 28 p. 18 and IFRS 9. In the balance sheet, shares and participations are recognised in Investment assets. Changes in value are accounted for in the income statement as unrealised gains or losses. Information on holdings in joint ventures is provided in Note 58.

Loans to jointly controlled entities (joint ventures)

Loans to jointly controlled entities refer to shareholder loans to real estate companies of which Alecta is a joint owner (joint ventures). Shareholder loans are measured at amortised cost in accordance with the effective interest method and recognised in the loans receivable category. See Note 28.

Other financial investment assets

Alecta identifies and classifies its financial investment assets as financial assets at fair value through profit or loss on initial recognition. Derivatives are also accounted for in the financial assets at fair value through profit or loss category, as they are considered, by definition, to be held for trade. This classification is based on the fact that Alecta manages and measures all investment assets at fair value. One exception is a small loan portfolio, which has been recognised at amortised cost. The measurement of financial assets traded in an active market is based on observable market data. The fair values of financial assets that are not traded in an active market are determined

NOTE 1 Group and Parent Company accounting principles, *cont.*

with the help of established valuation techniques. Note 23 provides fair value disclosures for each class of financial instrument in a table format, based on a hierarchy with three levels of fair value.

Shares and participations

Shares and participations are measured at fair value through profit or loss on initial recognition. Valuation techniques for shares and participations are described in Note 23. Accumulated changes in value for shares comprise the difference between cost and fair value. Dividends are accounted for as dividends received in the item Return on capital, income.

Bonds and other debt securities

Bonds and other debt securities are measured at fair value through profit or loss on initial recognition. Valuation techniques for bonds and other debt securities are described in Note 23. Accumulated changes in value for debt instruments comprise the difference between amortised cost and fair value. Amortised cost refers to future payments discounted to present value at the effective interest rate. The effective interest is the interest that is accrued over the term of the financial instrument. The calculation takes account of any premiums or discounts at acquisition that have been allocated over the remaining term of the instrument. Accruals of premiums and discounts, accrued interest income and coupon payments received are recognised as interest income in the item Return on capital, income.

Loans secured by real estate

Loans secured by real estate are classified either as loans receivable at amortised cost or as financial assets at fair value through profit or loss, depending on the purpose of the loan. If the loan has basic loan characteristics and is managed on the basis of its contractual return, it is measured at amortised cost using the effective interest method and is recognised in the loans receivable category. Other loans secured by real estate are accounted for in the category financial assets at fair value through profit or loss.

Other loans

Alecta's other loans consist mainly of real estate-related profit participating loans. Participating loans are classified as financial assets at fair value through profit or loss. Other loans are presented in Note 28.

Derivatives

A derivative is a financial instrument whose value depends on the performance of another, underlying instrument. Alecta uses derivatives to improve the efficiency of the management of its assets and to reduce financial risks (see Note 29). Derivatives are classified as held for trade and recognised in the balance sheet at fair value while changes in value are recognised through profit or loss. Derivatives with positive fair values are recognised as financial investment assets while derivatives with negative fair values are recognised as liabilities in the balance sheet. In the income statement, derivatives are accounted for together with the underlying instrument and the net gain or loss is presented in Note 21. Alecta does not apply hedge accounting.

Lending of debt securities

The lending of debt securities was terminated during the year. See Note 50 for more information.

Other financial investment assets

From time to time, Alecta enters into genuine repurchase transactions in the form of repurchase agreements in debt markets. A repurchase agreement in the debt market is a transaction in which Alecta either purchases debt securities and sells them back at a pre-determined price at a later date or sells debt securities and buys them back at a pre-determined price at a later date.

For repurchase agreements in which Alecta has purchased debt securities and agreed to resell the same securities at a pre-determined price at a later date, the purchased debt securities are not recognised as an asset in Bonds and other debt securities in the balance sheet. Instead, the asset is recognised as a receivable in Other financial investment assets and is measured at fair value.

Similarly, repurchase agreements in which Alecta has sold debt securities and agreed to repurchase the same securities at a pre-determined price at a later date are recognised as an asset in Bonds and other debt securities. The consideration received is, however, recognised as a liability in Other liabilities and is measured at fair value.

Receivables related to direct insurance operations

Receivables related to direct insurance operations are recognised at amortised cost.

Other receivables

Other receivables are recognised at amortised cost.

Cash and cash equivalents

Cash and cash equivalents constitute a financial asset and are classified in the loans and receivables category. Cash and cash equivalents are termed cash and bank balances in the Group as well as the Parent Company.

Prepaid expenses and accrued income

Prepaid expenses and accrued income comprise expenditure for future financial years and income earned during the financial year that has not been received or invoiced at the balance sheet date. Alecta's prepaid expenses and accrued income mainly comprise interest receivables not yet due for investment assets.

Translation reserve

Balance sheets of foreign subsidiaries are translated at the closing rates at the balance sheet date and income statements of foreign subsidiaries are translated at the average exchange rate for the year. Foreign exchange differences arising on translation are recognised in Other comprehensive income and transferred to the Group's translation reserve. The currencies that have been translated are the US dollar, pound sterling and euro.

Discretionary participation features reserve

The discretionary participation features reserve in equity consists of refunds to policy holders and insureds that have been allocated on a preliminary basis. Allocated refunds to the insureds include pension supplements and adjustments of paid-up values for defined benefit pension products as well as refunds for defined contribution insurance that have been allocated on a preliminary basis. Allocated refunds to policy holders comprise a premium reduction for risk insurance. Allocated refunds to policy holders and the insureds also include funds intended to cover the cost of measures forming part of the ITP plan, under which the parties to the collective agreement have been given 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. The allocation of surpluses is regulated in the Company's funding policy in the actuarial guidelines. As the surplus is preliminary and not guaranteed, it is regarded as risk capital and is included in the Company's funding reserve. The surplus is allocated in conjunction with payment under the applicable internal regulations and is recognised directly in equity.

Special indexation funds

Special indexation funds are funds which are allocated to secure the indexation of pensions or for other pension-promoting purposes. These funds only

NOTE 1 Group and Parent Company accounting principles, *cont.*

become available to Alecta subject to a decision by the Confederation of Swedish Enterprise and the Council for Negotiation and Co-operation for Salaried Employees (PTK). Special indexation funds are therefore not included in collective funding capital. Change items are recognised directly in equity.

Guarantee reserve becomes guarantee foundation

The guarantee reserve was eliminated on 12 December 2016. The funds were transferred to an independent foundation with the same purpose as the guarantee reserve. The guarantee reserve was established in 2007 with funds allocated in 1998 as cost cover for measures related to the ITP plan. The purpose of the Guarantee reserve and now the Guarantee foundation, which is based on collective agreements, is to finance the collective guarantee and ITP- and TGL-related information activities of the parties to the collective agreements. The collective guarantee, which is a fundamental part of the ITP plan, ensures that the insureds receive their pension benefits in the event that an employer has failed to take out the insurance provided for in the collective agreement or when an employer has failed to pay the premiums as a result of bankruptcy or other circumstances.

Up until the date of the elimination of the guarantee reserve the funds in the reserve were adjusted upwards or downwards annually by an amount corresponding to the percentage rate for the total return on Alecta's investment assets after deduction for yield tax and incurred management costs. The guarantee reserve is presented in Note 37.

Retained earnings including net profit for the year

This item includes collective funding and net profit for the year. Collective funding includes other risk capital, which is not allocated.

Technical provisions

Technical provisions comprise the capital value of the Company's guaranteed commitments for insurance contracts in force and consist of the provision for life insurance and the provision for claims outstanding. These provisions are calculated according to generally accepted actuarial principles. This means that the provisions are measured at present value and that the calculations are based on prudent actuarial assumptions on interest rates, mortality, morbidity, operating expenses and other variables. Technical provisions also include pension commitments to Alecta's employees in accordance with the FTP plan.

Provision for life insurance

The provision for life insurance is calculated as the capital value of expected guaranteed future pension payments, operating expenses, yield tax and contractual future premiums.

Provision for claims outstanding

The provision for claims outstanding is intended to cover future costs for insurance claims arising from incapacity to work. The technical provision is determined when the right to compensation arises. A portion of the provision for claims outstanding relates to claims incurred but not reported and is based exclusively on the Company's experience of the backlog of reported cases of illness, which does not normally extend beyond one year.

Pensions in the Alecta Group

All pension plans in the Group are accounted for as defined contribution plans. This means that contributions are recognised as an expense in the period in which the benefits are earned, which in most cases is the same as when the contribution is paid. The FTP Agreement provides an option for employees born in 1955 or earlier to retire on their own initiative with effect from the month after they turn 62. If this option is exercised, Alecta will pay a single premium to cover the additional retirement benefits. An unfunded provision equal to 100 per cent of the expected premium is made for employees who have notified Alecta that they intend to exercise this option. For other employees who have the opportunity to retire early, an unfunded provision is made based on the assumption that the benefit will be earned on a straight-line basis up to the age of 62 and that 60 (60) per cent of the employees will exercise the option.

Provisions

A provision is a liability that is uncertain in terms of its due date and/or amount. A provision is recognised in the balance sheet when an existing obligation arises as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. An obligation can be legal or constructive. If these criteria are not met, no provision is recognised in the balance sheet. Instead, a contingent liability will arise, if the criteria for a contingent liability are met. Provisions are reviewed at each closing date. Provisions are used only for the expenditure for which the provision was originally intended.

Liabilities related to direct insurance operations

Liabilities related to direct insurance operations are recognised at amortised cost.

Accrued expenses and deferred income

Accrued expenses and deferred income comprise expenses for the financial year that have been incurred by the business but have not been paid or invoiced at the balance sheet date, and income that has been paid or invoiced but has not been earned at the balance sheet date. Alecta's accrued expenses and deferred income mainly relate to property costs, rental income, personnel costs and interest expenses.

Cash flows

Cash flows are recognised according to the indirect method. 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. 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.

Leases

Leases in which essentially all risks and rewards of ownership accrue to the lessor are classified as operating leases. Based on this definition, all of the Group's rental agreements are classified as operating leases. Lease payments for operating leases are recognised as an expense on a straight-line basis over the term of the lease. All rental agreements for the Group's investment properties are classified as operating leases. Rental income is recognised as income on a straight-line basis so that only that portion of the rent which is attributable to each period is recognised as income in the period.

Laws and regulations applying to the Parent Company

The Parent Company applies IFRS with certain limitations contained in Swedish statutes, which means that international financial reporting standards are applied to the extent possible under Swedish accounting legislation. The Parent Company's financial reporting follows the Swedish Insurance Companies Annual Accounts Act, the Regulations and General Guidelines on the Annual Accounts of Insurance Companies (FFFS 2015:12) of the Swedish Financial Supervisory Authority and Recommendation RFR 2 Accounting for Legal Entities of the Swedish Financial Reporting Board.

NOTE 1 Group and Parent Company accounting principles, *cont.*

As the Group complies with IAS/IFRS standards, as adopted by the EU, the accounting principles in the Parent Company differ in certain respects from the accounting principles applied in the Group. Differences of material significance for the Parent Company are specified below.

Funding reserve
Life insurance companies which do not have the right to distribute profits are required to maintain a funding reserve to which funds are allocated that can be used to cover losses. If permitted by the articles of association, the reserve may also be used for other purposes. The funding reserve is part of equity and consists of collective funding, the discretionary participation features reserve and other reserves.

Appropriations, untaxed reserves, Group contributions
Swedish tax legislation allows companies to reduce their taxable income for the year by transferring funds to untaxed reserves in the balance sheet through the income statement item Appropriations.

Due to the relationship between accounting and taxation, the deferred tax liability attributable to untaxed reserves is not accounted for separately in the Parent Company.

In the consolidated financial statements, the tax allocation reserve is eliminated and the amount is divided between equity and deferred tax.

The Parent Company recognises Group contributions received from and provided to subsidiaries as appropriations.

Yield tax
Yield tax is applied to Alecta's pension products and family cover, and is calculated based on the market value of net financial assets at the beginning of the financial year. In the Parent Company income statement, yield tax is recognised together with income tax in the Tax item.

In the consolidated income statement, yield tax is accounted for separately and is included in operating profit.

Provision for pensions
In the Parent Company, the calculation of the provision for pensions for Alecta's employees is made in compliance with the Swedish Pension Obligations Vesting Act and based on assumptions provided for in Regulation FFFS 2007:31 of the Swedish Financial Supervisory Authority.

Land and buildings
In the Parent Company, investment properties and owner-occupied properties are recognised at fair value in the balance sheet, and changes in value are recognised through profit or loss.

In the Group, owner-occupied properties are recognised at cost less accumulated depreciation.

Shares and participations in Group companies
In the Parent Company, shares and participations in Group companies are recognised at cost less impairment.

Debt securities issued by, and loans to, Group companies
Intercompany loans and receivables are financial assets which are not quoted in an active market. These assets are classified as loans receivable and are measured at amortised cost by applying the effective interest method.

Business combinations
On the acquisition of a real estate company, all acquisition costs are accounted for as an increase in the cost of shares and participations in the Parent Company.

NOTE 2 Significant estimates and judgements

The preparation of financial statements and application of different accounting standards are often based on estimates and judgements made by management and the Board of Directors. These estimates and judgements are in most cases based on historical experience but may also be based on other factors, including expectations of future events. Management evaluates these estimates and judgements on a continuous basis. Actual outcomes may differ from the estimates and judgements applied.

Those estimates and judgements which Alecta deems to have the biggest impact on earnings and/or on assets and liabilities are described below.

Technical provisions

The calculation of technical provisions requires qualified judgements as well as assumptions on mortality, morbidity, interest rates, expenses, tax and other variables. The valuation of technical provisions is described in the accounting principles in Note 1. The sensitivity of the assumptions used as a basis for the valuation of technical provisions is described in Note 3. For information on current assumptions, see Note 39 and Note 40.

Financial instruments

The measurement of financial instruments at fair value is based primarily on quoted prices in active markets (active market is defined in Note 23). For holdings for which quoted prices in an active market are not available, generally accepted valuation models are used along with established valuation techniques. A presentation of Alecta's holdings of financial instruments by valuation category is presented in Note 23. The measurement of financial instruments is described in Note 1, and a sensitivity analysis is shown in Note 3.

Investment properties

Alecta's Swedish properties are valued at fair value using a return-based method and a sales comparison approach, and are valued externally every six months. For foreign properties, the applicable valuation method is applied in each country, which means that both the return-based method and the sales comparison approach are used. The methods require several assumptions concerning factors such as rental growth, cost increases, vacancy rates, inflation and discount rates. A change in any of these assumptions will affect the valuation. The valuation of Alecta's properties is described in the accounting principles in Note 1. The carrying amounts of the holdings along with a sensitivity analysis of the assumptions used as a basis for the valuation are found in Note 16. Alecta's current use of the investment properties is deemed to be the best use, which means that the valuation of the properties should reflect the assets' maximum value.

Intangible assets

Alecta has a significant intangible asset in the form of accrued development costs for the insurance system. At each closing date, the value of each asset is assessed individually. The amortisation method and the useful life of the asset are also reviewed. The carrying amounts of intangible assets are shown in Note 14.

Income tax

When calculating the basis for income tax, an assessment needs to be made of the allocation of income and expenses between operations subject to income tax and operations subject to yield tax. The principles applied have a direct impact on the estimated income tax. Alecta's assets, liabilities and equity for the various operations, and the key performance indicators for Alecta's various products are also affected.

Deferred tax

Deferred tax assets and liabilities are recognised for temporary differences, unused tax loss carry-forwards and other unused tax deductions. The reported deferred tax is affected by assumptions and judgements used in determining the carrying amounts of different assets and liabilities, and in estimating future taxable profits.

Each year, Alecta assesses whether new deferred tax assets can be recognised and whether tax loss carry-forwards or unused tax deductions from previous years have been impaired.

Alecta is entitled to deduct foreign tax credits when calculating future yield tax and income tax. The resulting future economic benefits are recognised as a deferred tax asset, even though the asset will largely be offset against yield tax. An asset is recognised when the future tax credit can be reliably measured.

The carrying amounts of deferred tax liabilities and tax assets are shown in Note 43.

NOTE 3 Risks and risk management

A general description of Alecta's risk management and risk organisation is provided in the Administration Report (page 44). In this note Alecta's various risk categories are described in greater detail.

Risk of loss

This risk category refers to the risk of consequences in the form of loss of reputation or financial loss, for example. Such consequences may result from a failure to manage risks in the risk categories described below.

Insurance risks

Insurance risks are risks associated with Alecta's insurance products and insurance portfolio, and relate to factors such as pricing, the calculation of technical provisions, and the calculation and allocation of surplus funds. These calculations are based on actuarial assumptions, primarily assumptions on mortality, morbidity, operating expenses and interest rates, each of which constitutes a risk.

To determine the reliability of the actuarial assumptions used, Alecta's reported earnings are analysed from an actuarial perspective each year. This is done by comparing actual outcomes for mortality, morbidity, operating expenses and return on capital with the assumptions used. The assumptions are revised when the analysis shows this to be necessary. Changes to assumptions can lead to a change in technical provisions and/or the determination of premiums. As Alecta's insurance collectives are large and diversified, concentration risks are negligible.

In 2016 the independent Risk Control function conducted a review of Alecta's insurance risks, which included a review of Alecta's actuarial assumptions and calculations.

Mortality risk

Mortality risk is the risk that the average life expectancy of the insureds will differ from what has been assumed. The risk varies depending on whether the insurance offers a death benefit or life benefit. In a death benefit insurance policy the insurance amount is paid out when the insured dies. Alecta's family pension, family cover and TGL (occupational group life insurance) products are death benefit policies. In a life benefit insurance policy the insurance amount is paid out when the insured reaches the age specified in the contract. Retirement pension and ITPK are life benefit policies. Retirement pension with repayment cover is an example of a combined death benefit and life benefit insurance policy.

A reduction in mortality means that the insureds live longer than the Company had assumed. A life benefit insurance policy is negatively affected by reduced mortality, as the costs for the policy increase because the pensions have to be paid out over a longer period than originally assumed. The opposite applies to death benefit insurance.

In 2015 Alecta updated the mortality assumptions used in calculating the provision for life insurance. Under the assumptions used, a man or a woman born in the 1950s is expected to live for a further 22,2 (22,2) and 23,9 (23,9) years, respectively, after their 65th birthday. The increase in life expectancy for individuals born thereafter is assumed to be approximately 0,8 (0,8) years for each birth decade.

A 20 per cent decrease in assumed mortality means that the life expectancy of people aged 65 today will increase by 1,6 (1,6) years and that Alecta's life insurance provision will increase by approximately 5 (5) per cent.

Morbidity risk

Morbidity risk is the risk that the insured will remain ill for a longer period or at a higher level of compensation than originally assumed. Alecta's morbidity risk is included in its disability and waiver of premium insurance products. When an insured falls ill, a technical provision is made based on specific assumptions on the future degree of incapacity to work and the duration of the illness.

If the probability of recovery decreases by 20 per cent at each future date while the level of working capacity decreases by 20 per cent, the technical provisions for disability pension and waiver of premium will increase by approximately 21 (22) per cent.

Operating expenses risk

The operating expenses risk consists in the possibility that Alecta's operating expenses will be higher than was assumed at the time of calculating the premiums and benefits. Alecta monitors operating expenses on an ongoing basis to ensure that they do not exceed the levels assumed in the calculations.

Interest rate risk

Interest rate risk arises from the assumptions on future returns used as a basis for calculating premiums and benefits. Technical provisions are valued mainly on the basis of the yield curve defined in the regulations of the Swedish Financial Supervisory Authority. In the annual report the yield curve is expressed as a cash flow-weighted average interest rate. The impact of the interest rate on Alecta's results and solvency ratio is described in the sensitivity analysis on page 69. A further description of the management of the total interest rate risk for assets and liabilities is provided under Matching risk on the next page.

Financial risks

Financial risks exist in the investment activities and comprise market, credit and liquidity risks, matching risk and solvency risk. The goal for the investment activities is to generate a sustainable positive inflation-adjusted return, i.e. a return which consistently exceeds both inflation and the growth of Alecta's insurance commitments. In 2016 the independent Risk Control function assessed the value of Alecta's investment assets on a four-monthly basis. Some aspects of risk management in Alecta's investment management activities were also reviewed.

Market risk

Market risk is the risk that the value of Alecta's investments will be negatively affected by changes in interest rates, exchange rates or the prices of shares, bonds or real estate. To limit market risk and avoid concentrations in the portfolio, Alecta spreads its investments across different asset classes and markets.

Asset allocation

	Exposure		Share of portfolio	
Asset class	2016	2015	2016	2015
Shares	332 862	307 776	43,2 %	42,1 %
Debt securities	383 172	361 615	49,7 %	49,4 %
Real estate	54 409	62 159	7,1 %	8,5 %
Total	**770 444**	**731 550**	**100,0 %**	**100,0 %**

The table shows Alecta's asset allocation based on the classification in the total return table, see page 36. A detailed breakdown by asset class is presented in the diagrams on page 38.

To ensure that Alecta is able to meet its solvency requirements by a comfortable margin even in adverse market conditions, the investment policy establishes limits for risk levels. Various derivatives, such as interest rate futures, equity futures, forward exchange contracts and interest rate and currency swaps, are used to reduce the risks in the event of major price fluctuations, and to increase the cost-effectiveness of Alecta's asset management activities. Alecta also hedges its entire holdings of foreign bonds and real estate and a portion of its holding of foreign shares. Alecta's total currency exposure after hedging was equal to 12,1 per cent (15,9) of total

NOTE 3 Risks and risk management, *cont.*

investments at year-end. Without currency hedging, 43,8 per cent (45,8) of Alecta's assets would have been exposed to exchange rate fluctuations.

Currency exposure after hedging

	Share of investment portfolio		Exposure	
	2016	2015	2016	2015
EUR	0,2 %	2,0 %	1 640	14 558
CHF	0,4 %	1,5 %	3 317	10 973
GBP	0,5 %	1,1 %	3 548	7 828
USD	9,2%	9,3 %	71 033	68 400
Other currencies	1,8 %	2,0 %	13 505	14 777
Net exposure	**12,1 %**	**15,9 %**	**93 043**	**116 536**

Credit risk

Credit risk is the risk of financial loss due to the insolvency of an issuer or counterparty. Alecta analyses the credit risks associated with different types of investment and establishes credit limits for issuers and counterparties. Limits have also been established for single exposures, i.e. limits for Alecta's total equity and debt securities exposure to the same corporate group. Risk & Performance verifies that these limits are not exceeded on a daily basis.

Debt securities mainly comprise investments in securities issued by borrowers with very high credit ratings. Investments are made mainly in bonds assigned a rating of BBB– or higher by the Standard & Poor's rating agency. In addition to external ratings, all issuers are assessed for credit risk using internal credit rating models. Of Alecta's total debt securities, 35 (43) per cent is invested in Swedish and foreign government securities, 21 (18) per cent in Swedish mortgage-backed securities and 45 (39) per cent in securities issued by other issuers (see Note 26 on page 85).

Credit exposure

	Bonds and other debt securities			
	Market value		Share	
	2016	2015	2016	2015
Rating Aaa/AAA	138 277	160 079	37,1 %	44,7 %
Rating Aa/AA	117 640	43 255	31,6 %	12,1 %
Rating A/A	54 525	114 531	14,6 %	32,0 %
Rating Baa/BBB	39 133	26 772	10,5 %	7,5 %
Rating Ba/BB	3 375	417	0,9 %	0,1 %
Unrated	19 379	12 762	5,2 %	3,6 %
of which securities issued by stated-owned issuers	*4 877*	*4 665*	*1,3 %*	*1,3 %*
Total	372 328	357 816	100,0 %	100,0 %

Liquidity risk

Liquidity risk is the risk of loss on financial instruments arising from the inability to immediately sell an instrument without lowering the price or the risk that Alecta will be unable to meet its payment obligations at maturity without an increase in the cost of obtaining the necessary funds. Alecta's payment obligations consist of insurance obligations and financial liabilities. Of Alecta's total obligations, approximately 95 per cent have a maturity in excess of five years, see Notes 39 and 40 on page 91. Alecta's financial liabilities are limited to the derivatives used to hedge foreign currency risk and interest rate risk, and usually have a maturity of less than one year. Information on the nominal values of Alecta's derivatives is presented in Note 29 on page 85. A maturity analysis of financial liabilities is also presented in Note 22 on page 80. Liquidity risk is monitored through detailed cash flow forecasts and is limited by the fact that a large portion of Alecta's investments is invested in highly liquid assets. Note 23 on page 81 shows that SEK 337 billion of Alecta's investments consist of shares in listed companies that can be converted into cash within one week. The remaining investments are deemed to convertible into cash within one year, and the liquidity risk is therefore regarded as negligible.

Matching risk

Matching risk is the risk of a deterioration in the Company's financial position due to differing characteristics between assets and technical provisions. The value of Alecta's insurance commitments and debt securities depends on the level of interest rates. When interest rates fall, Alecta's commitments increase, as does the value of its debt securities. Given that the commitments are larger and have a longer average maturity than the debt securities, a decrease in interest rates has a negative impact. Information on the maturities of the commitments as well as fixed-rate terms for the asset portfolio is provided in Notes 39 and 40, and Note 26, respectively.

To limit matching risk, Alecta uses an asset liability management (ALM) analysis that is aimed at identifying the optimal composition of investment assets with regard to Alecta's commitments as well as its target return. The analysis also takes account of how Alecta's investment assets and liabilities at market value, and thus also its risk capital, are affected by price fluctuations in financial markets. Decisions on the composition of investments are based on Alecta's long-term assessments of market conditions in relation to its obligations, targets and financial position. Decisions are reported on an ongoing basis in the Board's Finance Committee.

Solvency risk

Solvency risk is the risk that Alecta will be considered to have insufficient risk capital to ensure that it is able to meet its guaranteed commitments. The Swedish Financial Supervisory Authority measures solvency risk using its traffic light model. Alecta's risk capital meets the criteria for "green light" by a wide margin. In addition, Alecta performs its own stress tests on a daily basis. The tests identify significant financial risks and are based on slightly more adverse market scenarios than those prescribed in the traffic light model. The stress tests measure risk exposure, and in the event that a limit is reached, action is taken to safeguard Alecta's solvency.

Sensitivity analysis

	Effect on			
	Solvency ratio (% points)		Net profit for year/Equity	
Group	2016	2015	2016	2015
Interest rate decrease 1% point	–10,1	–12,1	–24 318	–26 492
Share price decrease 10%	–7,1	–7,2	–33 286	–30 778
Real estate value decrease 10%	–1,2	–1,5	–5 441	–6 216
Exchange rate decrease 10%	–2,0	–2,7	–9 363	–11 676

The table shows how the solvency ratio and net profit for the year would be affected by a decrease in the value of shares, properties and currencies, and by a decrease in market interest rates, regardless of maturity and market. A decrease in market interest rates increases the value of Alecta's commitments as well as its debt securities.

Operational risks

Alecta defines operational risk as the risk of operational inadequacies or failures related to personnel, organisation and processes, IT systems or security. Such inadequacies or failures can cause risks in other risk categories. For example, inadequate expertise on the part of Alecta's personnel could result in the Company unknowingly being exposed to financial risks. Operational risks are counteracted by good internal control.

NOTE 3 Risks and risk management, *cont.*

Other risks
In addition to the aforementioned risks, Alecta needs to manage other risks, such as compliance risks, sustainability risks and information security risks.

Risk self-assessment
Using a central self-assessment method, all departments at Alecta identify and assess their risks in various risk categories on an annual basis. Areas of potential improvement are identified and decisions are made on which risk reduction measures or financially motivated or other measures to take. Work on continuous improvement in Alecta's day-to-day operations also helps to reduce risks.

Incident management
Despite the preventive actions that are taken to identify and reduce risks, incidents may still occur. Such incidents must of course be addressed immediately to limit any possible damage and loss. Equally important is to learn from what has occurred and take measures to try to prevent similar incidents from occurring again. Incidents are therefore discussed and reported at all levels of Alecta on a regular basis.

NOTE 4 Premiums written

Group and Parent Company	2016	2015
Current premiums	28 093	25 351
Single premiums	1 940	6 349
Premium tax [1]	–114	–119
Invoiced premiums	**29 919**	**31 581**
Adjustment of paid-up values	3	16
Premium reduction	3 635	2 780
Guaranteed refunds	**3 638**	**2 796**
Total premiums written	**33 557**	**34 377**

[1] The tax base is 95 per cent (95) of premiums received for TGL. The tax is 45 per cent (45) of the tax base

NOTE 5 Return on capital, income

	Group		Parent Company	
	2016	2015	2016	2015
Rental income from land and buildings	2 569	2 679	904	970
Dividends received	10 354	9 220	20 878	9 627
of which Group companies	–	–	*10 920*	*494*
Interest income, etc.	8 018	8 122	8 142	8 255
bonds and other debt securities	*7 815*	*7 920*	*7 815*	*7 920*
other interest income	*203*	*202*	*186*	*186*
other interest income, Group companies	–	–	*141*	*149*
Reversal of impairment	–	–	–	2 763
shares and participations in Group companies	–	–	–	*2 753*
loans with Group companies	–	–	–	*10*
Net foreign exchange gains	4 245	7 377	2 776	7 368
Net capital gains	10 283	11 968	7 191	11 560
land and buildings	*3 802*	*636*	*710*	*228*
shares and participations	*4 801*	*9 966*	*4 801*	*9 966*
bonds and other debt securities	*1 680*	*1 366*	*1 680*	*1 366*
Other	13	11	–	–
Total capital return, income	**35 482**	**39 377**	**39 891**	**40 543**

NOTE 6 Unrealised gains on investment assets

	Group		Parent Company	
	2016	2015	2016	2015
Land and buildings	–	4 631	–	1 212
Shares and participations	4 158	4 936	4 119	4 873
Bonds and other debt securities	2 352	–	2 352	–
Other loans	137	105	137	105
Total unrealised gains on investment assets	**6 647**	**9 672**	**6 608**	**6 190**

NOTE 7 Claims paid

Group and Parent Company	2016	2015
Basic amount paid before indexation	–17 086	–16 376
Waiver of premium paid	–1 882	–1 765
Cancellations and repurchases [1]	–392	–419
Operating expenses for claims management	–134	–132
Total claims paid	**–19 494**	**–18 692**

[1] The item includes transferred capital of SEK 376 million (402).

NOTE 8 Operating expenses

	Group		Parent Company	
	2016	2015	2016	2015
Administrative expenses	–560	–547	–560	–547
Total operating expenses in the insurance business	**–560**	**–547**	**–560**	**–547**
Claims management [1]	–134	–132	–134	–132
Investment management [2]	–180	–201	–167	–178
Property management [3]	–74	–86	–44	–46
Total operating expenses	**–948**	**–966**	**–905**	**–903**
Specification of total operating expenses				
Personnel costs	–429	–449	–419	–430
Costs for premises	–24	–21	–23	–20
Amortisation/depreciation	–26	–26	–26	–26
IT costs	–217	–214	–215	–214
Property management costs	–74	–86	–44	–46
Selection centre costs	–132	–123	–132	–123
Other costs [4]	–94	–96	–94	–93
Administration fees	48	49	48	49
Total operating expenses	**–948**	**–966**	**–905**	**–903**

1) Recognised in Claims paid in the income statement, see Note 7.
2) Recognised in Return on capital, expenses in the income statement, see Note 9.
3) Recognised in Return on capital, expenses in the income statement (included in the item Operating expenses for land and buildings in Note 9).
4) Other expenses largely comprise costs for consultants and fees paid to the Swedish Financial Supervisory Authority

NOTE 9 Capital return, expenses

	Group		Parent Company	
	2016	2015	2016	2015
Operating expenses for land and buildings	–990	–912	–324	–308
Investment management expenses [1]	–180	–201	–167	–178
Interest expenses, etc.	–808	–692	–808	–696
bonds and other debt securities	*–781*	*–676*	*–781*	*–676*
other interest expenses	*–27*	*–16*	*–27*	*–20*
other interest expenses, Group companies	–	–	–	–
Custodian expenses	–21	–20	–21	–20
Depreciation/amortisation and impairment	–	–	–4 737	–
shares in Group companies	–	–	*–4 737*	–
Net capital losses	–	–1	–	–1
land and buildings	–	–	–	–
other loans	–	*–1*	–	*–1*
Other	–28	–27	–	–
Total capital return, expenses	**–2 027**	**–1 853**	**–6 057**	**–1 203**

1) In addition to these expenses, external fees of approximately SEK 78 million (81) were paid for investments in unlisted real estate funds. These fees have been recognised as a negative change in the value of the holding and are therefore included in the net amount of unrealised gains on shares and participations in Note 6.

NOTE 10 Unrealised losses on investment assets

	Group		Parent Company	
	2016	2015	2016	2015
Land and buildings	–2 573	–	–729	–
Bonds and other debt securities	–	–8 231	–	–8 231
Total unrealised losses on investment assets	**–2 573**	**–8 231**	**–729**	**–8 231**

NOTE 11 Yield tax

Group and Parent Company	2016	2015
Yield tax [1]	–298	–906
Adjustment of tax attributable to previous years	0	–4
Total yield tax	**–298**	**–910**
1) Yield tax		
Basis [A]	731 031	683 591
Capital base [B]	693 749	646 609
Tax base [C]	4 024	10 475
Yield tax before foreign tax credit [D]	–603	–1 571
Tax credit for paid coupon tax and income and property tax on foreign properties in previous year	305	665
Yield tax	**–298**	**–906**

Sensitivity analysis	Effect on yield tax before foreign tax credit	
Group	2016	2015
Capital base +/– 10%	–/+ 60	–/+ 157
Allocation percentage +/– 1% point	–/+ 6	–/+ 17
Average government borrowing rate +/– 1% point	–/+ 1 041	–/+ 970

A) The basis for yield tax consists of the value of the assets at the beginning of the tax year less financial liabilities at the same date. The basis is then adjusted for premiums on indirectly owned foreign and Swedish properties. Of the basis, SEK 8 291 million (6 702) refers to premiums.
B) The capital base is that portion of the basis which refers to pension products and family protection, which was 94,90 per cent (94,59). This portion is calculated on the basis of equity, untaxed reserves and technical provisions.
C) The tax base is calculated as the capital base multiplied by the average government borrowing rate for the calendar year immediately preceding the beginning of the tax year. Average government borrowing rate: 0,58 per cent (1,62). As of 2017 a minimum government borrowing rate of 0,50 per cent applies for the calculation of the tax base.
D) Tax rate: 15 per cent (15).

NOTE 12 Income tax (Group)

Group	2016	2015
Income tax	1 108	–682
of which current tax	*–3 028*	*–795*
of which deferred tax	*4 136*	*113*
Total income tax	**1 108**	**–682**
Current tax		
Tax on profit for the year in Sweden	–2	–1
Foreign tax on directly and indirectly owned properties	–2 447	–316
Adjustment of tax attributable to previous years	–4	11
Coupon tax	–575	–489
Total current tax	**–3 028**	**–795**
Deferred tax		
Temporary differences	1 465	–1 357
Properties in Sweden	*–323*	*–363*
Properties outside of Sweden	*1 750*	*–999*
Financial instruments	*38*	*5*
Other	*–*	*0*
Loss carry-forwards	523	395
Tax allocation reserve	–	25
Accelerated depreciation	–9	–8
Creditable foreign tax [1]	2 157	1 058
Total deferred tax	**4 136**	**113**

1) Comprises creditable foreign tax exceeding the maximum limit, creditable foreign tax paid during the year and deferred tax on the difference between the book and tax values of foreign properties.

Reconciliation of reported tax expense and tax based on the applicable Swedish tax rate	2016		2015	
Profit before yield tax and income tax according to income statement	12 618		53 826	
Less: Profit from operations subject to yield tax, including consolidation adjustments	–7 818		–48 095	
Profit from operations subject to income tax	**4 800**		**5 731**	
Tax at applicable tax rate	**–1 056**	**–22,0 %**	**–1 261**	**–22,0 %**
Difference in tax rate [A]	–183	–3,8 %	–491	–8,6 %
Non-deductible expenses and taxable income not included in profit	–56	–1,2 %	–21	–0,4 %
Non-taxable income	395	8,2 %	107	1,8 %
Allocated premium reduction	783	16,3 %	590	10,3 %
Standard interest on tax allocation reserve	–	–	0	0,0 %
Effect of initial recognition of properties	–49	–1,0 %	–1	0,0 %
Other	–4	–0,1 %	3	0,1 %
Adjustment of tax attributable to previous years	–0	–0,0 %	16	0,3 %
Creditable foreign tax [B]	2 517	52,4 %	968	16,9 %
Foreign income tax	–664	–13,8 %	–103	–1,8 %
Coupon tax	–575	–12,0 %	–489	–8,5 %
Reported income tax	**1 108**	**23,0 %**	**–682**	**–11,9 %**

A) Refers to the USA.
B) Comprises creditable foreign tax exceeding the maximum limit, creditable foreign tax paid during the year and deferred tax on the difference between the book and tax values of foreign properties.

NOTE 13 Tax (Parent Company)

Parent Company	2016	2015
Yield tax	–298	–910
Income tax	1 386	–309
of which current tax	*–3 021*	*–793*
of which deferred tax	*4 407*	*484*
Total tax	**1 088**	**–1 219**
Yield tax		
Yield tax [1]	–298	–906
Adjustment of tax attributable to previous years	0	–4
Total yield tax	**–298**	**–910**
Current tax		
Tax on profit for the year in Sweden [2]	–	–
Foreign tax on directly and indirectly owned properties	–2 446	–316
Adjustment of tax attributable to previous years	–	12
Coupon tax	–575	–489
Total current tax	**–3 021**	**–793**
Deferred tax		
Temporary differences	416	–97
Properties in Sweden	*–7*	*–6*
Properties outside of Sweden	*385*	*–96*
Financial instruments	*38*	*5*
Other	*–*	*0*
Loss carry-forwards	530	402
Creditable foreign tax [3]	3 461	179
Total deferred tax	**4 407**	**484**

1) For the calculation of yield tax, see Note 11.
2) The taxable portion comprises disability pension, waiver of premium and occupational group life insurance (TGL).
3) Comprises creditable foreign tax exceeding the maximum limit, creditable foreign tax paid during the year and deferred tax on the difference between the book and tax values of foreign properties.

Reconciliation of reported tax expense and tax based on the applicable Swedish tax rate	2016		2015	
Profit before tax according to income statement	14 820		52 293	
Less: Profit from operations subject to yield tax	–13 872		–51 231	
Profit from operations subject to income tax	**948**		**1 061**	
Tax at applicable tax rate	**–209**	**–22,0 %**	**–234**	**–22,0 %**
Non-deductible expenses and taxable income not included in profit	–113	–12,0 %	–13	–1,2 %
Non-taxable income	129	13,6 %	48	4,5 %
Allocated premium reduction	783	82,6 %	590	55,6 %
Standard interest on tax allocation reserve	–	–	0	0,0 %
Foreign income tax	–2 446	–258,1 %	–303	–28,5 %
Coupon tax	–575	–60,6 %	–489	–46,1 %
Adjustment of tax attributable to previous years	–3	–0,3 %	3	0,3 %
Creditable foreign tax [A]	3 820	403,1 %	89	8,3 %
Reported income tax	**1 386**	**146,3 %**	**–309**	**–29,1 %**
Plus yield tax	–298		–906	
Plus yield tax related to previous years	0		–4	
Reported tax	**1 088**		**–1 219**	

A) Comprises creditable foreign tax exceeding the maximum limit, creditable foreign tax paid during the year and deferred tax on the difference between the book and tax values of foreign properties.

NOTE 14 Intangible assets

	Group		Parent Company	
	2016	2015	2016	2015
Cost				
Opening balance	683	684	683	684
Investments during the year	–	–	–	–
Disposals during the year	–	–1	–	–1
Closing balance	**683**	**683**	**683**	**683**
Accumulated amortisation and impairment				
Opening balance	–259	–234	–259	–234
Amortisation for the year	–25	–26	–25	–26
Disposals during the year	–	1	–	1
Closing balance, amortisation	**–284**	**–259**	**–284**	**–259**
Opening balance	–114	–114	–114	–114
Closing balance, impairment	**–114**	**–114**	**–114**	**–114**
Carrying amount, intangible assets	**285**	**310**	**285**	**310**

Intangible assets comprise internally generated expenditure for IT development, mainly IT development for the insurance system that was taken into use in April 2008, and account for SEK 680 (680) million of the total cost.

NOTE 15 Property, plant and equipment

	Group		Parent Company	
	2016	2015	2016	2015
Cost				
Opening balance	48	44	19	16
Purchases during the year	3	6	2	3
Sales/disposals during the year	–	–3	–	–
Translation difference	–	1	–	–
Closing balance	**51**	**48**	**21**	**19**
Accumulated depreciation				
Opening balance	–15	–15	–13	–11
Depreciation for the year	–25	–2	–2	–2
Sales/disposals during the year	–	3	–	–
Translation difference	–	–1	–	–
Closing balance	**–40**	**–15**	**–15**	**–13**
Carrying amount, property, plant and equipment	**11**	**33**	**6**	**6**

NOTE 16 Investment properties (Land and buildings)

Specification of change in fair value, SEK million

Group 2016	Sweden	USA	UK	Total
Opening balance	22 136	15 269	5 140	42 545
New builds, extensions and conversions	634	173	15	822
Acquisitions	1 151	–	–	1 151
Sales	–121	–11 401	–3 756	–15 278
Change in value	1 647	262	–695	1 214
Exchange rate fluctuations	–	1 266	–577	689
Reclassified to assets held for sale	–	–5 569	–127	–5 696
Closing balance	**25 447**	**0**	**0**	**25 447**

Group 2015	Sweden	USA	UK	Total
Opening balance	20 449	12 391	4 622	37 462
New builds, extensions and conversions	541	201	29	771
Acquisitions	112	–	–	112
Sales	–1 373	–589	–70	–2 032
Change in value	2 407	2 216	404	5 027
Exchange rate fluctuations	0	1 050	155	1 205
Closing balance	**22 136**	**15 269**	**5 140**	**42 545**

Parent Company 2016	Sweden	USA	UK	Total
Opening balance	9 704	1 778	5 140	16 622
New builds, extensions and conversions	142	–1	15	156
Acquisitions	–	–	–	–
Sales	–121	–1 708	–3 755	–5 584
Change in value	889	–209	–696	–16
Exchange rate fluctuations	–	140	–577	–437
Closing balance	**10 614**	**0**	**127**	**10 741**

Parent Company 2015	Sweden	USA	UK	Total
Opening balance	9 266	1 488	4 622	15 376
New builds, extensions and conversions	154	23	29	206
Acquisitions	–	–	–	–
Sales	–622	–	–70	–692
Change in value	906	139	404	1 449
Exchange rate fluctuations	0	128	155	283
Closing balance	**9 704**	**1 778**	**5 140**	**16 622**

Specification of historical costs*

Parent Company	Sweden	USA	UK	Total
2016	6 510	–	82	6 592
2015	6 807	1 075	4 094	11 976

* Historical costs in foreign currency have been translated at the closing rate.

Land and buildings

All properties in the Group, other than owner-occupied properties and properties held for sale, are classified as investment properties, as they are held for rental income and/or capital appreciation. Investment properties are measured in level 3 of the fair value hierarchy and no properties were transferred to a different level of the hierarchy during the year. Project properties are measured at fair value or, if fair value cannot be determined, at cost. Project properties measured at cost totalled SEK 634 million in (739) in the Group.

See Note 1 Accounting principles in the Group and Parent Company under Land and buildings on page 63 for a description of the measurement process.

Valuation method

The total value of Alecta's property portfolio is based on the estimated market value of each individual property. In Sweden the estimated market value is arrived at using a yield-based method, under which the value of a property is based on the present value of forecast net operating income and the residual value during the calculation period, which are then discounted at the estimated cost of capital. The cost of capital is a key parameter, consisting of a required rate of return and inflation.

The required return is determined using a sales comparison approach based on information such as existing leases as well as normalised operating and maintenance expenses for comparable properties, and location prices. Examples of factors which affect the required return include the mix of tenants, the age and location of the property, the length of leases, and completed and planned comparable transactions in the market. Future net operating income is based on factors such as current and historical rents, the development of the area, operating and maintenance expenses, and estimated investments.

The crucial parameters for the estimated market value of the properties are the required return and assumptions on future net operating income. Required rates of return for the property portfolios differ between different regions and categories of property. In Sweden the average initial required return was 4,3 per cent (4,7) and initial net operating income was SEK 1 083 million (1 070). The required return for Sweden does not include development properties.

Sensitivity analysis

The value-affecting parameters used in the valuation should reflect the reasoning of a prospective buyer in the market. To illustrate the uncertainty in the estimated value, two parameters which are considered crucial to the valuations have been singled out. A change in net operating income of +/– 10 per cent would have an impact on the valuation of +/– SEK 2 540 million and a change in the initial required return of +/– 0,5 percentage points would have an impact on the valuation of +/– SEK 3 030 million (2 440). The sensitivity analysis refers to the Group's properties in Sweden.

NOTE 16 Investment properties (Land and buildings), *cont.*

	Group		Parent Company	
Fair value by sector	2016	2015	2016	2015
Industrial	295	1 383	295	1 221
Office	14 852	23 060	6 108	9 540
Residential	2 470	3 287	–	–
Retail	7 205	13 059	3 713	4 689
Other	625	1 756	625	1 172
Total	**25 447**	**42 545**	**10 741**	**16 622**

	Group	
Economic vacancy rate, %	2016	2015
Sweden	5,0	4,8
USA	–	11,7
UK	–	2,3
	5,0	**6,8**

	Group	
Distribution of lettable floor area, square metres	2016	2015
Sweden	696 978	678 737
USA	–	342 532
UK	–	151 005
	696 978	**1 172 274**

	Group	
Lease maturities (contracted annual rent)	2016	2015
Maturity dates:		
Within one year	201	177
Later than one year but within five years	626	1 006
Later than five years	394	1 057
Residential, garage/parking, etc.	179	260
	1 400	**2 500**

Assets held for sale

In 2016 Alecta made a strategic decision to sell all its directly owned foreign properties, which consist of properties in the US and UK. Alecta's foreign portfolio comprises office, residential, retail and industrial properties. The sale was executed in two stages, with a majority of properties being sold in 2016 and the remaining portfolio in early 2017.

The carrying amount of the remaining properties at year-end has been classified as non-current assets held for sale, as the carrying amount will be recovered chiefly through sales rather than through ongoing use. At 31 December 2016 the Alecta Group had SEK 5 696 million in assets held for sale, of which SEK 127 million refers to assets in the Parent Company and SEK 5 569 million to assets in subsidiaries. In the Parent Company the assets are included in the item Investment assets.

The fair value measurement is based on the consideration indicated in the purchase agreement signed by the buyer and seller less transaction costs. Accumulated exchange rate differences that have been recognised in other comprehensive income in the consolidated financial statements and that are attributable to the aforesaid foreign properties total SEK 831 million.

NOTE 17 Owner-occupied properties (Land and buildings)

Group	2016	2015
Cost		
Opening balance	990	990
Purchases during the year	3	0
Closing balance	**993**	**990**
Accumulated depreciation		
Opening balance	–120	–102
Depreciation for the year	–18	–18
Closing balance	**–138**	**–120**
Carrying amount, owner-occupied properties	**855**	**870**

NOTE 18 Shares and participations in Group companies [1]

Parent Company	Corporate Identity Number	Registered office	Number of shares	Share of equity	Carrying amount, 2016	Carrying amount, 2015
Swedish companies						
Alecta AB	556597-9266	Stockholm	1 000	100 %	0	0
Alecta Köpcentrum AB	556943-7071	Stockholm	500	100 %	10	0
Alfab Värmdö 1 AB [3]	556687-7071	Stockholm	1 000	100 %	–	–
Alfab Värmdö 2 AB [3]	556743-0102	Stockholm	100 000	100 %	–	–
Alecta Retail Holding AB	556660-2594	Stockholm	1 000	100 %	125	34
Alfab Borås 1 AB	556708-2002	Stockholm	100 000	100 %	–	–
Alfab Järfälla 1 AB	556664-7599	Stockholm	1 000	100 %	–	–
Alfab Jönköping 1 AB	556692-9385	Stockholm	1000	100 %	–	–
– Alfab Västerås 1 AB	556606-3656	Stockholm	100	100 %	–	–
Alfab Jönköping 4 AB	556188-6127	Stockholm	1 000	100 %	–	–
Alfab Jönköping 5 AB	556658-9783	Stockholm	1 000	100 %	–	–
Alfab Valutan 13 AB	556708-2713	Stockholm	100 000	100 %	–	–
Fastighet Ädel AB	556604-9275	Stockholm	1 000	100 %	–	–
Fastighetsaktiebolaget Borås Filtret	556790-5525	Stockholm	1 000	100 %	–	–
Fastighetsaktiebolaget Åkersberga Österåker Runö	556785-6389	Stockholm	1 000	100 %	–	–
Fyrfast AB	556604-5513	Stockholm	1 000	100 %	–	–
Alecta Tjänstepensioner AB	556713-7160	Stockholm	1 000	100 %	0	0
Alfab Indirekt Holding AB	556931-5459	Stockholm	50 000	100 %	30	30
Kabelverket Holding AB	556587-1075	Stockholm	1 000	100 %	500	500
Alfab Brygghuset 2 AB	556981-3149	Stockholm	50 000	100 %	–	–
Alfab Göteborg 3 AB	556913-5717	Stockholm	500	100 %	–	–
Alfab Göteborg 4 AB	556718-6654	Stockholm	1 000	100 %	–	–
Alfab Göteborg 5 AB	556690-0386	Stockholm	1 000	100 %	–	–
Alfab Haninge 515 AB	556764-4462	Stockholm	1 000	100 %	–	–
Alfab Haninge 516 AB	556730-4174	Stockholm	1 000	100 %	–	–
Alfab Helsingborg 1 AB [3]	559032-2128	Stockholm	1 000	100 %	–	–
Alfab Mangelboden 1 AB	556942-6603	Stockholm	50 000	100 %	–	–
Alfab Malmö 1 AB	556655-4266	Stockholm	1 000	100 %	–	–
Alfab Stockholm 1 AB	556660-5530	Stockholm	1 000	100 %	–	–
Alfab Vällingby 1 AB	556892-7858	Stockholm	500	100 %	–	–
– Alfab Vällingby 3 KB	969761-3603	Stockholm	–	99,9 %	–	–
Alfab Vällingby 2 AB	556892-7882	Stockholm	500	100 %	–	–
– Alfab Vällingby 4 KB	969761-3595	Stockholm	–	99,9 %	–	–
Alfab Västerport 1 AB	556690-0378	Stockholm	1 000	100 %	–	–
Alfab Västerport 2 AB	556946-8944	Stockholm	500	100 %	–	–
Fastighets AB Kablaget	556577-4642	Stockholm	1 000	100 %	–	–
– Alecta Fastighetsutveckling AB	556577-4618	Stockholm	1 000	100 %	–	–
– Fastighets AB Kabelverket	556577-4568	Stockholm	1 000	100 %	–	–
Vasaterminalen AB	556118-8722	Stockholm	2 022 000	100 %	–	–
– World Trade Center Stockholm AB	556273-0803	Stockholm	1 000	100 %	–	–
– WTC Parkering AB	556424-3920	Stockholm	1 000	100 %	–	–
Alfab Helsingborg 2 KB [3]	969775-2583	Stockholm	–	99 %	1	–
Naraden Göteborg 1 KB	969697-7892	Stockholm	–	99 %	311	297
Total, Sweden					**977**	**861**

1) As all shares are unlisted, market values are not indicated. Carrying amounts are not indicated for subsidiaries of sub-groups.
2) The company was liquidated in 2016.
3) The company was acquired in 2016.

NOTE 18 Shares and participations in Group companies [1], *cont.*

Parent Company	Corporate Identity Number	Registered office	Number of shares	Share of equity	Carrying amount, 2016	Carrying amount, 2015
Foreign companies, USA						
Alecta Real Estate USA, LLC	DE ID 4078782	San Francisco	–	100 %	5 842	10 580
Alecta Denver, LLC	DE ID 4382120	San Francisco	–	100 %	–	–
Alecta Los Angeles, LLC	DE ID 4784460	San Francisco	–	100 %	–	–
Alecta Real Estate Investment, LLC	DE ID 4223706	San Francisco	–	100 %	–	–
– Alecta Real Estate Doral Plaza, LLC	DE ID 3601054	San Francisco	–	100 %	–	–
– Alecta Real Estate Winsted, LLC	DE ID 3601057	San Francisco	–	100 %	–	–
Alecta Portland, LLC [2]	DE ID 4836467	San Francisco	–	–	–	–
Alecta Timberland, LLC	DE ID 4130208	San Francisco	–	100 %	–	–
– Springboard – OP CO, LLC	DE ID 4834515	San Francisco	–	100 %	–	–
– Springboard – Wallace Falls, LLC	DE ID 4830432	San Francisco	–	100 %	–	–
Alecta Value Add Investments, LLC	DE ID 5469880	San Francisco	–	100 %	–	–
Birch Commercial Mortgage, LLC	DE ID 4641524	San Francisco	–	100 %	–	–
Boylston Street Investors, LLC	DE ID 5405204	San Francisco	–	100 %	–	–
Columbia & Eighth, LLC	DE ID 5003417	San Francisco	–	100 %	–	–
Cupertino – Tantau, LLC	DE ID 4895201	San Francisco	–	100 %	–	–
First Hill Northwest, LLC	DE ID 4905415	San Francisco	–	100 %	–	–
Hillsboro Club, LLC	DE ID 4951762	San Francisco	–	100 %	–	–
Hillsboro Terrace, LLC	DE ID 4951765	San Francisco	–	100 %	–	–
Middlefield Circle, LLC	DE ID 5071351	San Francisco	–	100 %	–	–
MMM Northwest 37, LLC [2]	DE ID 4905419	San Francisco	–	–	–	–
Moutain View Circle, LLC	DE ID 5413213	San Francisco	–	100 %	–	–
SRP Valley, LLC	DE ID 5125176	San Francisco	–	100 %	–	–
SSF Industrial, LLC [2]	DE ID 5036326	San Francisco	–	–	–	–
Townsend East, LLC	DE ID 5225419	San Francisco	–	100 %	–	–
Walnut & Fifteenth, LLC	DE ID 5235952	San Francisco	–	100 %	–	–
Total, USA					**5 842**	**10 580**
Total shares and participations in Group companies					**6 819**	**11 441**

[1] As all shares are unlisted, market values are not indicated. Carrying amounts are not indicated for subsidiaries of sub-groups.
[2] The company was liquidated in 2016.

Parent Company	Carrying amount, 2016	Carrying amount, 2015
Cost		
Opening balance	11 441	11 831
Purchases during the year	1	–
Shareholder contributions during the year	100	258
Liquidations during the year	–	–660
Share of profit for the year	14	12
Closing balance	**11 556**	**11 441**
Accumulated impairment		
Opening balance	0	–2 876
Impairment for the year	–4 737	2 731
Liquidations during the year	–	145
Closing balance	**–4 737**	**0**
Total shares and participations in Group companies	**6 819**	**11 441**

NOTE 19 Debt securities issued by, and loans to, Group companies

Parent Company	Carrying amount, 2016	Carrying amount, 2015
Cost		
Opening balance	10 655	8 631
Change for the year	–275	2 024
Total debt securities issued by, and loans to, Group companies	**10 380**	**10 655**

The item consists wholly of long-term loans to property-owning subsidiaries that are measured at amortised cost.

NOTE 20 Classification of financial assets and liabilities

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

Group, 31 Dec 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	Fair value
Shares and participations in jointly controlled entities (joint ventures) [1]	4 059	–	–	4 059	4 059
Loans to jointly controlled entities (joint ventures) [1]	–	–	2388	2 388	2 388
Shares and participations [1]	314 983	–	–	314 983	314 983
Bonds and other debt securities	357 816	–	–	357 816	357 816
Loans secured by real estate [2]	–	–	135	135	135
Other loans [1] [2]	1 880	–	183	2 063	2 063
Derivatives	–	8 209	–	8 209	8 209
Receivables related to direct insurance operations	–	–	1 565	1 565	1 565
Other receivables	–	–	1 207	1 207	1 207
Cash and bank balances	–	–	3 302	3 302	3 302
Accrued interest and rental income	–	–	7 685	7 685	7 685
Total	**678 738**	**8 209**	**16 465**	**703 412**	**703 412**
Financial liabilities					
Liabilities related to direct insurance operations	–	–	17	17	17
Derivatives	–	6 020	–	6 020	6 020
Other liabilities	–	–	5 075	5 075	5 075
Other accrued expenses and deferred income	–	–	2 923	2 923	2 923
Total	**–**	**6 020**	**8 015**	**14 035**	**14 035**

NOTE 20 Classification of financial assets and liabilities, *cont.*

Parent Company, 31 Dec 2016 Financial assets	Financial assets and liabilities measured at fair value through profit or loss on initial recognition	Financial assets and liabilities measured at fair value through profit or loss through trading	Loans and receivables/ other financial assets and liabilities	Total carrying amount	Fair value
Debt securities issued by, and loans to, Group companies	–	–	10 380	10 380	10 380
Shares and participations in jointly controlled entities (joint ventures) [1]	4 825	–	–	4 825	4 825
Loans to jointly controlled entities (joint ventures) [1]	–	–	3 366	3 366	3 366
Shares and participations [1]	345 710	–	–	345 710	345 710
Bonds and other debt securities	372 328	–	–	372 328	372 328
Loans secured by real estate [2]	–	–	–	–	–
Other loans [1] [2]	2 161	–	123	2 284	2 284
Derivatives	–	7 944	–	7 944	7 944
Receivables related to direct insurance operations	–	–	1 599	1 599	1 599
Other receivables	–	–	4 970	4 970	4 970
Cash and bank balances	–	–	2 444	2 444	2 444
Accrued interest and rental income	–	–	7 121	7 121	7 121
Total	**725 024**	**7 944**	**30 003**	**762 971**	**762 971**
Financial liabilities					
Liabilities related to direct insurance operations	–	–	2	2	2
Derivatives	–	8 522	–	8 522	8 522
Other liabilities	–	–	5 139	5 139	5 139
Other accrued expenses and deferred income	–	–	2 167	2 167	2 167
Total	**–**	**8 552**	**7 308**	**15 860**	**15 860**

Parent Company, 31 Dec 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	Fair value
Debt securities issued by, and loans to, Group companies	–	–	10 655	10 655	10 655
Shares and participations in jointly controlled entities (joint ventures) [1]	2 292	–	–	2 292	2 292
Loans to jointly controlled entities (joint ventures) [1]	–	–	2 099	2 099	2 099
Shares and participations [1]	314 646	–	–	314 646	314 646
Bonds and other debt securities	357 816	–	–	357 816	357 816
Loans secured by real estate [2]	–	–	–	–	–
Other loans [1] [2]	1 880	–	183	2 063	2 063
Derivatives	–	8 209	–	8 209	8 209
Receivables related to direct insurance operations	–	–	1 565	1 565	1 565
Other receivables	–	–	1 156	1 156	1 156
Cash and bank balances	–	–	3 005	3 005	3 005
Accrued interest and rental income	–	–	7 685	7 685	7 685
Total	**676 634**	**8 209**	**26 348**	**711 191**	**711 191**
Financial liabilities					
Liabilities related to direct insurance operations	–	–	17	17	17
Derivatives	–	6 020	–	6 020	6 020
Other liabilities	–	–	6 365	6 365	6 365
Other accrued expenses and deferred income	–	–	2 896	2 896	2 896
Total	**–**	**6 020**	**9 278**	**15 298**	**15 298**

[1] Adjustment compared with the Annual Report 2015 through the reclassification of participations in joint ventures and loans to joint ventures, in accordance with the amended rules in the Swedish Insurance Companies Annual Accounts Act concerning the format of the balance sheet.
[2] Adjustment compared with the Annual Report 2015 through the reclassification of SEK 183 million from the item Loans secured by real estate to Other loans.

NOTE 21 Net profit by class of financial assets and liabilities

	Group		Parent Company	
	2016	2015	2016	2015
Financial assets at fair value through profit or loss				
shares and participations	23 383	29 338	23 383	29 338
debt securities	15 590	4 515	15 590	4 515
loans	119	275	119	275
Financial assets and liabilities held for trade				
derivatives	–5 693	–2 592	–5 693	–2 592
Loans and receivables	175	177	316	327
Other liabilities	–23	–18	–23	–18
Total net profit [1]	**33 551**	**31 695**	**33 692**	**31 845**
Land and buildings, net	4 176	7 444	6 206	5 616
Investment management and custodian expenses	–201	–212	–188	–198
Other, net	3	38	3	36
Total return on capital as reported in income statement	**37 529**	**38 965**	**39 713**	**37 299**

1) Net profit includes realised and unrealised changes in value as well as interest, dividends and foreign exchange gains and losses.

NOTE 22 Maturity analysis of financial liabilities

Time to maturity Group, 31 Dec 2016	< 3 months	3 months < 1 year	1–5 years	> 5 years	Total
Non-liquidated securities transactions	–397	–	–	–	–397
Liability for cash collateral received for derivatives	–2 661	–	–	–	–2 661
Derivatives gross – outflow	–240 842	–11 285	–23 824	–46 668	–322 619
Derivatives gross – inflow	242 289	11 322	25 373	41 243	320 227
Other liabilities	–1 316	–	–	–	–1 316
Other accrued expenses and deferred income	–2 194	–	–	–	–2 194
Total cash flow	**–5 121**	**37**	**1 549**	**–5 425**	**–8 960**

Time to maturity Group, 31 Dec 2015	< 3 months	3 months < 1 year	1–5 years	> 5 years	Total
Non-liquidated securities transactions	–568	–	–	–	–568
Liability for cash collateral received for derivatives	–4 019	–	–	–	–4 019
Derivatives gross – outflow	–217 323	–32 797	–19 479	–42 809	–312 408
Derivatives gross – inflow	220 304	33 276	20 587	49 300	323 467
Other liabilities	–505	–	–	–	–505
Other accrued expenses and deferred income	–2 923	–	–	–	–2 923
Total cash flow	**–5 034**	**479**	**1 108**	**6 491**	**3 044**

The purpose of this note is to illustrate when the Group's financial liabilities fall due for payment. The table shows actual future cash flows in each period, based on the remaining time to maturity. The amounts presented for each time to maturity refer to undiscounted cash flows. For derivatives, cash flows are reported on a gross basis, i.e. both outflows and inflows, to create a better understanding of these flows. For variable interest rate derivatives, the last known interest rate has been applied to approximate future cash flows. For a description of liquidity risk, see Note 3 Risks and risk management.

NOTE 23 Valuation categories for financial instruments measured at fair value

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

The three levels of valuation categories are:

Level 1: Measurement based on prices quoted in an active market

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

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

Level 2: Measurement based on observable inputs

Financial assets and liabilities for which there are no quoted prices in an active market are measured at fair value based on as many available market inputs as possible. Examples of market inputs used in the measurement include:

- Quoted interest rates, credit 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 debt instruments in the form of Swedish and foreign corporate bonds, structured bonds, and all OTC derivatives in the form of interest rate swaps, currency derivatives and credit derivatives.

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

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

Level 3: Measurement based on unobservable inputs

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

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

Principles for reclassification between levels

Financial assets and liabilities measured at fair value are classified to one of the three valuation categories on acquisition and then normally retain their classification until they are sold.

Under certain circumstances a financial asset may, however, be reclassified to another level after the acquisition date.

	Fair values of financial instruments, 31 Dec 2016			
Group	Measurement based on prices quoted in an active market Level 1	Measurement based on observable inputs Level 2	Measurement based on unobservable inputs Level 3	Carrying amount 31 Dec 2016
Assets				
Shares and participations	337 401	–	8 770	346 171
Shares and participations in jointly controlled entities (joint ventures)	–	–	6 045	6 045
Bonds and other debt securities	204 770	167 558	–	372 328
Loans secured by real estate	–	–	–	–
Other loans	–	–	2 161	2 161
Derivatives	–	7 944	–	7 944
Total assets	**542 171**	**175 502**	**16 976**	**734 649**
Liabilities				
Derivatives	–	8 552	–	8 552
Total liabilities	**–**	**8 552**	**–**	**8 552**
Parent Company				
Assets				
Shares and participations	337 401	–	8 308	345 709
Shares and participations in jointly controlled entities (joint ventures)	–	–	4 825	4 825
Bonds and other debt securities	204 770	167 558	–	372 328
Loans secured by real estate	–	–	–	–
Other loans	–	–	2 161	2 161
Derivatives	–	7 944	–	7 944
Total assets	**542 171**	**175 502**	**15 294**	**732 967**
Liabilities				
Derivatives	–	8 552	–	8 552
Total liabilities	**–**	**8 552**	**–**	**8 552**

NOTE 23 Valuation categories for financial instruments measured at fair value, *cont.*

The following principles apply to such reclassification:

Principle for reclassification between level 1 and level 2

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

In 2016 no financial instruments were 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 2016 one bond was transferred from level 3 to level 2 because observable market inputs became available, which meant that the bond could be priced by an external price provider. The transfer was effected in January. No transfers from level 2 to level 3 were made.

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 2016 no financial instruments were 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 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. However, as the underlying assets for all financial instruments in level 3 consist principally 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. changes in 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 16 976 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 1 698 million.

	Fair values of financial instruments, 31 Dec 2015			
Group	Measurement based on prices quoted in an active market Level 1	Measurement based on observable inputs Level 2	Measurement based on unobservable inputs Level 3	Carrying amount 31 Dec 2015
Assets				
Shares and participations	307 119	–	7 864	314 983
Shares and participations in jointly controlled entities (joint ventures)	–	–	4 059	4 059
Bonds and other debt securities	189 529	167 077	1 210	357 816
Loans secured by real estate	–	–	–	–
Other loans	–	–	1 880	1 880
Derivatives	–	8 209	–	8 209
Total assets	**496 648**	**175 286**	**15 013**	**686 947**
Liabilities				
Derivatives	–	6 020	–	6 020
Total liabilities	**–**	**6 020**	**–**	**6 020**
Parent Company				
Assets				
Shares and participations	307 119	–	7 526	314 645
Shares and participations in jointly controlled entities (joint ventures)	–	–	2 292	2 292
Bonds and other debt securities	189 529	167 077	1 210	357 816
Loans secured by real estate	–	–	–	–
Other loans	–	–	1 880	1 880
Derivatives	–	8 209	–	8 209
Total assets	**496 648**	**175 286**	**12 908**	**684 842**
Liabilities				
Derivatives	–	6 020	–	6 020
Total liabilities	**–**	**6 020**	**–**	**6 020**

NOTE 24 Disclosures on financial instruments measured at fair value based on level 3[1)]

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

Parent Company	Shares and participations	Shares and participations in jointly controlled entities (joint ventures)	Bonds and other debt securities	Other loans	Total
Opening balance 2016	7 525	2 292	1 210	1 880	12 907
Purchases	1 370	1 671	–	249	3 290
Sales	–157	–	–	–39	–196
Gains and losses					
Realised gains/losses, sold entire holding	*–407*	*–*	*–*	*–*	*–407*
Realised gains/losses, sold portion of holding	*–*	*–*	*–*	*1*	*1*
Unrealised gains/losses	*204*	*862*	*–*	*137*	*1 203*
Unrealised foreign exchange gains/losses	*–227*	*–*	*–*	*–67*	*–294*
Transferred from level 3	–	–	–1 210	–	–1 210
Transferred to level 3	–	–	–	–	–
Closing balance 2016	**8 308**	**4 825**	**–**	**2 161**	**15 294**
Total unrealised gains and losses recognised in the income statement for financial instruments held at the end of the period	–329	862	–	71	604
Gains and losses recognised as return on capital during the period	–430	862	–	71	503

1) The definition of level 3 is found in Note 23 Valuation categories.

NOTE 24 Disclosures on financial instruments measured at fair value based on level 3[1)], *cont.*

	Fair value at year-end 2015				
Group	Shares and participations	Shares and participations in jointly controlled entities (joint ventures)	Bonds and other debt securities	Other loans	Total
Opening balance 2015	6 523	1 437	–	1 261	9 221
Purchases	314	1 470	498	773	3 055
Sales	–18	–	–	–269	–287
Gains and losses					
Realised gains/losses, sold entire holding	–	–	–	–	–
Realised gains/losses, sold portion of holding	*5*	–	–	*15*	*20*
Unrealised gains/losses	*845*	*1 085*	*–1*	*105*	*2 034*
Unrealised foreign exchange gains/losses	*194*	*66*	–	*–5*	*255*
Transferred from level 3	–	–	–497	–	–497
Transferred to level 3	–	–	1 210	–	1 210
Closing balance 2015	**7 863**	**4 058**	**1 210**	**1 880**	**15 011**
Total unrealised gains and losses recognised in the income statement for financial instruments held at the end of the period	1 044	1 151	–1	115	2 309
Gains and losses recognised as return on capital during the period	1 044	1 151	–1	115	2 309

Parent Company					
Opening balance 2015	6 264	659	–	1 261	8 184
Purchases	262	878	498	773	2 411
Sales	–13	–	–	–269	–282
Gains and losses					
Realised gains/losses, sold entire holding	–	–	–	–	–
Realised gains/losses, sold portion of holding	*4*	–	–	*15*	*19*
Unrealised gains/losses	*830*	*755*	*–1*	*105*	*1 689*
Unrealised foreign exchange gains/losses	*178*	–	–	*–5*	*173*
Transferred from level 3	–	–	–497	–	–497
Transferred to level 3	–	–	1 210	–	1 210
Closing balance 2015	**7 525**	**2 292**	**1 210**	**1 880**	**12 907**
Total unrealised gains and losses recognised in the income statement for financial instruments held at the end of the period	1 012	755	–1	115	1 881
Gains and losses recognised as return on capital during the period	1 012	755	–1	115	1 881

1) The definition of level 3 is found in Note 23 Valuation categories.

NOTE 25 Shares and participations

Group	2016 Fair value	2016 Cost	2015 Fair value	2015 Cost
Swedish listed shares	146 898	91 464	128 089	83 711
Swedish unlisted shares	486	260	356	258
Foreign listed shares	190 502	165 506	179 031	146 031
Foreign unlisted shares	8 285	5 738	7 507	5 123
Total	346 171	262 968	314 983	235 123
Shares and participations in jointly controlled entities (joint ventures)	6 045	3 600	4 059	2 514
Parent Company				
Swedish listed shares	146 898	91 464	128 089	83 711
Swedish unlisted shares	486	260	355	258
Foreign listed shares	190 502	165 506	179 031	146 031
Foreign unlisted shares	7 824	5 434	7 171	4 858
Total	345 710	262 664	314 646	234 858
Shares and participations in jointly controlled entities (joint ventures)	4 825	2 767	2 292	1 095

A list of all shares is available at alecta.se.

NOTE 26 Bonds and other debt securities

Group and Parent Company	2016 Fair value	2016 Amortised cost	2015 Fair value	2015 Amortised cost
Swedish government	58 962	53 356	61 934	57 324
Swedish mortgage institutions	74 638	74 119	66 084	65 785
Other Swedish issuers	54 566	53 091	54 664	53 544
Foreign governments [1]	99 084	89 287	88 923	80 040
Other foreign issuers [1]	85 078	83 066	86 211	83 069
Total	372 328	352 919	357 816	339 762

The fair value of debt securities exceeds or is lower than the amount payable on the due date by SEK 29 646 (27 066) million and SEK 460 (1 013) million, respectively. The items Swedish government and Foreign governments also include state-guaranteed holdings.

[1] Adjusted compared with the Annual Report 2015. Holdings in the amount of SEK 2 248 million at fair value and SEK 1 986 million at amortised cost have been reclassified from foreign governments to other foreign issuers.

Group and Parent Company	2016	2015
Fixed-rate term		
0–1 years	119 239	113 807
>1–5 years	123 140	116 917
>5–10 years	88 760	86 761
>10 years	41 188	40 331
Total	372 327	357 816

NOTE 27 Loans secured by real estate

Group	2016 Fair value	2016 Cost	2015 Fair value	2015 Cost
Loans secured by real estate [1]	–	–	135	134
Total	–	–	135	134
Parent Company				
Loans secured by real estate [1]	–	–	–	–
Total	–	–	–	–

[1] Adjusted compared with the Annual Report 2015. SEK 183 million has been reclassified and is presented in Note 28 Other loans.

NOTE 28 Other loans and loans to jointly controlled entities

Group	2016 Carrying amount	2016 Cost	2015 Carrying amount	2015 Cost
Other loans	2 284	1 849	2 063	1 765
Loans to jointly controlled entities (joint ventures)	3 655	3 655	2 388	2 388
Parent Company				
Other loans	2 284	1 849	2 063	1 765
Loans to jointly controlled entities (joint ventures)	3 366	3 366	2 099	2 099

NOTE 29 Derivatives

	2016			2015		
		Fair value			Fair value	
Group and Parent Company	Nominal value	Assets	Liabilities	Nominal value	Assets	Liabilities
Equity-related instruments	–5 512	–	–	–	–	–
Futures	*–5 512*	*–*	*–*	*–*	*–*	*–*
Debt securities instruments	168 603	5 217	5 485	190 752	4 507	3 415
Swaps	*173 861*	*5 217*	*5 483*	*182 219*	*4 507*	*3 407*
Futures	*–6 599*	*–*	*–*	*7 245*	*0*	*0*
CDS	*1 341*	*–*	*2*	*1 288*	*0*	*8*
Currency-related instruments	204 958	2 727	3 067	203 040	3 702	2 605
Forward contracts/swaps	*204 958*	*2 727*	*3 067*	*203 040*	*3 702*	*2 605*
Total	368 049	7 944	8 552	393 792	8 209	6 020

The management of collateral for derivatives is described in Note 30 Financial instruments subject to enforceable master netting agreements.

For a description of the use of derivatives, see the section Market risk in Note 3 Risks and risk management.

NOTE 30 Financial instruments subject to master netting agreements

Group and Parent Company 31 Dec 2016	Financial assets recognised in the balance sheet	*of which amounts which are not netted but are subject to enforceable master netting agreements or similar agreements in the event of insolvency*	Financial collateral received	Cash collateral received	Net amount [3]
Assets					
Derivatives [4]	10 189	–6 437	–245	–2 661	846
Securities lending [1]	–	–	–	–	–

	Financial liabilities recognised in the balance sheet	*of which amounts which are not netted but are subject to enforceable master netting agreements or similar agreements in the event of insolvency*	Financial collateral pledged [2]	Cash collateral pledged	Net amount [3]
Liabilities					
Derivatives [4]	6 437	–6 437	–1 434	–2 225	0

31 Dec 2015	Financial assets recognised in the balance sheet	*of which amounts which are not netted but are subject to enforceable master netting agreements or similar agreements in the event of insolvency*	Financial collateral received	Cash collateral received	Net amount [3]
Assets					
Derivatives [4]	11 173	–8 903	–	–4 019	0
Securities lending [1]	14 395	–	–14 412	–	0

	Financial liabilities recognised in the balance sheet	*of which amounts which are not netted but are subject to enforceable master netting agreements or similar agreements in the event of insolvency*	Financial collateral pledged [2]	Cash collateral pledged	Net amount [3]
Liabilities					
Derivatives [4]	8 903	–8 903	–912	–24	0

1) The programme for lending of debt securities was terminated in 2016.
2) Collateral pledged is also presented in Note 49 Other pledged assets and comparable collateral.
3) In accordance with IFRS 7, the net amount can never be less than 0.
4) The amounts include accrued interest income of SEK 2 245 million (2 964) and accrued interest expenses of SEK 2 115 million (2 883).

Disclosures on financial instruments subject to enforceable master netting agreements

The purpose of this note is to provide information on Alecta's ability to settle assets and liabilities on a net basis (netting) in the event of the insolvency of either party, and on the collateral that has been exchanged for the net asset or liability which remains between the parties after netting.

Derivatives and loaned debt securities are reported on a gross basis in the balance sheet. These financial instruments are subject to enforceable master netting agreements in the event of the insolvency of either party. All values in the table above are stated at fair value.

Derivatives

At 31 December Alecta had derivatives with a positive value of SEK 10 189 million and derivatives with a negative value of SEK 6 437 million. All derivatives are subject to ISDA Master Agreements, under which the parties have a legally enforceable right to set off the recognised amounts in the event of insolvency. If there is no insolvency situation, the amounts are not netted.

In addition to having the right to settle on a net basis, Alecta has concluded CSA agreements which regulate the daily exchange of collateral during the term of the contracts. From those counterparties for which the sum of all derivatives is positive Alecta obtains corresponding collateral, and in cases where the sum of all derivatives is negative Alecta provides corresponding collateral. Under these CSA agreements, Alecta has received SEK 245 million in debt securities in the form of French government bonds and SEK 2 661 million in cash in cases where the sum of all derivatives is positive. Similarly, Alecta has pledged SEK 1 434 million in interest-bearing securities in the form of Swedish and French government bonds and SEK 2 252 million in cash in cases where the sum of all derivatives is negative.

NOTE 31 Receivables related to direct insurance operations

Group and Parent Company	2016	2015
Receivables from policy holders	1 599	1 565
Total	**1 599**	**1 565**

Refers mainly to a receivable from Collectum, which handles Alecta's receivables from insurance customers in the defined benefit plan.

NOTE 32 Other receivables

Group	2016	2015
Payment receivables from sale of investment assets	438	411
Foreign tax	831	521
Unpaid dividends in arrears	58	58
Value-added tax	18	1
Receivable, PRI Pensionsgaranti	178	184
Collateral pledged for derivatives [1]	2 225	24
Other	1 234	530
Total	**4 982**	**1 729**
Parent Company		
Payment receivables from sale of investment assets	438	411
Swedish tax	727	64
Foreign tax	831	521
Deferred tax [2]	3 502	–
Unpaid dividends in arrears	58	58
Value-added tax	0	0
Receivable from subsidiary	907	–
Receivable, PRI Pensionsgaranti	178	184
Collateral pledged for derivatives [1]	2 225	24
Other	1 164	479
Total	**10 030**	**1 741**

1) See also Note 30.
2) See also Note 44.

NOTE 33 Accrued interest and rental income

	Group		Parent Company	
	2016	2015	2016	2015
Accrued interest income	7 124	7 687	7 124	7 687
Total	**7 124**	**7 687**	**7 124**	**7 687**

NOTE 34 Equity excluding guarantee reserve

Group	Translation reserve	Discretionary participation features reserve [1]	Special indexation funds [2]	Retained earnings including net profit for the year	Total
Opening balance 2015	**622**	**53 348**	**10 710**	**188 301**	**252 981**
Net profit for the year				52 234	52 234
Allocated refunds					
Defined benefit plan	–	*3 672*	–	*–3 672*	–
Defined contribution plan	–	*8 546*	–	*–8 546*	–
Guaranteed refunds					
Pension supplements, defined benefit plan	–	*–2 371*	–	–	*–2 371*
Supplementary amounts, defined contribution plan	–	*–69*	–	–	*–69*
Adjustment of paid-up values, defined benefit plan	–	*–16*	–	–	*–16*
Premium reduction	–	*–2 780*	–	–	*–2 780*
Collective risk premium [4]	–	–	–245	–	–245
Return on guarantee reserve [3]	–	–	–	–231	–231
Other changes					
Fees	–	–	*71*	*–71*	–
Interest	–	*110*	*17*	*–127*	–
Effect of changes in market interest rates	–	*–387*	–	*387*	–
Exchange rate fluctuations for the period	*1 031*	–	–	–	*1 031*
Other [5]	–	890	6	–663	233
Closing balance 2015	**1 653**	**60 943**	**10 559**	**227 612**	**300 767**
Opening balance 2016	**1 653**	**60 943**	**10 559**	**227 612**	**300 767**
Net profit for the year				13 428	13 428
Allocated refunds					
Defined benefit plan	–	*6 758*	–	*–6 758*	–
Defined contribution plan	–	*8 199*	–	*–8 199*	–
Guaranteed refunds					
Pension supplements, defined benefit plan	–	*–2 213*	–	–	*–2 213*
Supplementary amounts, defined contribution plan	–	*–95*	–	–	*–95*
Adjustment of paid-up values, defined benefit plan	–	*–3*	–	–	*–3*
Premium reduction	–	*–3 635*	–	–	*–3 635*
Collective risk premium [4]	–	–	–109	–	–109
Return on guarantee reserve in previous year [3]	–	–	–	*–107*	*–107*
Return on guarantee reserve in current year [3]	–	–	–	–95	–95
Other changes					
Fees	–	–	*10*	*–10*	–
Interest	–	*244*	*–22*	*–222*	–
Effect of changes in market interest rates	–	*577*	–	*–577*	–
Exchange rate fluctuations for the period	*1 304*	–	–	–	*1 304*
Accumulated foreign exchange differences reclassified to profit or loss	*–1 470*	–	–	–	*–1 470*
Other [5]	–	80	7	–73	14
Closing balance 2016	**1 487**	**70 855**	**10 445**	**224 999**	**307 786**

1) Funds which have been allocated to Alecta's insureds and policy holders under various discretionary resolutions. These funds constitute a part of Alecta's risk capital and are not guaranteed until assigned. Formally, Alecta can claw back the funds. SEK 1 468 million (1 468) of a total of SEK 70 855 million (60 943) refers to funds intended to cover the cost of measures forming part of the ITP plan, under which the parties to the collective agreement have the right to decide how the funds are 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.

2) These funds are at the disposal of the parties to the collective agreement. The funds must be used for indexation of pensions in payment or other pension-promoting purposes, following a decision by the parties to the collective agreement.

3) Until the financial year 2015 returns were transferred between the funding reserve and the guarantee reserve in the following year subject to a decision by the Council of Administration. The return for 2016 was credited to the guarantee reserve in connection with its elimination on 12 December 2016. See Note 37 on page 90.

4) 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.

5) The item comprises cumulative return, inheritance gains and portfolio changes.

NOTE 35 Funding reserve

Parent Company	Collective funding	Discretionary participation features reserve: Allocated refunds to insured and policy holders [1]	Other reserves: Special indexation funds [2]	Total
Opening balance 2015	**164 453**	**53 348**	**10 710**	**228 511**
Appropriation of profits from previous year	18 889	–	–	18 889
Allocated refunds				
Defined benefit plan	*–3 672*	*3 672*	–	–
Defined contribution plan	*–8 546*	*8 546*	–	–
Guaranteed refunds				
Pension supplements, defined benefit plan	–	*–2 371*	–	*–2 371*
Supplementary amounts, defined contribution plan	–	*–69*	–	*–69*
Adjustment of paid-up values, defined benefit plan	–	*–16*	–	*–16*
Premium reduction	–	*–2 780*	–	*–2 780*
Return on guarantee reserve [3]	–231	–	–	–231
Fees	–71	–	71	–
Interest	–127	110	17	–
Collective risk premium [4]	–	–	–245	–245
Effect of changes in market interest rates	387	–387	–	–
Other changes [5]	–663	890	7	234
Closing balance 2015	**170 419**	**60 943**	**10 560**	**241 922**
Opening balance 2016	**170 419**	**60 943**	**10 560**	**241 922**
Appropriation of profits from previous year	51 074	–	–	51 074
Allocated refunds				
Defined benefit plan	*–6 758*	*6 758*	–	–
Defined contribution plan	*–8 199*	*8 199*	–	–
Guaranteed refunds				
Pension supplements, defined benefit plan	–	*–2 213*	–	*–2 213*
Supplementary amounts, defined contribution plan	–	*–95*	–	*–95*
Adjustment of paid-up values, defined benefit plan	–	*–3*	–	*–3*
Premium reduction	–	*–3 635*	–	*–3 635*
Return on guarantee reserve in previous year [3]	–107	–	–	–107
Return on guarantee reserve in current year [3]	*–95*	–	–	*–95*
Fees	–10	–	10	–
Interest	–222	244	–22	–
Collective risk premium [4]	–	–	–109	–109
Effect of changes in market interest rates	–577	577	–	–
Other changes [5]	–72	80	6	14
Closing balance 2016	**205 453**	**70 855**	**10 445**	**286 753**

1) Funds which have been allocated to Alecta's insureds and policy holders under various discretionary resolutions. These funds constitute a part of Alecta's risk capital and are not guaranteed until assigned. Formally, Alecta can claw back the funds. SEK 1 468 million (1 468) of a total of SEK 70 855 million (60 943) refers to funds intended to cover the cost of measures forming part of the ITP plan, under which the parties to the collective agreement have the right to decided how the funds are used. The final decision on the 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.

2) These funds are at the disposal of the parties to the collective agreement. The funds must be used for indexation of pensions in payment or other pension-promoting purposes, following a decision by the parties to the collective agreement.

3) Until the financial year 2015 returns were transferred between the funding reserve and the guarantee reserve in the following year subject to a decision by the Council of Administration. The return for 2016 was credited to the guarantee reserve in connection with its elimination on 12 December 2016. See Note 37 on page 90.

4) 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.

5) The item comprises cumulative return, inheritance gains and portfolio changes.

NOTE 36 Proposed appropriation of profits

The Board of Directors and Chief Executive Officer propose to the Council of Administration that the Parent Company's profit for 2016 of SEK 15 908 138 199 be transferred to the funding reserve. The Board and CEO propose that the Council of Administration approve the resolution of the Board regarding refunds as set forth in the section Distribution of surplus in the Administration Report, pages 39–40.

It is noted that the total return on the guarantee reserve for 2016, after deduction of actual investment management costs and tax, was credited to the guarantee reserve in connection with the elimination of guarantee reserve on 12 December 2016. No decision transferring the return from the funding reserve to the guarantee reserve as in previous years is therefore required in respect of the return for 2016.

See also Proposed appropriation of profits in the Administration Report on page 47.

NOTE 37 Guarantee reserve [1)]

Group and Parent Company	2016	2015
Opening balance	1 867	1 756
Return for previous year [2)]	107	231
Return for current year [2)]	*94*	–
Information funds	–105	–102
Collective agreement guarantee	–8	–18
Transfer to Guarantee foundation	–1 955	–
Closing balance	**0**	**1 867**

1) These funds were at the disposal of the parties to the collective agreements until the elimination of the guarantee reserve on 12 December 2016. The funds have been used for the collective agreement guarantee and for ITP- and TGL-related information and training activities. See Note 1 on page 64. The guarantee reserve was eliminated on 12 December 2016, at which date all funds held in the reserve were transferred to an independent foundation with the same purpose as the guarantee reserve.

2) Return after deduction of incurred investment management costs and tax. Until the financial year 2015 returns were transferred between the funding reserve and the guarantee reserve in the following year subject to a decision by the Council of Administration. The return for 2016 was credited to the guarantee reserve in connection with its elimination on 12 December 2016. See Note 1 on page 64.

NOTE 38 Untaxed reserves

Parent Company	2016	2015
Opening balance	–	115
Transferred to reserves during the year	–	–
Resolution	–	–115
Closing balance	**–**	**–**

NOTE 39 Provision for life insurance

Group and Parent Company	2016	2015
Opening balance	**413 563**	**414 942**
Change for the year	25 504	25 238
Premiums	*28 679*	*30 527*
Payments	*–16 048*	*–15 432*
Cumulative returns	*13 563*	*12 985*
Released operating expenses	*–681*	*–766*
Yield tax	*–414*	*–551*
Mortality result	*–106*	*–339*
Other changes	*511*	*–1 186*
Change in interest rate assumption	20 560	–18 801
Difference between premium and provisioning assumptions	–8 726	–10 287
Changed mortality assumption (generation-based)	–	3 679
Change in operating expenses assumption	–	–1 873
Changed assumption for transfer under right of transfer	160	–
Changed assumption for redistribution	2 009	665
Changed family pension assumptions	–3 524	–
Closing balance	**449 546**	**413 563**

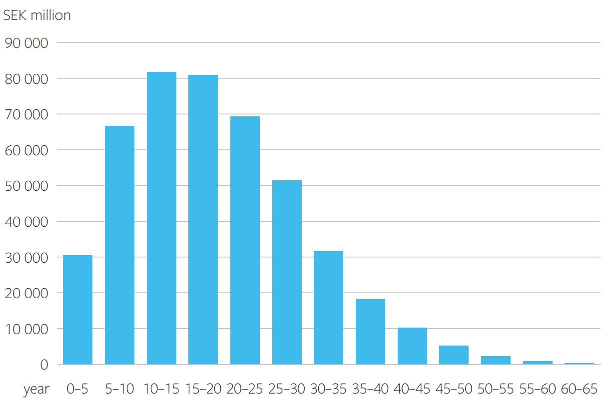
The following assumptions have been applied in calculating the provision for life insurance as at 31 December 2016:

- Interest rate assumption: The average rate of interest was 2,24 per cent (2,58) as at 31 December 2016. The method of determining this rate is described in Note 3 on page 68.
- Mortality assumption: Generational mortality is applied. It is assumed that a 65-year-old male and 65-year-old female born in the 1950s will live for a further 22,2 (22,2) years and 23,9 (23,9) years, respectively.
- Family pension assumption: Gender-dependent assumptions on family composition are applied.
- Operating expenses assumption: Future operating expenses are considered to comprise the present value of future expected expenses including cost increases due to inflation. Operating expenses are also recognised in connection with premium payments.
- Deduction for yield tax: Future yield tax is considered to comprise the present value of the yield tax that Alecta is expected to pay on assets representing the present value of guaranteed commitments.

Interest rate sensitivity

- For longer tenors, a fixed forward rate has been applied, which means that the average interest rate does not fluctuate as much as long-term market rates. If market interest rates were to fall by 1 percentage point, the average interest rate would fall by 0,6 percentage points and the provision for life insurance would increase by SEK 44,1 billion.

EXPECTED DISCOUNTED NET CASH OUTFLOW FOR RETIREMENT PENSION, FAMILY PENSION AND ORIGINAL ITPK



NOTE 40 Provision for claims outstanding

Group and Parent Company	2016	2015
Opening balance	**14 314**	**12 676**
Change for the year	2 150	2 054
Provision for new claims	*5 865*	*5 674*
Discontinuation income	*–1 198*	*–1 411*
Payments	*–2 752*	*–2 615*
Cumulative returns	*154*	*148*
Released operating expenses	*–72*	*–82*
Other changes	*153*	*340*
Change in interest rate assumption	368	–251
Change in operating expenses assumption	–105	–89
Other changes in assumptions	–	–76
Closing balance	**16 727**	**14 314**

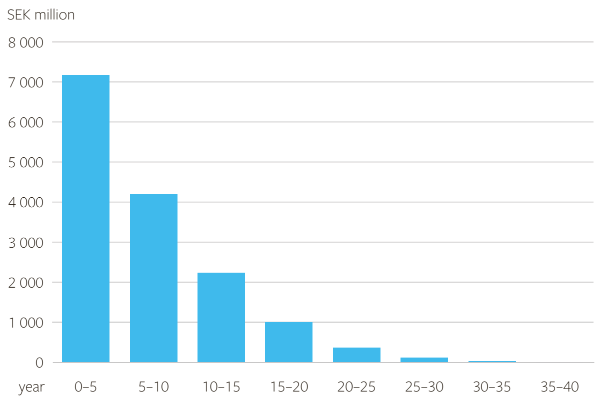
The following assumptions have been used in calculating, as at 31 December 2015, the provision for claims outstanding in respect of disability pension and waiver of premium, which comprise the dominant portion of the provision:

- Interest rate assumption: The average rate of interest was 1,00 per cent (1,38) as at 31 December 2016. The method of determining this rate is described in Note 3 on page 68.
- Morbidity assumption: Assumptions regarding the probability of remaining ill at a given point in time and regarding changes in benefit levels and the degree of incapacity for work.
- Operating expenses assumption: Future operating expenses have been taken into account in the form of a supplement for expected pension payments. Operating expenses are also recorded in conjunction with premium payments.
- Indexation: It is assumed that benefits linked to changes in the price basic amount and income basic amount (guaranteed indexation) will increase annually by 2 per cent and 3 per cent, respectively.

Interest rate sensitivity

- A decrease of 1 percentage point in the average interest rate increases the provision for claims outstanding by SEK 0,6 billion.

EXPECTED DISCOUNTED NET CASH OUTFLOW FOR DISABILITY INSURANCE AND WAIVER OF PREMIUM INSURANCE



NOTE 41 Provision for pensions and similar obligations

	Group		Parent Company	
	2016	2015	2016	2015
Provision for pensions	9	21	8	20
	9	**21**	**8**	**20**

The provision for pensions is largely attributable to employees born in 1955 or earlier, who are entitled to retire on their own initiative from the age of 62 under the terms of the FTP agreement. See Note 1 on page 65 and Note 54 on page 98.

NOTE 42 Other provisions

	Group		Parent Company	
	2016	2015	2016	2015
Indexation of pensions for former employees	15	14	15	14
Provision for real estate	7	16	7	14
Other provisions	–	7	–	7
	22	**37**	**22**	**35**

NOTE 43 Deferred tax (Group)

	2016		2015	
Group	Tax asset	Tax liability	Tax asset	Tax liability
Deferred tax related to:				
Temporary differences	–	–3 946	28	–5 306
Properties in Sweden	–	*–1 013*	–	*–700*
Properties outside of Sweden	–	*–1 605*	*28*	*–3 240*
Financial instruments	–	*–1 328*	–	*–1 366*
Accelerated depreciation	–	–33	–	–24
Loss carry-forwards	940	–	418	–
Creditable foreign tax [1]	5 535	–	3 236	–
Total deferred tax	**6 475**	**–3 979**	**3 682**	**–5 330**
Netting of deferred tax assets against deferred tax liabilities	–1 378	1 378	–1 525	1 525
Total deferred tax, net	**5 097**	**–2 601**	**2 157**	**–3 805**
of which expected to be settled after more than 12 months, amount before netting	6 189	–2 374	3 564	–5 330

Changes in deferred tax assets/liabilities, net:	2016	2015
Opening balance	–1 647	–1 763
Deferred tax in income statement	4 136	113
Increase through acquisitions	9	–
Reduction through divestitures	–	6
Foreign exchange differences	–2	–3
Closing balance	**2 496**	**–1 647**

[1] Comprises creditable foreign tax exceeding the maximum limit, creditable foreign tax paid during the year and deferred tax on the difference between the book and tax values of foreign properties.

NOTE 44 Taxes (Parent Company)

Parent Company	2016	2015
Taxes	28	943
of which current tax	*28*	*38*
of which deferred tax	–	*905*
Total taxes	**28**	**943**

	2016		2015	
Parent Company	Tax asset	Tax liability	Tax asset	Tax liability
Deferred tax related to:				
Temporary differences	–	–1 372	–	–1 788
Properties in Sweden	–	*–43*	–	*–37*
Properties outside of Sweden	–	*–1*	–	*–386*
Financial instruments	–	*–1 328*	–	*–1 366*
Loss carry-forwards	936	–	406	–
Creditable foreign tax [1]	3 938	–	477	–
Total deferred tax	**4 874**	**–1 372**	**883**	**–1 788**
Netting of deferred tax assets against deferred tax liabilities	–1 372	1 372	–883	883
Total deferred tax, net	**3 502**	**0**	**0**	**–905**
of which expected to be settled after more than 12 months, amount before netting	4 589	–1 371	765	–1 788

Changes in deferred tax assets and deferred tax liabilities during the year are recognised in the income statement.

[1] Comprises creditable foreign tax exceeding the maximum limit, creditable foreign tax paid during the year and deferred tax on the difference between the book and tax values of foreign properties.

NOTE 45 Liabilities related to direct insurance operations

Group and Parent Company	2016	2015
Liabilities to policy holders	2	17
Preliminary tax, pensions	670	663
Other	11	12
Total	**683**	**692**

NOTE 46 Other liabilities

Group	2016	2015
Payment liability on purchase of investment assets	398	568
Collateral received for derivatives [1]	2 661	4 019
Accounts payable	188	124
Property tax	95	126
Value-added tax	8	28
Other	1 125	364
Total	4 475	5 229

All liabilities mature within five years of the balance sheet date.

Parent Company	2016	2015
Liabilities to subsidiaries	849	1 328
Payment liability on purchase of investment assets	398	568
Collateral received for derivatives [1]	2 661	4 019
Accounts payable	113	92
Property tax	46	43
Value-added tax	8	28
Other	1 118	357
Total	5 193	6 435

[1] See also Note 30.

NOTE 47 Other accrued expenses and deferred income

	Group		Parent Company	
	2016	2015	2016	2015
Accrued interest expenses, subsidiaries	–	–	0	0
Accrued interest expenses	2 115	2 883	2 115	2 883
Accrued property costs	107	398	43	138
Accrued personnel costs	198	150	136	131
Prepaid rental income	277	257	139	144
Other	79	40	52	14
Total	2 776	3 728	2 485	3 310

NOTE 48 Assets and comparable collateral pledged for own liabilities and for obligations reported as provisions

Group and Parent Company	2016	2015
Assets registered on behalf of policy holders	754 457	713 350
in addition to required pledge	*288 184*	*285 473*
	754 457	713 350
Land and buildings	22 834	30 574
Shares and participations in jointly controlled entities (joint ventures) [1]	4 825	2 292
Loans to jointly controlled entities (joint ventures) [1]	3 380	2 113
Shares and participations	345 710	314 646
Bonds and other debt securities	373 454	356 384
Loans secured by real estate [2]	–	–
Other loans	2 288	2 066
Derivatives	–478	2 270
Cash and bank balances	2 444	3 005
Total	754 457	713 350

The table above shows assets that have been registered for debt coverage under Regulation FFFS 2011:20 of the Swedish Financial Supervisory Authority.

[1] Adjustment compared with the Annual Report 2015 through reclassification of participations in joint ventures and loans to joint ventures, in accordance with the amended rules in the Swedish Insurance Companies Annual Accounts Act concerning the format of the balance sheet.
[2] Adjustment compared with the Annual Report 2015 through the reclassification of SEK 186 million from the item Loans secured by real estate to Other loans.

NOTE 49 Other pledged assets and comparable collateral

Group och Parent Company	2016	2015
Collateral pledged to clearing houses for derivatives trading		
Bonds and other debt securities	2 192	800
Cash and bank balances	155	379
Collateral pledged for derivatives trading in accordance with CSA contracts		
Bonds and other debt securities	1 145	829
Cash and bank balances	2 225	–
Total	5 717	2 008

Collateral pledged for derivatives trading in accordance with CSA contracts is described in Note 30 Financial instruments subject to master netting agreements.

NOTE 50 Transfers of financial assets

Group and Parent Company	2016	2015
Loaned debt securities	–	14 395
Collateral received for loaned securities	–	14 412

The programme for lending of debt securities was terminated in 2016. Loaned debt securities consisted of Swedish government bonds, which have been recognised at fair value in the balance sheet, in accordance with the applicable accounting principles. Collateral received for loaned debt securities consisted of Swedish government bonds and mortgage bonds and has therefore not been recognised in the balance sheet. Compensation received in 2016 for the loan of debt securities has been recognised as interest income in the item Return on capital, income. See Note 5.

NOTE 51 Contingent liabilities

Group	2016	2015
Guarantee commitments	752	1 085
Total	752	1 085
Parent Company		
Liabilities in limited partnerships	12	4
Total	12	4

The majority of Alecta's guarantee commitments refer to loans in connection with the development of tenant-owner apartments.

In the course of its normal business operations Alecta is party to several disputes, most of which relate to minor amounts. Alecta does not expect these disputes to have a material adverse impact on the Group's financial position.

NOTE 52 Commitments

Group	2016	2015
Remaining balance to be invested in investment assets	1 057	1 602
	1 057	1 602
Parent Company		
Remaining balance to be invested in investment assets	906	1 445
	906	1 445

Consists of real estate-related investments.

NOTE 53 Reconciliation of total return table to financial statements

Group	2016	2015
Market value according to total return table [1]	**770 444**	**731 550**
Assets not classified as investments	8 486	4 227
Items from the liabilities side of the balance sheet which have been deducted in the total return table	14 371	14 339
Valuation differences	–95	–36
Total assets according to balance sheet	**793 206**	**750 080**

Group	2016	2015
Total return according to total return table	**38 136**	**40 581**
Items from the income statement (Notes 5, 6, 9, 10) which are not included in the total return table	930	–466
Foreign exchange effects in foreign subsidiaries, recognised in equity in the financial statements	–1 271	–1 032
Valuation differences, closing balance	–95	–36
Valuation differences, opening balance	36	124
Other	–207	–206
Total return according to income statement [2]	**37 529**	**38 965**

1) See page 36.
2) Notes 5, 6, 9 and 10 in the income statement.

NOTE 54 Average number of employees, salaries and remuneration

	2016			2015		
Average number of employees [1]	Number of employees	Of whom women	Of whom men	Number of employees	Of whom women	Of whom men
Parent Company						
Sweden	352	208	144	357	214	143
UK	2	1	1	4	3	1
Total, Parent Company	**354**	**209**	**145**	**361**	**217**	**144**
Subsidiaries						
Sweden	26	18	8	25	17	8
USA	10	7	3	10	7	3
Total, subsidiaries	**36**	**25**	**11**	**35**	**24**	**11**
Total, Group	**390**	**234**	**156**	**396**	**241**	**155**

	2016		2015	
Gender distribution in senior positions	Women	Men	Women	Men
Parent Company				
Board	4	11	3	10
CEO	–	1	–	1
Other senior executives	2	5	4	6
Total, Parent Company	**6**	**17**	**7**	**17**
Subsidiaries				
Board	–	6	–	5
Other senior executives	1	1	1	1
Total, subsidiaries	**1**	**7**	**1**	**6**
Total, Group	**7**	**24**	**8**	**23**

Salaries, remuneration and fees paid to the CEO, senior executives, Directors and other employees [2]

	2016				2015			
kSEK	Salaries, fees and other remuneration	Social security contributions	Pension costs	Total	Salaries, fees and other remuneration	Social security contributions	Pension cost	Total
Parent Company								
CEO and senior executives [3]	23 389	8 609	6 813	38 811	26 466	9 183	6 787	42 436
Directors [4]	2 747	647	–	3 394	2 525	542	–	3 067
Other employees	239 178	73 393	46 994	359 565	244 049	71 132	50 631	365 812
Total, Parent Company	**265 314**	**82 649**	**53 807**	**401 770**	**273 040**	**80 857**	**57 418**	**411 315**
Subsidiaries								
Sweden								
Other employees	10 113	3 039	807	13 959	10 068	2 989	713	13 770
USA								
Senior executives [5]	42 167	875	1 268	44 310	21 628	447	1 235	23 310
Other employees [5]	33 785	1 354	1 409	36 548	19 178	809	1 348	21 335
Total, subsidiaries	**86 065**	**5 268**	**3 484**	**94 817**	**50 874**	**4 245**	**3 296**	**58 415**
Total, Group	**351 379**	**87 917**	**57 291**	**496 587**	**323 914**	**85 102**	**60 714**	**469 730**

1) Refers to the average number of employees, both full-time and part-time.
2) The note shows salaries, remuneration and fees charged to expense in each financial year.
3) Consists of senior management for 2016. For the current composition of senior management, see page 110.
4) Members of the Board receive Directors' fees and fees for work on the Board's committees, which are determined by the Council of Administration. One Director also receives remuneration for Nomination Committee work.
5) The change compared with the previous year is due to severance pay in connection with the closure of the US business following the sale of all directly owned properties.

NOTE 54 Average number of employees, salaries and remuneration, *cont.*

Salaries, remuneration, fees and benefits paid to senior executives and Directors

	2016					
kSEK	Salaries, fees and other remuneration [1]	Variable remuneration [1, 4]	Benefits [3]	Total remuneration	Social security contributions	Pension costs
Parent Company						
CEO						
Staffan Grefbäck, to 17 April 2016	1 950	–	19	1 969	777	651
Magnus Billing, from 18 April 2016	4 047	–	10	4 057	1 608	1 372
Deputy CEOs						
Per Frennberg	3 288	1 251	18	4 557	1 382	1 414
Katarina Thorslund	2 193	–	17	2 210	809	474
Senior executives						
Senior executives [2]	10 461	–	135	10 596	4 033	2 902
Total, CEO and senior executives	**21 939**	**1 251**	**199**	**23 389**	**8 609**	**6 813**
Chairman of the Board						
Erik Åsbrink	579	–	–	579	59	–
Other members of the Board (excl. CEO)						
Hanna Brandt Gonzalez	92	–	–	92	29	–
Cecilia Fahlberg	214	–	–	214	67	–
Anna-Karin Hatt	92	–	–	92	29	–
Per Hedelin	181	–	–	181	57	–
Peter Jeppsson	92	–	–	92	29	–
Martin Linder	92	–	–	92	29	–
Jonas Milton	209	–	–	209	65	–
Richard Malmborg	181	–	–	181	57	–
Lars Wedenborn	181	–	–	181	57	–
Kaj Thorén	261	–	–	261	27	–
Magnus von Koch	181	–	–	181	57	–
Christer Ågren	214	–	–	214	67	–
Other members of the Board (excl. CEO) that have left						
Gunilla Dahmm	89	–	–	89	9	–
Karl Olof Stenqvist	*89*	–	–	*89*	*9*	–
Total, Board	**2 747**	**–**	**–**	**2 747**	**647**	**–**
Total, Parent Company	**24 686**	**1 251**	**199**	**26 136**	**9 256**	**6 813**

1) Salaries, fees and other remuneration, variable remuneration and severance pay shown as total salaries, fees and other remuneration charged to expense in the financial year 2016.
2) Other senior executives refers to 5 (8) positions, which together with the CEO and deputy CEOs comprised Alecta's senior management from September 2016. During the period January to August 2016 the other senior executives category consisted of 8 individuals. For the current composition of the management team, see page 110. The expense refers to those individuals who held a position as senior executive at some point during the year.
3) Typical benefits include a company car, mortgage interest benefits, household services and healthcare insurance.
4) Refers to variable remuneration under the Investment Management incentive scheme for which provisions have been made. A presentation of remuneration paid by Alecta, including variable remuneration, in accordance with the Swedish Financial Supervisory Authority's general guidelines regarding remuneration policy (FFFS 2015:12) will be published on alecta.se in April 2017.

NOTE 54 Average number of employees, salaries and remuneration, *cont.*

Salaries, remuneration, fees and benefits paid to senior executives and Directors

	2015					
kSEK	Salaries, fees and other remuneration [1]	Variable remuneration [1, 4]	Benefits [3]	Total remuneration	Social security contributions	Pension costs
Parent Company						
CEO						
Staffan Grefbäck	5 522	–	57	5 579	2 227	1 953
Deputy CEOs						
Per Frennberg	3 168	2 479	19	5 666	1 301	1 234
Katarina Thorslund	2 122	–	19	2 141	782	449
Senior executives						
Senior executives [2]	12 878	–	202	13 080	4 873	3 151
Total, CEO and senior executives	**23 690**	**2 479**	**297**	**26 466**	**9 183**	**6 787**
Chairman of the Board						
Erik Åsbrink	572	–	–	572	58	–
Other members of the Board (excl. CEO)						
Gunilla Dahmm	178	–	–	178	18	–
Cecilia Fahlberg	211	–	–	211	67	–
Per Hedelin	178	–	–	178	56	–
Jonas Milton	205	–	–	205	64	–
Richard Malmborg	178	–	–	178	56	–
Lars Wedenborn	178	–	–	178	56	–
Karl Olof Stenqvist	178	–	–	178	18	–
Kaj Thorén	258	–	–	258	26	–
Magnus von Koch	178	–	–	178	56	–
Christer Ågren	211	–	–	211	67	–
Total, Board	**2 525**	**–**	**–**	**2 525**	**542**	**–**
Total, Parent Company	**26 215**	**2 479**	**297**	**28 991**	**9 725**	**6 787**

1) Salaries, fees and other remuneration, variable remuneration and severance pay shown as total salaries, fees and other remuneration charged to expense in the financial year 2015.
2) Other senior executives refer to 8 (8) positions, which together with the CEO and the deputy CEOs comprised Alecta's senior management in 2015. The expense refers to those individuals who held a position as senior executive at some point during the year.
3) Typical benefits include a company car, mortgage interest benefits, household services and healthcare insurance.
4) Refers to variable remuneration under the Investment Management incentive scheme for which provisions have been made. A presentation of remuneration paid by Alecta, including variable remuneration, in accordance with the Swedish Financial Supervisory Authority's general guidelines regarding remuneration policy (FFFS 2011:2) has been published on alecta.se.

NOTE 54 Average number of employees, salaries and remuneration, *cont.*

Remuneration of Directors, the CEO and other senior executives

The Chairman and other members of the Board of Directors receive Directors' fees in accordance with resolutions adopted by the Council of Administration. The remuneration determined by the Council of Administration relates to the period until the next regular meeting of the Council of Administration. The remuneration paid to the CEO and senior executives in 2016 comprised basic salary, other benefits, such as a company car, mortgage interest benefits, healthcare insurance, household services, pension costs and social security contributions. The Deputy CEO Per Frennberg is the only member of senior management who receives variable remuneration under the Investment Management incentive scheme.

The remuneration of the CEO is determined by the Board and is reviewed annually. The remuneration of senior executives is determined by the CEO subject to approval by the Board of Directors.

Other senior executives refer to 7 individuals who together with the CEO constituted Alecta's management team from September 2016. During the period January to August 2016 the other senior executives category consisted of 10 individuals. For the composition of the current management team, see page 110.

In accordance with the Swedish Financial Supervisory Authority's Regulations and General Guidance on the Annual Accounts of Insurance Companies (FFFS 2015:12), supplementary disclosures on remuneration will be presented on Alecta's website, alecta.se, in April 2017.

Pensions, severance pay and other benefits of the CEO, deputy CEOs and other senior executives

The CEO has a pension agreement under which 35 per cent of the monthly salary is set aside each month for pensions, including contributions to the FTP plan. Any portion of the contribution which exceeds the contribution required for the FTP plan may be used for retirement pension, survivor's pension and/or disability pension, as decided by the CEO. The pensionable age for the CEO is 65. The CEO's employment contract is terminable on six months' notice on the part of the Company, in which case the CEO is entitled to severance pay in the amount of twelve months' salary. If the CEO takes up other employment, the amount of severance pay will be reduced by any benefits received from such employment during the period of severance pay.

The Deputy CEOs are also covered by the FTP plan. The employment contract of the Deputy CEO Per Frennberg is terminable on six months' notice on the part of the Company, in which case he is entitled to severance pay in the amount of twelve months' salary. If he takes up other employment, the amount of severance pay will be reduced by any benefits received from such employment during the period of severance pay. The Deputy CEO Katarina Thorslund is covered by a previous contract stipulating a notice period of 18 months, with any benefits received from other employment being fully deductible from severance pay. The contracts can be terminated by the Deputy CEOs on six months' notice.

Senior executives are covered by the FTP plan. Their contracts are terminable on six months' notice in case of termination by the Company and provide for severance pay in the amount of twelve months' salary. If a senior executive takes up other employment, the amount of severance pay will be reduced by any benefits received from such employment during the period of severance pay.

Since early 2013 employees of Alecta have had the option of exchanging a part of their salary for occupational pension premiums. This option is available to all employees of Alecta pensionsförsäkring, ömsesidigt.

Incentive scheme

In 2016 investment personnel in the Investment Management department and employees of a subsidiary which provides restaurant and conference services were covered by an incentive scheme. Since 2012 Alecta has been running a general variable pay incentive scheme covering all employees in Sweden except senior management, employees of the Internal Audit and Risk units as well as those employees at the Investment Management department who are already covered by another incentive scheme. The outcome for the general incentive scheme is contingent on achievement of targets linked to the business plan for 2016, with a maximum payout of kSEK 12 per employee in the form of increased occupational pension premiums. In 2016 two of the targets were fully achieved and a third target was half-achieved. The outcome per employee was kSEK 10 (12), representing a total cost for Alecta of approximately SEK 4 million (4), including social security contributions.

As of 2016 the Investment Management incentive scheme for investment personnel only covers employees in Sweden and has an evaluation period of three years. The Board of Directors has defined a cap for payouts as well as the targets against which performance will be measured. Key factors determining the outcome for variable remuneration are total return on investment assets, return in relation to Alecta's competitors and return from active management in the asset classes shares, debt securities and real estate. The outcome for each individual also depends on the extent to which individually defined targets have been achieved. For 2016 a provision of SEK 15,2 million, excluding social security contributions, has been made for variable remuneration of investment personnel in Sweden. Vested variable remuneration for 2015 totalled SEK 37,7 million excluding social security contributions, of which SEK 13,3 million referred to employees of Alecta's subsidiary in the United States.

For 2016 no variable remuneration has been vested under the incentive scheme in the subsidiary which provides restaurant and conference services. For 2015 the outcome was SEK 0.6 million excluding social security contributions.

Pension plans

All employees of Alecta pensionsförsäkring, ömsesidigt who are based in Sweden are covered by an occupational pension plan, FTP 12. The plan consists of two parts, FTP 1 and FTP 2. Employees born in 1972 or later are covered by FTP 1 while employees born in 1971 or earlier are covered by FTP 2. FTP 1 covers defined contribution retirement pensions with or without repayment cover, family protection, disability pension and waiver of premium insurance. The premium for retirement pension is 4,5 per cent of the gross salary on portions of salary up to 7,5 times the income basic amount and 30 per cent on portions of salary in excess of 7,5 times the income basic amount. Employees born in 1971 or earlier with a salary in excess of 10 times the income basic amount can choose to be covered by FTP 1. FTP 2 is a defined benefit pension plan, which means that the employee is guaranteed a pension defined as a specific percentage of his or her final salary. FTP 2 includes retirement pension, family pension, FTPK, disability pension, family cover, waiver of premium insurance and a separate children's pension.

Pension commitments are secured through payments of fixed insurance premiums during the period of service. Under IAS 19, multi-employer defined benefit pension plans should, as a rule, be accounted for as defined benefit pension plans. If insufficient information is available to determine the employer's share of the obligations and plan assets, the pension plan should instead be accounted for as if it were a defined contribution pension plan. Alecta accounts for the whole FTP plan as a defined contribution plan, as the criteria for recognising the defined benefit components of the plan in accordance with the main rule in IAS 19 are not met. This means that the expense is recognised when the benefits are earned. The total insurance premium for defined benefit retirement and family pensions in FTP 2 was SEK 22,2 million in 2016 and is expected to reach SEK 33,3 million in 2017. The premium represents approximately 0,11 per cent of the total premiums for defined benefit retirement and family pensions paid to Alecta by the client companies. Premiums are calculated on a per insured basis and for each type of benefit by applying Alecta's assumptions on interest rates, operating expenses and yield tax.

Alecta's collective funding ratio for defined benefit plans at the end of the

NOTE 54 Average number of employees, salaries and remuneration, *cont.*

year was 149 per cent (153). The collective funding ratio is defined as the market value of Alecta's assets as a percentage of its commitments to policy holders calculated using Alecta's actuarial assumptions, which are not consistent with IAS 19. Alecta's funding policy for its defined benefit plans is to maintain a collective funding ratio of 125 to 155 per cent under normal conditions, with a target ratio of 140 per cent. If Alecta's collective funding ratio falls below 125 per cent or exceeds 155 per cent, measures must be taken to create conditions that will allow the collective funding ratio to return to the normal range within three years, provided that such measures are not expected to impede Alecta's ability to fulfil its insurance commitments or ensure the indexation of pensions in payment. In case of a low funding ratio, one measure that can be taken is to raise the agreed price for new policies and expansion of existing benefits. If the funding ratio is high, premiums can be reduced.

FTP 2 provides an option for employees born in 1955 or earlier to retire on their own initiative with effect from the month after they turn 62. The provision is recognised in the item Provision for pensions and similar obligations, see Note 41 on page 92.

The subsidiaries have only defined contribution plans. These plans are secured mainly through payments of insurance premiums by each Group company and in some cases also by the employees. Some Group companies also provide various forms of healthcare insurance.

NOTE 55 Disclosure of auditors' fees

	Group		Parent Company	
	2016	2015	2016	2015
EY				
Statutory audit	3,1	3,0	3,1	3,0
Audit activities not included in statutory audit	–	–	–	–
Tax advisory services	2,9	1,9	0,2	–
Other services	2,2	0,3	0,3	0,3
Total, EY	**8,2**	**5,2**	**3,6**	**3,3**

NOTE 56 Leasing

Operating leases

Alecta has entered into operating leases for premises, office equipment and cars. The due dates for the sum of future minimum lease payments under non-cancellable leases at 31 December 2016 are as follows:

	Group		Parent Company	
Expiration	2016	2015	2016	2015
Within one year	4,8	9,2	4,8	6,4
Later than one year but within five years	2,1	20,5	2,1	9,3
Later than five years	–	–	–	–
Total	6,9	29,7	6,9	15,7
Total lease payments during period	9,6	8,0	6,8	6,1
of which minimum lease payments	9,6	8,0	6,8	6,1

The rental contracts for premises in the US and UK are planned to be cancelled in advance during 2017. These have therefore not been included in the presentation of leases by due date. The total cost for rental contracts in the US and UK was around SEK 4 million in 2016.

NOTE 57 Significant events after the balance sheet date

Sale of foreign properties completed

In early February the sale of Alecta's directly owned foreign property portfolio in the US and UK, which was initiated in 2016, was concluded. The total sale price for these properties was around SEK 6 billion.

Adjustment of premiums

Alecta's Board of Directors has decided to adjust the premiums charged from 1 March 2017. The change will affect both current and single premium insurance policies. For current premium defined benefit retirement pensions, premiums will be raised by an average of 15 per cent. The increase applies to new plans as well as increases in benefits. For redemptions the premium will be raised by an average of 3 per cent. The premiums have been adjusted in response to increased life expectancy and the current low interest rate environment.

NOTE 58 Related party disclosures

This note contains descriptions of transactions between Alecta and related parties, as defined in IAS 24 Related Party Disclosures. Alecta considers the following legal entities and physical persons to be related parties according to this definition:

- all companies in the Alecta Group
- members of the Board of Directors and management team
- close family of members of the Board of Directors and management team
- the Confederation of Swedish Enterprise, PTK and their member organisations/unions
- associates and joint ventures
- the occupational pension information centres Collectum AB and Fora AB (the main owners of Collectum are PTK and the Confederation of Swedish Enterprise, the latter of which also owns half of Fora)
- AMF and AFA are half-owned by the Confederation of Swedish Enterprise.

Transactions with related parties must, like other transactions, be undertaken on commercial terms. When such transactions are undertaken particular attention must be paid to the internal rule on handling of conflicts of interest and Alecta's ethics policy, both of which have been adopted by Alecta's Board of Directors.

The operations of Alecta are conducted in accordance with principles of mutuality. The profit or loss arising in the company must be returned to or borne by the policy holders and the insureds. The operations are conducted on a non-profit basis and no profits are distributed. Subsidiaries are regarded chiefly as capital investments aimed at generating the best return for the owners.

Transactions between Alecta and subsidiaries

Alecta-to-subsidiary transactions refer to loans or shareholder contributions provided in connection with investments made by the subsidiaries. Subsidiary-to-Alecta transactions refer mainly to loan repayments and interest payments as well as dividends. Shares and participations in Group companies are presented in Note 18.

Transactions with members of the Board, senior management and their immediate family

Information on remuneration of senior executives and members of the Board is presented in Note 54. No remuneration was paid to family members of related parties in 2016.

NOTE 58 Related party disclosures, *cont.*

Transactions with the Confederation of Swedish Enterprise and PTK

The Confederation of Swedish Enterprise and the Council for Negotiation and Cooperation (PTK) are central labour market organisations in the Swedish private sector. Member organisations and unions of these central organisations are represented on the nomination committees which, on behalf of the owners, appoint members of Alecta's Council of Administration and thus indirectly also of Alecta's Board of Directors. Transactions between Alecta and the Confederation of Swedish Enterprise and PTK in 2016 relate to the disbursement of information funds for ITP and TGL. These payments were made from the guarantee reserve in accordance with Alecta's Articles of Association, see Note 37.

Transfer of insurance portfolio

During the year the Confederation of Swedish Enterprise and some of its member organisations transferred insurance portfolios from another insurance provider to Alecta. The transfers, which totalled SEK 500 million (258), were made on commercial terms.

Transactions with associated companies and joint ventures

Joint ventures are defined as entities in which Alecta exercises joint control together with the other co-owners. Alecta pensionsförsäkring, ömsesidigt is a co-owner of 13 (11) jointly controlled real estate companies in Sweden and 2 (2) jointly controlled real estate companies in the US. In the US, these participations are owned through the wholly owned subsidiary company Alecta Real Estate USA, LLC. Transactions between Alecta and these joint ventures refer to lending, shareholder contributions and interest payments, and are shown in the table on the other page. There are currently no investments in associated companies.

Transactions with the selection centres Collectum AB and Fora AB

Transactions made between Alecta and the Collectum and Fora selection centres are based on concluded agency agreements under which the selection centres undertake to perform a number of duties related to the ITP plans and the occupational pension plans collectively agreed between the Confederation of Swedish Enterprise and the Swedish Trade Union Confederation (Avtalspension SAF-LO). Collectum and Fora receive agency fees from Alecta for work performed under the agency agreements. Transactions with the selection centres are shown in the table below. The agency fees have been charged to operating expenses for the year and are shown in Note 8.

Disclosures on share of equity and the fair values of Alecta's participations in jointly controlled entities, joint ventures.

Joint ventures in Sweden	Corporate Identity Number	Share of equity	Fair value 2016	Fair value 2015
Ancore Fastigheter AB	556817-8858	50 %	1 127	301
Convea AB	556912-4505	50 %	156	3
KB Alfa SSM	969715-3998	49 %	218	227
Alfa SSM JV AB	556840-4262	50 %	0	0
Långeberga Logistik AB [1]	556928-2840	50 %	119	80
Fastighets AB Stenvalvet	556803-3111	26 %	390	303
Heimstaden Bostad AB	556864-0873	33 %	940	371
Profi lll Infracity AB	556922-4198	39 %	131	94
Midstar Hotels	559007-7979	50 %	455	76
Swedish Airport Infrastructure AB	559012-5182	50 %	0	0
Swedish Airport Infrastructure KB	969775-2609	50 %	1 124	917
Logistikfastigheter Sverige AB	559047-9738	50 %	184	–
Sollentuna Stinsen JV AB	559085-9954	50 %	100	–
Total, Sweden			**4 944**	**2 372**

Joint ventures in USA	Corporate Identity Number	Share of equity	Fair value 2016	Fair value 2015
Are Lei Venture LLC	DE ID5473708	95 %	1 093	1 233
Boylstone Street Associates LLC	DE ID4906542	95 %	8	454
Total, USA			**1 101**	**1 687**

[1] Jointly owned through a wholly owned subsidiary

	Related parties	Transactions	Payments received 2016	Payments received 2015	Payments made 2016	Payments made 2015
Information on transactions between the Parent Company, Alecta pensionsförsäkring, ömsesidigt, and related parties:	Swedish Group companies	Interest income	141	148	–	–
		Interest expenses	–	–	–	–
		Share of profit	14	12	–	–
		Management fee	6	10	–	–
	Foreign Group companies	Interest income	–	1	–	–
		Dividends	10 906	481	–	–
		Shareholder contributions provided	–	–	100	258
	Confederation of Swedish Enterprise and PTK	Information funds for ITP and TGL		–	105	102
	Selection centres (Collectum and Fora)	Premium payments	27 148	29 949	–	–
		Agency fees		–	132	124
	Joint ventures	Interest income	144	141	–	–
			38 359	**30 743**	**337**	**484**

	Related parties	Balances	Receivables 2016	Receivables 2015	Liabilities 2016	Liabilities 2015
Information on the Parent Company, Alecta pensionsförsäkring, ömsesidigt's, outstanding receivables from and liabilities to related parties at 31 December:	Swedish Group companies	Non-current receivables	10 380	10 655	–	–
		Accrued interest income	–	90	–	–
		Receivables from/liabilities to Group companies	–	1 329	57	–
		Accrued interest expenses	–	–	0	0
	Foreign Group companies	Accrued interest income	–	–	–	–
	Selection centres (Collectum and Fora)	Receivables	1 589	1 561	–	–
	Joint ventures	Loans receivable	3 655	2 388	–	–
		Accrued interest income	14	14	–	–
			15 638	**16 037**	**57**	**0**

This annual report for the financial year ended 31 December 2016 was approved for publication by the Board of Directors on 21 March 2017. The report will be presented to the Council of Administration for adoption on 26 April 2017.

Board of Directors’ signatures

We hereby declare that, to the best of our knowledge, the annual report has been prepared in accordance with generally accepted accounting principles, the information provided gives a true and fair view of the circumstances of the Company and nothing of material significance has been omitted which might affect the view of the Company created by the annual report.

Stockholm, 21 March 2017

Erik Åsbrink
Chairman

Cecilia Fahlberg Pihlgren
First Vice Chairman

Christer Ågren
Second Vice Chairman

Hanna Brandt-González

Anna-Karin Hatt

Per Hedelin

Peter Jeppsson

Magnus von Koch

Martin Linder

Richard Malmborg

Jonas Milton

Kaj Thorén

Lars Wedenborn

Birgitta Pernkrans

Mikael Persson

Magnus Billing
Chief Executive Officer

Our audit report was submitted on 27 March 2017.

Ernst & Young AB

Jesper Nilsson
Authorised Public Accountant

Audit Report

Corporate Identity Number 502014-6865

To the Council of Administration of Alecta pensionsförsäkring, ömsesidigt

Report on the annual accounts and consolidated financial statements

Opinion

We have audited the annual accounts and consolidated financial statements of Alecta pensionsförsäkring, ömsesidigt for 2016. The company's annual accounts are presented on pages 34–101.

In our opinion, the annual accounts have been prepared in accordance with the Swedish Insurance Companies Annual Accounts Act and give an essentially true and fair view of the parent company's financial position at 31 December 2016 and of its financial results and cash flows for the year in accordance with the Insurance Companies Annual Accounts Act. The consolidated financial statements have been prepared in accordance with the Swedish Annual Accounts Act and give an essentially true and fair view of the Group's financial position at 31 December 2016 and of its financial results and cash flows for the year in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, and the Insurance Companies Annual Accounts Act. The Administration Report is consistent with the other parts of the annual accounts and consolidated financial statements.

We therefore recommend that the Council of Administration adopt the parent company and consolidated income statements and balance sheets.

Basis of opinion

We have conducted our audit in accordance with the International Standards on Auditing (ISA) and generally accepted auditing standards (GAAS) in Sweden. Our responsibility under these standards is described in the section Responsibility of the auditor. We are independent of the parent company and the Group in accordance with Swedish GAAS and have otherwise fulfilled our ethical responsibilities under these standards.

We believe that the audit evidence we have obtained is sufficient and adequate as a basis for our opinion.

Other information than the annual accounts and consolidated financial statements

This document also contains other information than the annual accounts and consolidated financial statements, which is found on pages 2–33 and 106–112.

Responsibility for this other information rests with the Board of Directors and Chief Executive Officer.

Our opinion on the annual accounts and consolidated financial statements does not cover this other information, and we do not express any opinion, or make any certification, in respect of this information.

In connection with of our audit of the annual accounts and consolidated financial statements it is our responsibility to read the information identified above and, in so doing, to consider whether it is materially inconsistent with the annual accounts and consolidated financial statements. In this review we also take account of other knowledge obtained in the course of our audit and assess whether the information otherwise appears to contain material misstatements.

If, based on the work carried out in respect of this information, we conclude that the other information contains a material misstatement, we have a duty to report this. We have nothing to report in that regard.

Responsibilities of the Board of Directors and Chief Executive Officer

Responsibility for ensuring that the annual accounts and consolidated financial statements are prepared and give a true and fair view pursuant to the Insurance Companies Annual Accounts Act and, as regards the consolidated financial statements, pursuant to IFRS as adopted by the EU, rests with the Board of Directors and Chief Executive Officer. The Board and CEO are also responsible for such internal control as they deem necessary for the purpose of preparing annual accounts and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated financial statements, the Board and CEO are responsible for assessing the company's ability to continue as a going concern. Where applicable, they are also required to disclose circumstances which could affect the company's ability to continue as a going concern and use the going concern assumption. The going concern assumption applies unless the Board and CEO intend to liquidate the company or cease to operate, or have no realistic alternative to doing so.

The Audit Committee of the Board of Directors is tasked with monitoring, without prejudice to the other responsibilities and duties of the Board, the financial reporting of the company.

Responsibility of the auditor

Our objective is to obtain reasonable assurance that the annual accounts and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to submit an audit report containing our opinion. Reasonable assurance is a high degree of assurance, but does not constitute a guarantee that an audit conducted in accordance with ISA and generally accepted auditing standards in Sweden will always detect a material misstatement if it exists. Misstatements can arise due to fraud or error and are considered material if they individually or jointly can reasonably be expected to affect financial decisions made by users on the basis of the annual accounts and consolidated financial statements.

As part of our audit in accordance with ISA, we use our professional judgement and maintain a professionally sceptical attitude throughout our audit. We also:

- identify and assess the risks of material misstatement in the annual accounts and consolidated financial statements, whether due to fraud or error, devise and perform audit procedures partly on the basis of these risks and obtain audit evidence that is sufficient and appropriate as a basis for our opinion. The risk of not detecting a material misstatement that is due to fraud is higher than for a material misstatement that is due to error, as fraud can involve persons acting in collusion, falsification, intentional omissions, incorrect information or neglect of internal control.

- obtain an understanding of that part of the company's internal control system that is of significance for our audit in order to devise audit procedures which are appropriate in view of the circumstances, but not to express an opinion on the effectiveness of the internal control system.
- evaluate the appropriateness of the accounting principles used and the reasonableness of the Board of Directors' and CEO's estimates in the accounts and related disclosures.
- draw a conclusion on the appropriateness of the Board of Directors' and CEO's use of the going concern assumption in preparing the annual accounts and consolidated financial statements. We also draw a conclusion, based on the audit evidence obtained, on whether there is any material uncertainty related to events or circumstances which could cast significant doubt on the company's ability to continue as a going concern. If we draw the conclusion that there is a material uncertainty, we need to draw attention in our audit report to those disclosures which concern the material uncertainty in the annual accounts or, if such disclosures are insufficient, modify our opinion on the annual accounts and consolidated financial statements. Our conclusions are based on the audit evidence obtained up to the date of the audit report. However, future events or circumstances could result in a company being unable to continue as a going concern.
- evaluate the overall presentation, structure and content of the annual accounts and consolidated financial statements, including the disclosures, and whether the annual accounts and consolidated financial statements provide a true and fair view of the underlying transactions and events.
- obtain sufficient and appropriate audit evidence in respect of the financial information for the entities or business activities in the Group so as to be able to express an opinion on the consolidated financial statements. We are responsible for the governance, monitoring and performance of the audit of the consolidated financial statements. We are solely responsible for the opinion that we issue.

We are required to inform the Board on, for example, the planned scope, focus and timing of the audit. We are also required to communicate any significant observations made in the course of our audit, including any significant internal control issues that we have identified.

We are furthermore required to submit a statement to the Board confirming that we have complied with all professional ethical requirements with regard to independence, address all relations and other circumstances which could reasonably affect our independence and, where applicable, take relevant countermeasures.

Of those areas that are communicated to the Board, we determine which were most significant for the audit of the annual accounts and consolidated financial statements, including the most important assessed risks of material misstatement, and which therefore constitute the key audit matters. We describe these areas in our audit report unless laws, regulations or administrative provisions prohibit the disclosure of the matter or when, in extremely rare cases, we consider that a matter should not be communicated in the audit report because the negative consequences of doing so may reasonably be expected to outweigh the public interest of this communication.

Report on other legal and regulatory requirements

Opinion

In addition to our audit of the annual accounts, we have audited the Board of Directors' and Chief Executive Officer's management of Alecta pensionsförsäkring, ömsesidigt for 2016 and the proposed appropriation of the company's profit or loss.

We recommend that the Council of Administration allocate the retained earnings as proposed in the Administration Report and grant release from liability to the Directors and Chief Executive Officer in respect of the financial year.

Basis of opinion

We have conducted our audit in accordance with generally accepted auditing standards (GAAS) in Sweden. Our responsibility under these standards is described in the section Responsibility of the auditor. We are independent of the parent company and the Group in accordance with Swedish GAAS and have otherwise fulfilled our ethical responsibilities under these standards.

We believe that the audit evidence we have obtained is sufficient and adequate as a basis for our opinion.

Responsibilities of the Board of Directors and Chief Executive Officer

Responsibility for the proposed appropriation of the company's profit or loss rests with the Board of Directors. The preparation of a dividend proposal involves assessing whether the dividend is justifiable with regard to the equity, consolidation, liquidity and financial position requirements of the parent company and Group arising from the nature, scope and risks of the operations of the parent company and Group.

The Board is responsible for the company's organisation and the management of its affairs. This involves continuously assessing the company's and Group's financial situation, and ensuring that the company's organisation is structured so as to ensure satisfactory control of its accounting, management of funds and financial affairs. The CEO is responsible for day-to-day management in accordance with the guidelines and instructions issued by the Board and shall take such actions as may be necessary to ensure compliance with the company's statutory accounting obligations and satisfactory management of funds.

Responsibility of the auditor

Our objective for the management audit, and thus for our opinion on release from liability, is to obtain audit evidence that enables us to assess with reasonable assurance whether any member of the Board or the Chief Executive Officer has in any material respect:

Audit Report, *cont.*

- taken any action or been guilty of any neglect that could give rise to a liability to indemnify the company.
- otherwise acted in contravention of the Cooperative Societies Act, the Companies Act, the Insurance Business Act, the Insurance Companies Annual Accounts Act or the Articles of Association.

Our objective in respect of our audit of the proposed appropriation of the company's profit or loss, and thus for our opinion on the same, is to obtain reasonable assurance that the proposed appropriation is consistent with the Cooperative Societies Act and the Insurance Business Act.

Reasonable assurance is a high degree of assurance but does guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden (Swedish GAAS) will always detect actions or neglect that could give rise to a liability to indemnify the company, or that the proposed appropriation of the company's profit or loss is consistent with the Cooperative Societies Act or the Insurance Business Act.

As part of our audit in accordance with Swedish GAAS, we use our professional judgement and maintain a professionally sceptical attitude throughout our audit. Our examination of the management and the proposed appropriation of the company's profit or loss is based primarily on our audit of the financial statements. We use our professional judgement to decide which additional audit procedures to carry out based on risk and materiality. This means that we focus our examination on such procedures, areas and circumstances that are material to the business and where deviations and violations would be particularly significant for the company's situation. We review and test the decisions that have been made, the bases for these decisions, the measures taken and other circumstances that are relevant to our opinion on release from liability. As a basis for our opinion on the Board of Directors' proposal for appropriation of the company's profit or loss, we have examined whether the proposal is consistent with the Cooperative Societies Act and the Insurance Business Act.

Stockholm, 27 March 2017
Ernst & Young AB

Jesper Nilsson
Authorised Public Accountant

Review report

Corporate Identity Number 502014-6865

To the Council of Administration of Alecta pensionsförsäkring, ömsesidigt

We have, in our capacity as lay auditors, reviewed the operations of Alecta pensionsförsäkring, ömsesidigt for the year 2016.

We performed our review in accordance with the Swedish Insurance Companies Act and generally accepted auditing standards in Sweden. This means that we planned and performed our review so as to obtain reasonable assurance that the company's operations have been conducted in an appropriate and financially satisfactory manner, and that the company's internal control is adequate.

Our review did not result in any qualifications.

Stockholm, 27 March 2017

Niklas Hjert　　Lars Jansson

Auditor’s review report on Alecta’s sustainability report

To the Council of Administration of Alecta pensionsförsäkring, ömsesidigt

Introduction

We have been engaged by the Board of Directors of Alecta Pensionsförsäkring, ömsesidigt to review the company’s sustainability report for 2016. The company has defined the scope of the sustainability report as covering those areas which are referred to in the GRI Index on pages 31–32.

The Board of Directors’ and management’s responsibility for the sustainability report

Responsibility for preparing the sustainability report in accordance with the applicable criteria, as set forth on page 30, which comprise those sections of the Sustainability Reporting Guidelines issued by the Global Reporting Initiative (GRI) that are applicable to the sustainability report, and the reporting and calculation principles defined by the company itself, rests with the Board of Directors and management. This responsibility also includes such internal control as is deemed necessary for preparing a sustainability report that is free from material misstatement, whether due to fraud or error.

The auditor’s responsibility

Our responsibility is to express a conclusion on the sustainability report based on our review.

We have performed our review in accordance with Recommendation RevR 6 Certification of Sustainability Report issued by FAR, the professional institute for accountants in Sweden. A review consists of making inquiries, primarily with persons responsible for the preparation of the sustainability report, and applying analytical and other review procedures. A review has a different focus and significantly narrower scope than a full audit conducted in accordance with IASB’s standards and generally accepted auditing standards. The audit firm applies the International Standard on Quality Control (ISQC 1) and therefore has a broad system for quality control consisting of documented guidelines and procedures for compliance with professional ethical requirements, standards for professional conduct, and applicable requirements in laws, regulations and administrative provisions. The review procedures performed in a review do not enable us to obtain a degree of certainty that would make us aware of all important circumstances that would have been identified if an audit had been performed. The conclusion based on a review therefore does not have the same certainty as a conclusion based on an audit.

Our review is based on the criteria selected by the Board of Directors and management, which are defined above. We consider these criteria to be appropriate for the preparation of the sustainability report, and we believe the evidence we have obtained in the course of our review is sufficient and appropriate for the purpose of establishing a basis for issuing the following opinion.

Opinion

Based on our review, we have not discovered any circumstances that would give us reason to believe that the sustainability report has not, in all material respects, been prepared in accordance with the above criteria indicated by the Board of Directors and management.

Stockholm, 27 March 2017
Ernst & Young AB

Jesper Nilsson
Authorised Public Accountant

Outi Alestalo
Specialist member of FAR

Board of Directors

Erik Åsbrink [1,2]
Born 1947
Chairman
Member of the Board since 2000.
Other directorships:
Svensk Hypotekspension AB (Chairman), Stiftelsen Cancercentrum Karolinska, Bilspeditions Transportörer Förvaltnings AB.
Other posts:
Authorisation Committee of Swedish Staffing Agencies (Chairman), Economic Council of the Swedish Trade Federation (Chairman), Board of Trustees of the Centre for Business and Policy Studies (SNS).

Hanna Brandt-González [3]
Born 1969
Head of Office, Unionen
Member of the Board since 2016.
Other directorships:
Medlemsförsäkring AB (Chairman), TCO Development AB.

Cecilia Fahlberg Pihlgren [1]
Born 1960
First Vice Chairman
Member of the Board since 2007.
Other posts:
Council on Transparency of the Swedish National Board of Housing, Building and Planningm, Arbetsmarknadsutredningen (Swedish Government Labour Market Inquiry).

Anna-Karin Hatt [2]
Born 1972
CEO of Almega AB
Member of the Board since 2016.
Other directorships:
Almega AB, Almega Tjänsteförbunden, Castellum AB, Trygghetsfonden TSL, Trygghetsrådet TRR.
Other posts:
Almega Tjänsteförbunden (Director of Association), Swedish Higher Education Authority.

Per Hedelin [3]
Born 1965
CEO of Ledarna
Member of the Board since 2008.
Other directorships:
Försäkringsbolaget PRI Pensionsgaranti, Bliwa Livförsäkring, Riva del Sole S.p.A, Mgruppen Svenska Managementgruppen AB (Chairman), Intermezzon AB (Chairman).

Peter Jeppsson [3]
Born 1957
Deputy CEO of Confederation of Swedish Enterprise
Member of the Board since 2016.
Other directorships:
Trygghetsrådet TRR (Chairman), Trygghetsfonden TSL (Chairman), Fora AB.
Other posts:
Worldskills Sweden.

Magnus von Koch [2]
Born 1962
Investment Management at Unionen
Member of the Board since 2010.
Other directorships:
Klara Norra Fastigheter AB (Chairman).

Martin Linder [2]
Born 1973
President of Unionen
Member of the Board since 2016.
Other directorships:
PTK (Chairman), TCO.

Richard Malmborg [3]
Born 1961
Director of the Swedish Association of Graduate Engineers
Member of the Board since 2003.
Other directorships:
PTK (Vice Chairman),
SACO (First Vice Chairman),
Akademikertjänst AB (Chairman).

Jonas Milton [3]
Born 1953
Member of the Board since 2006.
Other directorships:
Caretia AB (Chairman),
Karolinska Institute.
Other posts:
National Delegation for Validation (Chairman).

Kaj Thorén [2]
Born 1944
Member of the Board since 2005.

Lars Wedenborn [2]
Born 1958
CEO of FAM AB
Member of the Board since 2012.
Other directorships:
FAM AB, Nasdaq OMX Nordic Ltd (Chairman), Nasdaq OMX Group Inc, AB SKF, Höganäs AB, Nefab AB.

Christer Ågren [1]
Born 1954
Second Vice Chairman
Member of the Board since 2009.

Birgitta Pernkrans
Born 1969
Insurance Officer
Employee Representative for FTF
Member of the Board since 2015.

Mikael Persson
Born 1962
Insurance Officer
Employee Representative for SACO
Member of the Board since 2008.

1 Member of the Board Presidium, which also acts as Remuneration Committee
2 Member of the Finance Committee
3 Member of the Audit Committee

The Duties and Practices of the Board of Directors

The Board of Directors is responsible for the organisation and administration of Alecta. The Board defines Alecta's strategies and long-term targets, and is responsible for ensuring adequate risk control.

The Board is also responsible for ensuring that there is adequate control of the organisation in respect of accounting and financial management, and for ensuring that Alecta is managed efficiently, that adequate internal controls are in place, and that there is adequate control of compliance with those laws and regulations that apply to Alecta's operations. The Board is thereby responsible for ensuring that the necessary internal regulations for Alecta's operations are in place, and adopts the Company's investment guidelines, actuarial guidelines and guidelines for managing conflicts of interest.

Each year, the Board of Directors adopts rules of procedure for its activities and terms of reference for the Chief Executive Officer. The work of the Board of Directors is normally evaluated once a year. An evaluation was made in autumn 2016 and the result was presented to the Preparatory Committee of the Council of Administration in preparation for the meeting of the Council in March 2017, at which the Chairman and Vice Chairmen of the Board also participated. The work of the CEO is evaluated continuously and a formal evaluation is made once a year.

The Board held eight meetings in 2016, one of which was held in conjunction with a two-day Board seminar at which matters of strategic importance for Alecta were discussed.

In addition to the activities of the Board itself, the Board operates through three committees: the Board Presidium, the Finance Committee and the Audit Committee.

The Board Presidium has three members: the Chairman of the Board and the two Vice Chairmen. The CEO also participates in meetings of the Presidium. The main duties of the Presidium are to administer and adopt decisions on those matters which the Board delegates to the Presidium and otherwise advise the CEO in the day-to-day management of the Company, and to prepare the agenda and decisions on matters of particular importance in preparation for Board meetings. The Presidium also acts as a remuneration committee and convenes at the initiative of the Chairman of the Board. The Presidium held six meetings in 2016.

The Finance Committee consists of six members. The committee adopts detailed guidelines for Alecta's day-to-day investment activities, monitors the investment activities, prepares matters related to the Company's asset management activities that will be addressed by the Board and makes decisions on investment-related matters which fall outside the remit of the CEO. The Finance Committee convened on five occasions in 2016.

The Audit Committee consists of four members. The committee continuously evaluates and communicates to the Board its view of Alecta's risk exposure and management's risk management. The committee also supports the Board in monitoring and evaluating internal and external auditing processes, and prepares matters related to the Board's work on assuring the quality of Alecta's financial reporting. The Audit Committee held five meetings in 2016.

In addition to the regular agenda items, the Board and committees worked on the sale of Alecta's foreign property portfolios in 2016, and on adaptations to the EU's audit package, which became effective on 17 June 2016.

The Council of Administration and Auditors

The Council of Administration

The Council of Administration is Alecta's highest decision-making body, corresponding to the General Meeting of Shareholders in the Swedish Insurance Companies Act. The Council's duties include electing the members of the Board of Directors and auditors, addressing the issue of release from liability for the Board of Directors and CEO in respect of their management during the financial year, adopting the income statements and balance sheets for the Parent Company and Group, and deciding on the appropriation of the profit or loss for the year.

The Council of Administration consists of 38 members and eight deputies. To ensure that the interests and views of the retirees are represented, the principle that the Council's members should include a number of retirees who are insured in Alecta is applied. These members are appointed by the trade union organisations indicated below.

Members and Deputy Members

The 19 members and four deputy members of the Council of Administration elected by the Confederation of Swedish Enterprise for the period 2015–2017.

Members

Björn Alvengrip, Mölle
Kenneth Bengtsson, Stockholm, Chairman
Jan Bosaeus, Solna
Mattias Dahl, Stockholm (2016–2017)
Eva Dunér, Gothenburg
Mats Elfsberg, Vansbro
Ann-Marie Fransson Grankvist, Järfälla
Per Hidesten, Stockholm
Göran Holm, Bromma
Karin Johansson, Stockholm (2016–2017)
Ulf Larsson, Sundsvall
Staffan Lindquist, Helsingborg
Martin Lindqvist, Stockholm
Jan Moström, Luleå (2016–2017)
Ola Månsson, Alunda
Kerstin Renard, Hälleviksstrand
Jan Siezing, Tumba
Åke Svensson, Stockholm
Ulrik Wehtje, Malmö

Deputy Members

Inga-Kari Fryklund, Stockholm
Hans Gidhagen, Upplands Väsby
Jonas Hagelqvist, Stockholm
Pontus Sjöstrand, Stockholm

The 19 members and four deputy members of the Council of Administration elected by Unionen, the Association of Managerial and Professional Staff (Ledarna), the Swedish Association of Graduate Engineers and the Council for Negotiation and Cooperation (PTK) for the period 2015–2017.

Members

Stefan Carlsson (Unionen), Norrköping
Per-Erik Djärf (Unionen), Vadstena (2016–2017)
Björn Ekblom (Unionen), Svanesund (2016–2017)
Annika Elias (Ledarna), Gothenburg
Helena Hedlund (Ledarna), Märsta
Peter Hellberg (Unionen), Bandhagen, Vice Chairman
Gunnar Henriksson (Unionen), Tullinge, also a representative of Alecta's retirees
Martin Johansson (Unionen), Stockholm
Ulrika Johansson (Unionen), Luleå
Gun Karlsson (Unionen), Stockholm
Victoria Kirchhoff (Unionen), Klagshamn
Peter Larsson (Swedish Association of Graduate Engineers), Enskede
Hans Lindau (Unionen), Sandared
Leif Nicklagård (Unionen), Sundbyberg
Annica Pettersson (PTK), Enskede Gård
Kristina Rådkvist (PTK), Enköping
Therese Sysimetsä (Unionen), Stockholm (2016–2017)
Anders Tihkan (Swedish Association of Graduate Engineers), Värmdö
Marina Åman (Unionen), Strängnäs (2016–2017)

Deputy Members

Thomas Eriksson (Ledarna), Örebro
Nils-Harald Forssell (Unionen), Olofstorp, also a representative of Alecta's retirees
Mikael Hansson (Unionen), Billdal (2016–2017)
Stefan Jansson (Swedish Association of Graduate Engineers), Stockholm

Auditors

Elected auditor

Ernst & Young AB,
Auditor-in-Charge
Jesper Nilsson

Lay Auditors

Elected auditors

Niklas Hjert, Unionen
Lars Jansson, Confederation of Swedish Enterprise

Deputy auditors

Kati Almqvist, Ledarna
Lisbeth Gustafsson, Confederation of Swedish Enterprise

Senior Management

Magnus Billing
Born 1968
CEO
Education: LL.M.
Employed since: 2016
Directorships: Insurance Sweden, Employers' Organisation for the Swedish Insurance Industry (FAO).
Other posts: Board of Trustees of the Centre for Business and Policy Studies (SNS).
Previous experience: CEO of Nasdaq Stockholm and CEO of Nasdaq Nordics.

Per Frennberg
Born 1964
Deputy CEO
Head of Investment Management
Education: Ph.D. in Economics
Employed since: 1995
Previous experience: Various senior positions at Alecta's Investment Management department, including Head of Fixed Income and Currency Management.

Katarina Thorslund
Born 1962
Deputy CEO
Head of Finance and Head of Customer Relations
Education: B.Sc. in Mathematics
Employed since: 2003
Previous experience: Chief Actuary at Alecta. Previously Chief Actuary at Folksam Gruppförsäkring.

Maria Wahl Burvall
Born 1964
Head of Human Resources, Purchasing and Service
Education: M.Sc. in Business and Economics, majoring in Economics and Statistics
Employed since: 2014
Previous experience: Economist, HR specialist and Head of HR at the Riksbank.

Martin Hedensiö
Born 1964
Head of Communication and Sustainability
Education: M.Sc. in Accounting and Auditing
Employed since: 2016
Previous experience: Director of Communications at Svenska Spel, Vice President Corporate Communications Europe, Middle East & Africa at Nasdaq, Executive Partner, Head of Corporate & Financial Communications at Hallvarsson & Halvarsson, Deputy CEO of Springtime Investor Relations Director at Electrolux.

Magnus Landare
Born 1957
Head of Legal Affairs
Education: LL.M.
Employed since: 1995
Previous experience: Lagerlöf & Leman law firm. Prior to that, Law Clerk at the Stockholm District Court.

Ulf Larsson
Born 1968
Head of IT
Education: B.A. in Business Administration
Employed since: 1998
Previous experience: Head of IT Architecture and Group Head of Infrastructure at Alecta. Previously, consultant at WM-data.

Fredrik Palm
Born 1976
Head of Product and Chief Actuary
Education: M.Sc. in Mathematical Statistics
Employed since: 2013
Previous experience: Self-employed actuarial consultant. Previously, consultant and partner of a consulting firm.

Glossary

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

Agency agreement with Collectum
An agreement under which Collectum performs administrative services relating to the ITP plan for Alecta.

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
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 Company's assets, less intangible assets and financial liabilities, and technical provisions.

Capital value
The estimated present value of future payment flows.

Client-company funds
Funds assigned to the policy holders in 1998 from the surplus generated by Alecta during the years 1994–1998. The funds have primarily been used as pension premiums at Alecta and other life insurance companies.

Collective agreement guarantee
If an employer that has agreed to enrol in the ITP plan under a collective agreement subsequently fails to sign or maintain the ITP agreement, fees and other benefits shall accrue to the employee to the same extent as if the employer had fulfilled its obligations under the ITP plan. The collective agreement guarantee is administered by Collectum.

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

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

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

Defined benefit insurance (ITP 2)
A defined benefit pension plan is a plan under which *the size of the pension* is determined in advance, for example as a specified amount or a percentage of the final salary.

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

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

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

Insured
The person covered by the insurance contract.

Insurance contract
A contract between an insurance provider and a policy holder containing a significant insurance risk.

Investments
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 in relation to average assets under management. This key performance indicator is calculated on a total basis and for pension products.

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.

Original ITPK
Introduced in 1977, defined contribution ITPK was at that time automatically invested in Alecta. As of 1990 the individual beneficiary has been able to make their own choice. Those who had made no choice by year end 2007 had their ITPK invested in the default option, the original ITPK. No further money has been invested in the original ITPK after 2007.

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

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

Premium rate
For defined benefit insurance, the size of the premium depends partly on the applied premium rate. The premiums paid, including the cumulative return based on the premium rate, must be sufficient to pay the guaranteed benefit during the payment period. This means that the premium will be higher the lower the applied premium rate.

Premium reduction
Distribution of surplus funds through a reduction of premiums. Premium reduction is applied for risk insurance.

PRI model
Rather than paying premiums to an insurance company, the employer reports its pension commitment as a liability in the balance sheet. The distribution of funds begins only on the retirement of an employee. A credit insurance arrangement with PRI Pensionsgaranti guarantees that the employees will receive their pensions even if their employer becomes insolvent.

Refund
A surplus that is guaranteed or allocated to
- the policy holders in the form of premium reductions
- the insureds in the form of increased insurance benefits
- 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.

Special indexation funds
Funds allocated to guarantee the indexation of pensions or for other pension-promoting purposes. These funds only become available to Alecta subject to a decision by the Confederation of Swedish Enterprise and the Council for Negotiation and Cooperation (PTK). Special indexation funds are therefore not included in collective funding capital.

Technical provisions
Provisions in the balance sheet for an insurance company's obligations arising from insurance contracts. Technical provisions comprise the capital value of the insurance company's guaranteed commitments, which consist of a life insurance provision and a provision for claims outstanding.

Total return
The return on investments, adjusted for cash flows 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.

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Our first one-hundred-year-old customer
received flowers from Alecta in 1966.
Today many more people reach that age. And most
of those who are born today have a good chance of
experiencing Alecta’s 200-year anniversary.
Technological progress, digitalisation and new advances
in health and fitness care are likely to fundamentally change
the demographic situation and the labour market.
Whatever Sweden looks like in another hundred years,
we are confident that collective occupational
pension insurance and Alecta will remain a central part
of the country’s social security system.
Alecta has been taking responsibility for the future since 1917.

alecta

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