



alecta

Annual and
sustainability
report 2019



When trust
is shared,
it grows

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The customers own Alecta

Alecta has 35,000 corporate customers and 2.6 million private customers throughout the country. We asked a few of our corporate customers what collectively agreed occupational pensions mean to them and their employees. At the same time, we asked the photographer Evelina Carborn to take the images you can see on the cover and on some of the pages of this report.

We know that trust grows when it is shared

To create as much value as possible of the pension capital, we have assigned the highest priority to low costs. We know that low fees are important for creating a good pension and we offer among the lowest fees in the sector. Because our mission is to create security for the future, we have a long-term approach. We want and we need to contribute to the society of the future being a good one to live in and one that creates sustainable growth and new jobs. That is also how we create a healthy return. Our model for managing your pension savings gives us an opportunity to really influence the companies in which we invest. That's why we can promise that every day we will work for you and your future security regardless of whether you are a private or a corporate customer. Together we are Alecta.

Welcome to read more about us and our work in this report!

We are here for you!

Alecta has a strong driving force – we have an important mission. We shall maximise the value of the occupational pension for you as our customer. This gives you, and your children and grandchildren, security now and in the future regardless of whether you are 25 or 65 years old, at the same time as it is an efficient solution for those of you who are employers. Accordingly, we also make an important contribution to society – a sustainable pension system. These are some of the factors that make us particularly suitable for living up to our mission and our role in society:

- We are owned by the customers – any surplus is returned to them.
- We offer a collective insurance solution. All customers jointly share risks and responsibilities. This provides greater security and flexibility.
- We are procured collectively, which yields savings in the form of lower sales and marketing costs.

About Alecta's annual and sustainability report 2019

Alecta's annual and sustainability report are presented by the Board of Directors and CEO and are intended to give all stakeholders a good idea of our activities and results in the past year. The Administration Report and the financial statements on pages 56–122 constitute Alecta's statutory financial information and are subject to external auditing. The Audit's Report on the statutory financial information is presented on pages 123–126. Alecta's sustainability report is included in the sections "A sustainable pension system" and "Sustainability supplement" on pages 12–43. The Sustainability Report also constitutes Alecta's statutory Sustainability Report and has been prepared in accordance with the Global Reporting Initiative (GRI) Guidelines. The overall description of Alecta's operations and work performed during the year is presented on pages 2–25. Reports on processes, more detailed data and the scope and limits that apply are presented in the supplementary in-depth section about sustainability on pages 26–43. Alecta's external auditors, Ernst & Young AB, conduct a review of the company's sustainability reporting, and the review report on the sustainability reporting and the auditors' opinion on the statutory Sustainability Report are presented on page 44.

Alecta in brief

Alecta's mission and goals

Alecta has taken responsibility for the future since 1917 by managing occupational pensions. Our mission is to maximise the value of collectively agreed occupational pensions for our corporate and private customers. To guide our activities in that direction, Alecta has defined three general operational goals:

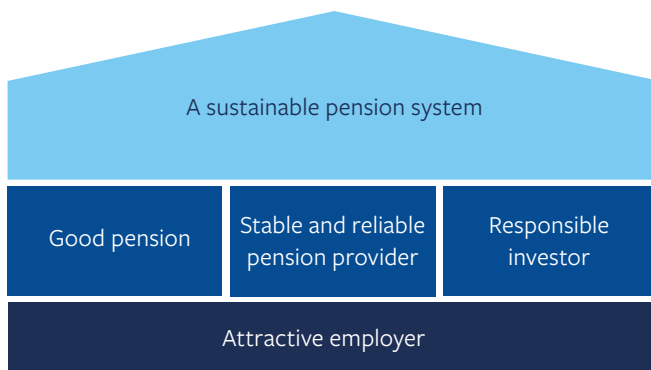
- Secure and satisfied customers
- Low costs and high efficiency
- A good return and strong financial position.

When trust is shared it grows

Trust grows when it is shared – this insight characterises both the foundation for our mission, which is to maximise the value of collectively agreed occupational pensions, and our entire business. Alecta's ability to contribute to the mission is based on a number of fundamental decisions made by our founders and principals:

- **Mutual ownership** – which means that we are owned by our 2.6 million private and 35,000 corporate customers, and that any surplus that is generated is returned to them.
- **A collective insurance solution** – a solution in which private and corporate customers share the responsibility and the risks. This creates greater security and flexibility. It makes it possible to offer all customers a lifelong pension, a survivor's pension and disability insurance without complex exemptions.
- **Collective procurement** – creates economies of scale that contribute to an already efficient management of pension assets becoming even more efficient, which ultimately also leads to low fees.

Through our mission, and with our objectives as our guiding principle, Alecta contributes to a sustainable pension system. That is Alecta's role in society. A sustainable pension system means good and secure pensions in both the short and the long term. By acting sustainably and responsibly, we create stable conditions for our investments to grow and predictability for both the employer and the beneficiary.



A sustainable pension system

Age is not something to worry about when we are young. For this reason, having pensions that can sustain a livelihood is an important part of the social contract. Alecta's business enables this by helping to build what we call a sustainable pension system. This is a system that rests on three pillars: pensions that people can live on now and in the future, reliable pension companies and responsible investments which contribute to a sustainable society. Together, this results in a focus on good returns, low fees, high efficiency and well-integrated sustainability work.

As an active long-term owner, we need to have a broad perspective of risks and opportunities. We are convinced that responsible investments yield good returns that lead to good pensions both now and in the future.

A stable pension provider is better positioned to take the long-term decisions that the business needs. In addition, the right competencies are required in order to operate in a changing world and live up to our high goals and ambitions. That is how we can maintain a sustainable pension system.

960 SEK billion in assets under management

35,000 corporate customers

2.6 million insured private customers

Highlights of 2019



Highest return in 20 years

In 2019, return on the defined contribution insurance Alecta Optimal Pension was 20.3 per cent, and on the defined benefit insurance 14.1 per cent. This makes 2019 Alecta's best year for more than two decades in terms of returns.

Alecta best occupational pension fund and fixed income investment manager in Europe

Alecta received two prizes at IPE Awards 2019. The awards were in the categories for Multi-Employer/Professional Pension Fund and Fixed Income. The awards were announced in December and were presented by the Investments and Pensions Europe magazine.

Alecta 2023

In 2018, we drew up a strategic five-year action programme, Alecta 2023. It has four focus areas that are seen as critical if Alecta is to be unequivocally the best alternative in the next procurement of the default option for defined contribution ITP 2023. There was a high level of activity in these focus areas in 2019.

page 4

A large share of the whole pension

Occupational pensions are becoming increasingly important. According to Insurance Sweden, the employers' organisation for the Swedish insurance industry, payments of the state pension increased by 35 per cent between 2011 and 2018, while payments of occupational pensions and private pensions rose by a full 43 per cent.

page 8

Continued digitalisation simplifies and improves

In 2019, Alecta has been active in convincing more private customers to opt for digital annual statements instead of printed statements. More customers than ever are now receiving mail via the digital letterbox Kivra. 2019 was the last year Alecta sent approximately 470,000 paper copies of annual statements and control data.

page 13

Frequent questions to the Pension Economist?

"Will there be any money left when it is time for me to retire?" This is one of the most common questions asked about pensions. A survey conducted during the year by Alecta and the Ungdomsbarmetern youth survey also illustrates the widespread mistrust of the pension system: a significant percentage of young people state that they were already concerned about their pensions when they attended upper secondary school and feel responsibility lies first and foremost with themselves.

page 17

ESG4Real certification

As the first asset manager in the world, Alecta was certified in June 2019 in accordance with ESG4Real's principles, and it hopes the certification will help pension savers to choose sustainable alternatives.

page 18

Net Zero 2050

In September, Alecta, together with a number of international pension funds and insurance companies, launched the climate initiative Net-Zero Asset Owner Alliance (AOA). This initiative is supported by the UN and aims to increase the rate of climate transition.

page 19

Green bonds

In 2019, Alecta invested approximately SEK 10 billion in green bonds and now has over SEK 40 billion invested in total in green bonds issued by 25 different issuers. The issuers include Stora Enso, Kommuninvest and Vasakronan.

page 20

Modern working method

During the year, we have taken additional steps in our move towards a more modern working method. These efforts aimed to shorten lead times and enable a clearer focus when we pursue business development.

page 25



A stepping stone to the future

In 2019, we successfully provided our customers with highly favourable returns and prepared Alecta for the future demands of customers and employees.

Following a sharp downturn on stock markets at the end of 2018, the trend was reversed in 2019. This contributed to very high returns for both of our products. The defined contribution product, Alecta Optimal Pension, noted an outstanding return of 20.3 per cent, and for the defined benefit product, the figure was 14.1 per cent. This is the highest return for Alecta in 20 years.

Alecta 2023

It is gratifying that we could deliver such substantial value to our customers in 2019. Equally pleasing is the energetic and decisive manner in which the whole company has embraced the task of strengthening Alecta for future opportunities and challenges. In 2018, we drew up a strategic five-year action programme, Alecta 2023. Its four focus areas are seen as critical if Alecta is to be unequivocally the best alternative in the next procurement of the default option for defined contribution ITP 2023.

We must provide our customers with the best offering in terms of pension products, customer service, online services, information and trust. In addition, we must provide the best asset management in terms of high returns, clear sustainability focus and efficient management.

To deliver this, we must leverage all of the opportunities offered by new technology and new working methods.

Finally, the prerequisite for all of this is that we can retain, develop and recruit the most competent employees. There was a high level of activity in these focus areas in 2019.

Offering

We published a beta version of the Internet office for our corporate and proxy customers, which enabled them to test and provide feedback ahead of the launch of the official version at the beginning of 2020. We have also considerably improved our use of our vast data volumes, and have visualised this data to provide our customers with swift and valuable information in an easily understandable form. The aim is to make it surprisingly easy for our customers to understand and administrate their occupational pensions.

We have also continued to digitalise customer meetings through webinars for corporate customers, and launched identification using BankID to improve security when calling our customer service. We also introduced digital annual statements as standard, though with an option for customers to continue to receive these via ordinary mail. In order to provide pension forecasts that are as realistic as possible, during the

year we prepared for a lower forecast rate in the Alecta Optimal Pension product, which we applied as of 1 January 2020.

At the same time, we are striving to improve our digital analysis capacity so we can provide our customers, labour market parties and other decision-makers and opinion leaders with qualified data.

Asset management

We have strengthened our organisation in asset management to diversify our portfolio and enable more investments in, above all, real assets. We have further enhanced our expertise in the analysis of sustainability factors and clarified our sustainability goals while also continuing to make sustainable investments. Our portfolio of green bonds now amounts to more than SEK 40 billion and we continue to be one of the largest investors in the world. Moreover, we increased our portfolio of impact investments to almost SEK 11 billion. Finally, asset management has strived to further automate and digitalise processes and procedures.

The negative or very low level of interest rates will remain a challenge for us, partly in generating returns, partly, and presumably to a greater extent, as our long-term pension commitments require larger technical provisions.

Modern working methods and attractive employer

All employees have demonstrated great engagement in discussing and developing new working methods and new digital tools to create more customer value, greater efficiency and higher motivation. During the year, we held inspirational and educational weeks as well as joint corporate workshops to discuss and learn how we can achieve our target of becoming best in the industry at harnessing technological opportunities. At the same time, we began developing a new intranet to support collaboration, sharing of competences and efficient communication.

We regularly measure employee engagement, for example through the e-NPS metric, and look at how likely employees are to recommend Alecta as an employer to friends and acquaintances. We can see that the results are very good, much higher than an industry average.

Direct engagement activities

Even if the year has in many ways been pleasing and we have made progress, challenges remain and we must invest resources to influence regulations and directives that so often miss the benefits, above all with regard to consumer protection, that are

built into the Swedish model of collectively agreed occupational pensions. For example, together with the labour market parties, we have invested significant time and resources in order to secure reasonable capital requirements in the new occupational pension regulations.

We have also endeavoured to create a balanced view of the pension system and shatter some common myths, in part through the publication of reports about the true economic situation for pensioners and the views of young people on pensions. It is disheartening to see that 25 per cent of young people aged 15–24 are very or fairly concerned about their future pension, and a full 46 per cent of them see themselves as bearing the main responsibility for their pension. In a similar way, it is worrying that our Pension Economist is often asked “Will there be any money left for me?” Many people seem to inaccurately believe that the Swedish pension system is in the midst of a crisis and retirement necessarily leads to poverty. This is simply not true – which Alecta has demonstrated during the year with our report on the economic situation for pensioners.

Trust in the system

One contributing factor for the low level of confidence in the pension system is probably reports that indicate extremely low pensions for young people today, even those with collectively agreed occupational pensions. The length of time remaining before today's young people retire makes the pension forecasts highly sensitive to assumptions applied regarding, for example, wage growth and future returns.

There is certainly no shortage of challenges, such as the low level of interest rates and the steadily increasing average life expectancy, and there are individuals who receive a low pension. In this respect, Alecta must continue to contribute in debates and propose solutions based on facts and in-depth understanding.

When this annual and sustainability report is due for publication in mid-March, there is widespread concern in the world caused by the corona crisis, with a sharp decline in the stock market and a rapidly slowing economy. Alecta has a strong financial position and integrated protection in its products, and at the time of publication the crisis is not expected to constitute a long-term risk for pensions. We are monitoring developments and adapting allocations and working methods to the prevailing situation. I would like to thank all of the employees who from one day to the next began teleworking and continued to run the business with the same level of efficiency and quality. This shows in particular how far we have already come in digitalising our customer meetings and working methods.

Magnus Billing
CEO

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During the year, Alecta delivered the best return for 20 years and in parallel raised defined benefit pensions and reduced risk premiums for health insurance.



Alecta's long-term operational goals

LONG-TERM OPERATIONAL GOALS

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 the customers who contact us receive good service, and that Alecta enjoys a good reputation as a responsible player in society.

FOLLOW-UP

During 2019, we chose to evaluate target fulfilment by monitoring how satisfied the private and corporate customers are who phone our customer service.

The target for 2019 was that the customers should give an average score of at least 5.2 on a six-point scale.

OUTCOME 2019

The average score from the year's surveys was:

5.4

for private and corporate customers. The target was achieved with a comfortable margin for both our customer groups.

Low costs and high efficiency

Alecta's goal is to display world-class cost-effectiveness. 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 factors other than operating expenses, the ambition is annually translated into a cost target defined in millions of kronor.

For 2019, the target was that Alecta's operating expenses would not exceed SEK 942 million, excluding variable pay.

Alecta's operating expenses were SEK

919 million

excluding variable pay. We can thereby confirm that we also met the cost target by a comfortable margin in 2019.

Good returns and strong financial position

Alecta's return should be competitive, both in terms of the overall return and the return on each asset class. We will work to achieve the long-term target returns while ensuring that we are in a sufficiently strong financial position to withstand events that could occur according to our long-term risk assessment.

We compare our return over time with the industry.

The 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.

The return on our defined contribution savings product, Alecta Optimal Pension, should exceed Morningstar's SEK Aggressive Balanced funds index by 1.5 percentage points annually over the past five-year period.

The average return on the defined benefit portfolio over the past five years was:

5.8 per cent

which is 0.2 percentage points below the industry average. The target was not achieved in 2019. Most important for the defined benefit insurance is that we achieve the indexation of pensions over time.

The average return on the defined benefit savings product over the past five years was:

7.7 per cent

which is 0.7 percentage points better than the benchmark. Even if we exceeded the index, we did not reach our ambitious target for 2019. Morningstar's balanced funds index includes funds with greater equity exposure than Alecta Optimal Pension.

Alecta's sustainability objectives

LONG-TERM SUSTAINABILITY OBJECTIVES

Working for a sustainable pension system

Our most important sustainability responsibility is to contribute towards a sustainable pension system – by offering good pensions, being a stable and reliable pension company and a responsible investor. Alecta is to promote confidence in the collectively agreed occupational pensions by disseminating knowledge and through lobbying.

FOLLOW-UP

Alecta's reports and involvement in the debate have helped to shatter pension myths and influence legislation for occupational pensions. The target is followed up by measuring confidence in occupational pensions.

OUTCOME 2019

Confidence in occupational pension schemes

63 per cent

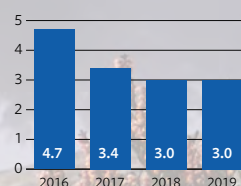
of salaried employees in Sweden have high or fairly high confidence in the occupational pension system.

Investing in line with the climate goal of 1.5 degrees and the ambition of net zero climate impact by 2050

A long-term investment perspective means the climate transition can be translated into both risks and investment opportunities that contribute to customer returns. Alecta's ambition is to build an investment portfolio that develops in line with the climate goals.

We have expanded reporting of climate risks in the portfolio and begun integrating climate data into the equity analysis. We influence the climate efforts of businesses by cooperating with other investors in the Net-Zero Asset Owner Alliance and Climate Action 100+.

Carbon footprint of equity portfolio, tCO₂e/SEK million of income



More indicators and metrics of the results of this work are available on page 34 and pages 37–38.

Optimise use of resources to reduce environmental impact

Sustainability is strongly associated with the environment and Alecta's environmental work is to reflect the focus on resources that characterises the work in general. This also entails greater focus on modern working methods using digital tools and opportunities.

Alecta follows up a range of indicators linked to our direct carbon footprint from operations.

This encompasses energy to operate properties, travel, paper consumption and customer letters.

Increase in digital customer mailings reduced paper consumption by

2.5 tonnes

If an extraordinary mailing in 2018 is also taken into account, the decrease totalled 14.5 tonnes.

For more environmental indicators, see pages 35 and 39.

Strengthen diversity across organisation

By strengthening and increasing diversity, we gain a more innovative and effective business and enhance expertise at all levels of the organisation.

Alecta is to be an attractive employer that harnesses and fosters diversity. This is taken into account in recruitment, further development and through cross-functional collaboration.

Percentage of women in management and female managers at Alecta

44/57 per cent

Read more on pages 35 and 41.

The occupational pensions market



The Swedish pension system has three legs

- **Private savings** which each individual is responsible for and puts money into. Two examples of long-term pension savings are investment savings accounts (ISK) and endowment policies.
- **An occupational pension** is a component of an individual's pension that is linked to his or her employment and is paid for by the employer. It is agreed between the employer and trade unions through a collective bargaining agreement (CBA), or provided directly by the employer if the company is not party to a CBA. An occupational pension usually comprises three components: retirement, disability and survivor's protection.
- **The state pension** is that part of a person's pension which comes from the government. It consists of an earnings-related pension, a premium pension, a guaranteed pension, housing supplement for pensioners, income support for the elderly and a survivor's pension. Everyone who has worked or lived in Sweden receives a state pension, which is based on the taxed income of an individual. There are also components of the state pension that are not earnings-related, such as the guaranteed pension. The state pension is life-long.

Source: Pensions Agency and Alecta

Does everyone have an occupational pension?

The vast majority of those who have an employment also have some form of occupational pension. Nine of ten employees have a collectively agreed occupational pension and of those who do not have an agreement just over half have some other sort of occupational pension. This means most employees have some form of occupational pension, even if there are exceptions.

What does the occupational pension include?

The occupational pension comprises a retirement pension and various types of insurance against loss of income. The basic idea is that the occupational pension will provide compensation in cases where the state pension offers no protection or where the support is not at the same level as the employee's normal earnings.

Retirement pension, which is the financially largest component, is based around two systems: defined contribution and defined benefit pension schemes. In a defined contribution pension, the size of the premium payments is fixed, while pension payments depend on a number of factors, such as remaining life and the return on the capital. In a defined benefit pension, the opposite applies in that the payments to the policy holder are fixed but the size of the employers payments depends on factors such as the investment return. Under the ITP agreement, those born in 1979 or later end up in the defined contribution plan.

In addition to retirement pension, the occupational pension includes a number of other insurance policies. The most common are health insurance, which covers the loss of income in the event of illness, waiver of premium insurance, which covers payments of premiums for retirement pensions in the event of

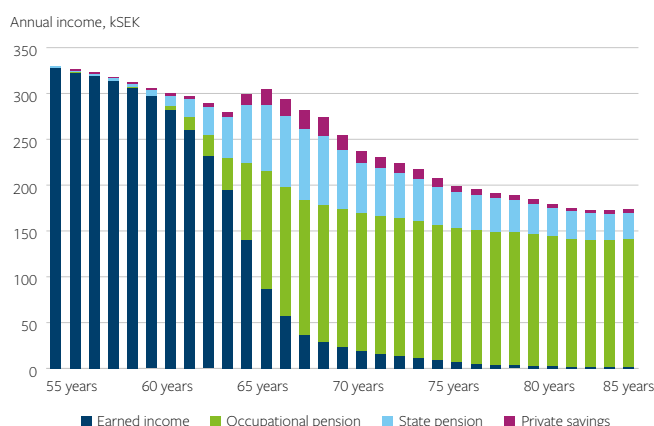
illness, and survivor's protection, which is financial protection for relatives in the event of death. Exactly what an occupational pension includes varies.

A large share of the whole pension

The occupational pension is very important for pensioners today. On average, the occupational pension for 66–70 year-olds accounts for 31 per cent of total income from the state pension, occupational pension and private pension savings. For people with an ITP agreement, the occupational pension accounts for 41 per cent of total pension income. For 71–75 year-olds, the occupational pension accounts for on average 23 per cent of the total pension (30 per cent for people with ITP agreements).

Occupational pensions are becoming more important. According to Insurance Sweden, the employers' organisation for the Swedish insurance industry, payments of the state

ANNUAL INCOME BY AGE GROUP AND TYPE OF INCOME
(ALL IN SWEDEN IN 2016)



Source: SCB

pension increased by 35 per cent between 2011 and 2018, while payments of occupational pensions and private pensions rose by a full 43 per cent.

What is special with the occupational pensions market?

In most markets, the customer both decides and pays for what they buy. In the occupational pensions market, it is the employer who pays while the employee often (but not always) can choose which company should manage his/her pension. Although both of these are considered as customers by Alecta, the employee is insured and the employer is the policy holder.

How does the competition work?

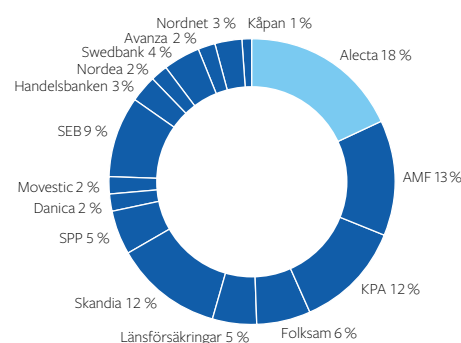
We have chosen to comply with the industry standard, which means the competition is measured based on how much premiums the customers pay to the companies. There are components of collectively agreed occupational pension schemes where neither the employers nor employees choose which company is to manage the pension. Within the ITP scheme, for example health insurance and the defined benefit retirement pension, apply to insured persons with a salary of less than ten income base amounts. We do not include these as being part of the competition-exposed occupational pensions market.

The occupational pensions market is growing rapidly, measured in terms of paid-in premiums. During 2019, the premiums exposed to competition amounted to SEK 151 billion, which was in line with 2018. One explanation for this increase is that the newer collectively agreed pension schemes that are being procured are more exposed to competition than those that are slowly being phased out – for example, by the fully competition-exposed ITP 1 replacing ITP 2, which is only partly exposed to competition.

The companies' shares are shown in the diagram to the right, and further that no company has a dominating market position. Viewed over a slightly longer term, KPA, SEB and Alecta have grown the most. In 2019, Alecta accounted for about 18 per cent of all competition-exposed premiums related to savings in occupational pension schemes.

41 per cent
of total pension income
consists of occupational
pension for those with ITP.

COMPETITION-EXPOSED OCCUPATIONAL PENSION
PREMIUMS OF APPROXIMATELY SEK 151 BILLION IN 2019



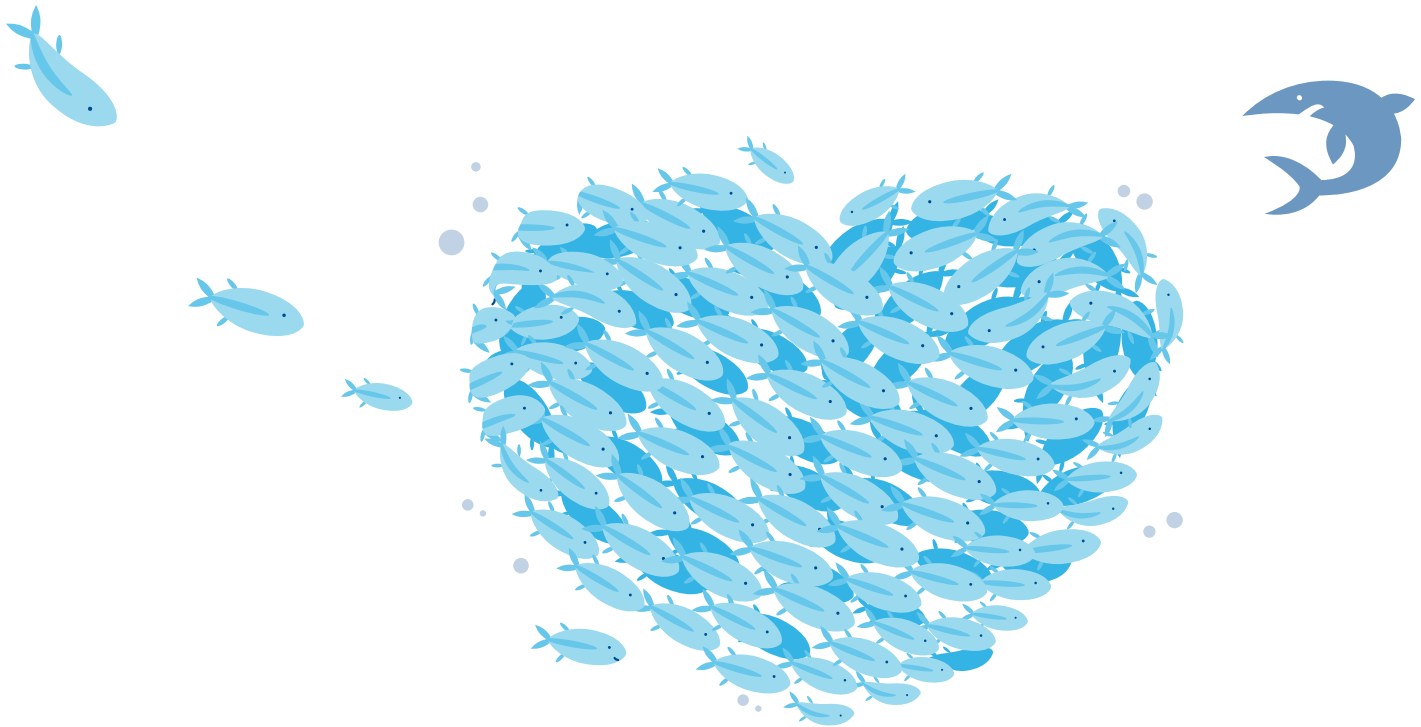
Source: Insurance Sweden, SPV


Premium volume of SEK 151 billion (149.5), of which SEK 76.5 billion (71.7) in individual choices made through collectively agreed selection centres and another SEK 74.5 billion (77.8) pertaining to individual occupational pensions, such as ten-fold earners who have chosen alternative ITP, ten-fold earners who have not chosen alternative ITP, salary exchanges, executive plans, employer-paid deposit insurance, etc.

What importance do collective bargaining agreements have for the competition?

Because most employees have collectively agreed occupational pensions, one might believe that the competition primarily occurs within the framework of the collective agreements' selection centres, but that is not the case. The selection centres mediated SEK 76.5 billion on behalf of insured parties. This is nearly half of the competition-exposed occupational pensions market. Alongside the individual choices made in the selection centres, significant occupational pension premiums, SEK 74.5 billion, are channelled from the employers to pension providers in other ways. In this area, the competition may vary – in certain cases, only the employer decides, while in other cases there are various degrees of options for the employees. This is not so strange as occupational pensions are fundamentally “the employer’s market”.

That the parties to the collective agreement have the right to decide which companies are allowed to compete on the selection centres' platforms has a great impact on competition in the entire market. Procurements by the parties enforces efficiency enhancements among the companies, which enables fees to be also lowered outside the collectively agreed occupational pensions.



A woman with long, wavy blonde hair and bangs is smiling at the camera. She is wearing a dark top with a colorful, patterned scarf. The background is a blurred office environment with computer monitors and other people working.

We asked a few of our customers what occupational pensions mean to them and their employees.

Maria Lavas

Total Compensation Manager, CGI

”

We are receiving more questions about our occupational pension agreements, both during recruitment and from employees. People are beginning to understand that it is a very good benefit. Particularly among younger target groups.

Competition is tough in the IT sector for competent employees. Demand for IT expertise in companies is rising as more work duties are digitalised. Maria Lavas, who works for the IT consultant CGI, has noticed that occupational pensions are becoming a more attractive benefit.

For CGI, with employees that are also attractive to competitors, it is important that employees fully understand the benefits they have. Explaining the occupational pension scheme is a key competitive advantage.

“I focus on the fees when I explain why we have collectively agreed occupational pensions. Employees often concentrate on premiums, but the best thing about occupational pensions is that they are procured for so many people that fees become extremely low. This eventually turns into a lot of money.”

A good pension

A good pension is based on three components – low fees, good returns and comprehensible and easily accessible information. That way customers can appreciate the value of a secure old age and a secure pension system.

Low fees key factor for good pension

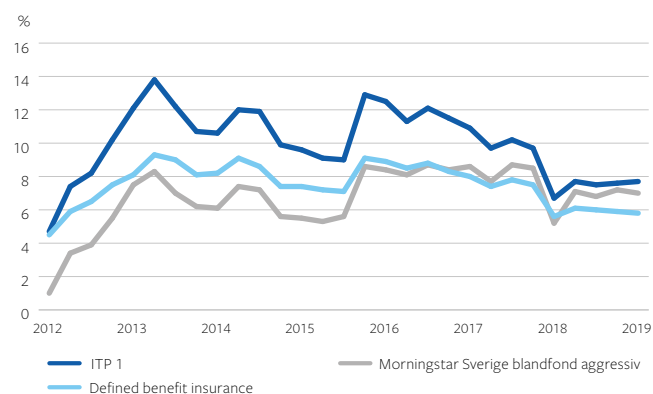
An ITP-insured person with a pension in Alecta's defined contribution product pays a fee of 0.09 per cent of the managed assets, subject to a ceiling of SEK 600 per year, which is among the lowest fees in the industry. As a comparison, the fee for a commercially brokered mix fund normally ranges from 0.25 to 2 per cent. Thanks to collective procurement, cost awareness and economies of scale, Alecta can reduce the fee, which benefits the value of the pension.

0.09% in fee of assets under management, but with an annual ceiling of SEK 600 per year.

Good returns with in-house management

Alecta manages assets of over SEK 960 billion. Under our management model, which is unique for such a large portfolio, nearly all asset management is conducted in-house. Our equity investments are concentrated to a limited number of shareholdings, just over 100, in which we hold significant stakes and have good insight. This is an efficient model that results in low fees and good returns. At year-end 2019, the average annual return over the past five years for our defined contribution pension product, Alecta Optimal Pension, was 7.7 per cent, compared with 5.8 per cent for the defined benefit product within ITP 2.

ROLLING FIVE-YEAR AVERAGE RETURN,
IN COMPARISON WITH MORNINGSTAR



Easily accessible information

Easily accessible and comprehensible information is a prerequisite for the customers' understanding of the value of their pensions. That's why we strive continuously to improve information to our customers. Close-to-the-customer development is important for Alecta and we are proud to involve the customers in our improvement effort. For example, we analyse incoming calls to improve the answers and functions on our website. During the year, we have made it much easier to report an account for pension withdrawals, improved the way we measure customer satisfaction and worked to persuade more people to choose to receive information from Alecta in digital form via My Pages or the Kivra digital letterbox.

Satisfied customers a measurement of quality

Our aim is to have secure and satisfied customers, which is why we implement regular surveys by text message to customers who phone our customer service. The text message includes a survey with six short questions about how the customer experienced our service. There is also a possibility of writing a text answer, which is what many customers do. The results shows a high level of customer satisfaction: 5.4 for both private and corporate customers on a 6-point scale. Alecta's goal for 2019 was 5.2 for both customer groups, which we exceeded. The majority of text answers are also positive, for example:

"Great, the assistance I received was faster and clearer than from the company where I have the rest of my occupational pension."

"The person who helped me was highly professional and helpful. I couldn't be more satisfied as a customer."

Planning pension withdrawals

Most future pensioners are interested in planning and experimenting with their pension withdrawals. Alecta offers all private customers approaching retirement an opportunity to test and plan their pension withdrawals by using the Pension Planner service – a highly appreciated service with approximately 105,000 unique visitors in 2019. However, the Pension Planner (Pensionsplanerare) only covers part of private customers' pensions, namely the part saved with Alecta. In October, the Withdrawal Planner (Uttagsplanerare) was launched by minPension. Customers who are nearing retirement can use this Planner to experiment with their entire pension. When

customers have finished planning on minPension.se and decide to withdraw their pension they are referred to Alecta's Pension Planner for those parts related to Alecta. The tools make it easier for customers to calculate how their pension is affected by various choices, for example, withdrawal periods, and facilitate the drawing of pension. About 70 per cent of the customers who make changes to their pension withdrawals choose to do so themselves through the Pension Planner.

Continued digitalisation simplifies and improves

A growing number of our customers are choosing to communicate with us through our digital channels, which makes communication more flexible and effective. In 2019, more customers chose to receive communications from us through the digital letterbox Kivra. 2019 was also the last year we sent

approximately 470,000 paper copies of annual statements and control data. As of 2020, these will be sent digitally, unless the customer requests otherwise. We also began work to improve our digital customer meetings by holding webinars as a complement to physical training courses for our corporate customers.

Photo: Scandinav/Johnér bildbyrå



Stable and reliable pension provider

The occupational pension is a part of the Swedish pension system and Alecta thus has a considerable social responsibility. We need to be financially stable and cost-aware while also ensuring a high level of consumer protection. It is important to act responsibly and with great respect for the rules which govern our activities.

Financial stability over time

Alecta has a clear focus on cost effectiveness and great respect for our role as a manager of our customer money. Pensions are managed over a long term and small differences can have major effects over time. Our relationship with a private customer can extend for more than 80 years, and with corporate customers even longer. Efficient control of costs also adds stability, which enables us to keep our fees low over time. This is something that truly benefits the pension and reduces the employers' costs for occupational pensions.

Good control of costs in combination with a strong financial position provides resilience and the conditions for low fees. The solvency ratio is a measure of our financial strength, and of the extent to which our assets cover future commitments. At year-end 2019, Alecta had a solvency ratio of 169 per cent (161), which is well above the statutory requirement of 104 per cent for traditional insurance.

Good regulatory compliance is a must

Pensions and insurance are subject to extensive regulatory requirements and the industry is licenced. Regulators monitor that Alecta and other companies in the industry comply with the applicable regulations. Alecta has a focus on ensuring that it complies with existing laws, regulations and instructions of public authorities and is prepared for future regulations. Alecta's work with regulatory compliance is part of the internal control system in our corporate governance model.

Regulatory changes in 2019

On 10 June 2019, amendments were introduced to the EU Shareholder Rights Directive in Sweden. The regulatory changes will impose more stringent requirements for the disclosure of information about Alecta's investment activities and sustainability efforts.

However, the year was largely characterised by work with the new occupational pension regulations as a new law for occupational pension companies was, after many twists and turns, enacted on 15 December 2019. The law implements the EU Directive on the activities and supervision of institutions

for occupational retirement provision (IORP II) in Sweden.

For Alecta, the new law offers an opportunity to transition into a mutual occupational pension company.

Occupational pension regulations

In 2018, the government presented a proposal for how other occupational pensions directives could be implemented into Swedish law. The proposal resulted in a large number of consultation responses. Following the consultation round, on 4 September 2019 the government published a bill "En ny reglering för tjänstepensionsföretag", which contains proposals for a new law for occupational pension companies. The Swedish Financial Supervisory Authority, which received a broad mandate to issue directives connected to the proposed law, submitted its proposals for regulations and general guidelines for comment on 8 July 2019. These proposals for regulations and general guidelines also caused debate with concern that the legislator's ambition to create a high degree of harmonisation in relation to the Solvency II Directive (which applies to all forms of insurance business) when implementing IORP II was going too far. Alecta believes that one of the main aims was thereby lost – to establish regulations specifically adapted to occupational pension operations. Above all, two questions are significant for Alecta and have been discussed extensively with strong opinions from the industry's various interests and companies.

The first question concerns the level of the risk-sensitive capital requirement as proposed for occupational pension companies. The government stated in the bill that the aim of the requirement and the level of the risk-sensitive capital requirement was to correspond to the traffic light model already in existence that was developed by the Swedish Financial Supervisory Authority to measure financial risks. The Swedish Financial Supervisory Authority's detailed regulations and general guidelines resulted instead in much higher capital requirements.

The second question concerns opportunities for the parties to the collective agreement to continue to decide how customers will receive information about their occupational pension.

When the Finance Committee addressed the proposal for a new regulation concerning occupational pension companies in November, the Committee announced that the government would come back with further details about the management of the solvency regulations, freedom of contract for parties to the collective agreement with regard to information to companies and employees about occupational pensions, insurance for self-employed persons as well as supplementary insurance. This followed lobbying from the Confederation of Swedish Enterprise, LO and PTK.

When Parliament subsequently decided to adopt the new law for occupational pension companies, a number of notices were published that the government needs to deal with in spring 2020. This will result in amendments to the new law in 2020. The Swedish Financial Supervisory Authority's Regulations and General Guidelines were enacted on 1 January 2020.

When Alecta has obtained a complete picture of the regulations that will come into force, we will conduct a thorough assessment of whether the new regulations are beneficial to Alecta's operations and particularly for our customers.

Increased transparency of sustainable investments

In June 2019, new rules were introduced regarding the disclosure of information about insurance companies' investment activities and corporate governance. The rules, which are from the EU Shareholder Rights Directive, involve requirements for how account is taken of environmental, social and governance (ESG) factors in the investment process and how the company exercises its rights as an important shareholder in listed companies. Alecta is to report using the new rules for the first time in 2020, pertaining to the 2019 financial year. Similar rules are also part of the Occupational Pension Company Act and in the European Commission's legislative proposals on financial sustainability.

Overall, these new regulations entail clearer requirements on Alecta to describe its investment process and how it takes account of ESG factors.



A woman with short grey hair, wearing a blue and white patterned scarf and a dark blue puffer jacket with light blue accents, is smiling. She is standing in front of a blurred background of a colorful amusement park structure with green and orange lights.

We asked a few of our customers what occupational pensions mean to them and their employees.

Lena Dahlin

Head of Payroll, Liseberg

”

We work proactively to inform employees about collective agreements, benefits and obligations as well as terms and conditions of the insurance and pension. They then often simply assume that they have an occupational pension. They trust that they will receive a good pension, which they also receive through the collective agreement and the collaboration with Alecta.

Lena works at one of Sweden's largest amusement parks. Liseberg is a workplace associated with entertainment, concerts and fun. Pensions may not be the first thing you think about when you hear the name Liseberg.

“The average age of our personnel is very low. For many, this is their first permanent job so retirement may seem far off for the majority.”

So how does Lena and her colleagues go about informing their 3,500 employees about occupational pensions?

“I usually explain that the pension industry suffers from a surplus of information. This may be a legacy from their parents who were around when the system was restructured. There was a period when it was difficult to understand. But the launch of services such as minPension and other smart solutions has made it easier to understand. I usually emphasise that it is not that difficult, and try to keep it as simple as possible.”

Pension Economist

Staffan Ström

Why does Alecta have a Pension Economist?

Everyone should be given an good opportunity to make well-founded decisions. The pension can then generate the highest possible value and can be tailored to everybody's stages in life. Sellers of pension-savings products usually have a knowledge advantage over savers; such as in terms of understanding the impact of fees and how the insurances work. To counteract this, Alecta has a Pension Economist with a mandate and responsibility to challenge the industry. The Pension Economist can inspire, debate and help consumers gain increased knowledge of pensions.

The Pension Economist's blog

Alecta's Pension Economist, Staffan Ström, works actively to stimulate a debate on how to develop and improve Sweden's pension system. The debate is conducted in the media, through participation in inquiries and panel debates, in meetings with researchers and politicians and through training programmes and lectures. For the past couple of years, we have also run the Staffan Ström blog. Through this blog, our Pension Economist provides guidance on how to affect one's pension and analyses current issues in the pension area. The readers are mainly private individuals, but the list of subscribers also includes politicians, journalists, union and employer representatives and senior executives in the pension industry.

Questions pursued by the Pension Economist during the year

The Pension Economist works every day to provide inspiration, information and education about pensions. One day, this could be briefing an employer network about current pension issues. The next, it may be providing guidance to employees at a client company about the options offered by the occupational pension. The Pension Economist also works to strengthen future decision makers in occupational pensions through lectures at the country's universities and university colleges.

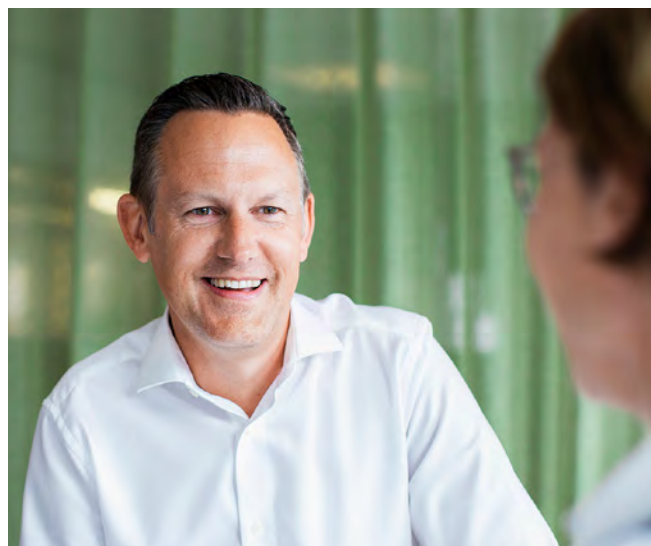
In 2019, the Pension Economist was invited on several occasions to speak about the changes planned to the state pension. Many people wonder what higher retirement ages could mean to them and how occupational pensions will be affected in this new environment. Other recurring themes have been to talk about common myths and misconceptions about pensions, in part based on Alecta's major study of the economic situation for pensioners presented at the beginning of the year.

Frequently asked questions to the Pension Economist?

“Will there be any money left when it is time for me to retire?”

This is one of the most common questions asked about pensions. A survey conducted during the year by Alecta and the Ungdomsbarometern youth survey also illustrates the widespread mistrust of the pension system: a significant percentage of young people state that they were already concerned about their pensions when they attended upper secondary school and feel responsibility lies first and foremost with themselves.

In actual fact, the Swedish pension system is robust and provides in most cases a decent pension. Certainly, there are challenges in the future: two of these are the rapidly rising life expectancy and the low level of interest rates. But the pension system is better than its reputation and discussions would benefit from more nuance. Alecta wants to provide a fact-based view of pensions and the changes we face, and the Pension Economist has a key role to play in this work.



Staffan's blog: staffansstrom.se

Responsible investor

Our ambition is to help generate long-term value in our investments and for society. By taking care of the management ourselves and having relatively few holdings and clear evaluation processes, we can achieve sustainable and favourable conditions for good pensions.

Alecta – a major player

With more than SEK 960 billion in assets under management, Alecta is a significant international pension fund manager and one of the largest operators in the Swedish financial market. As one of the largest owners of listed Swedish companies, we can influence the sustainability management activities of the companies we invest in through our investing activities.

In-house portfolio management is a prerequisite

Alecta has chosen to manage its customers' pension capital largely in-house and engages in active asset management. This means that our investments are not dependent on an index and that each investment is the result of thorough internal research. Alecta invests in shares, debt securities and alternative assets, mainly in Sweden, Europe and the United States. By controlling our investments ourselves, we have potential to choose and influence precisely those companies we believe can contribute to long-term value creation.

Few selected companies add weight to our ability to influence

Alecta's equity portfolio consists of just over 100 listed shareholdings. As we invest for the long term, environmental considerations, social issues and corporate governance issues are important criteria in our choices. The companies we invest in must have a business model that we understand and that we

believe will contribute to returns on our customers' capital.

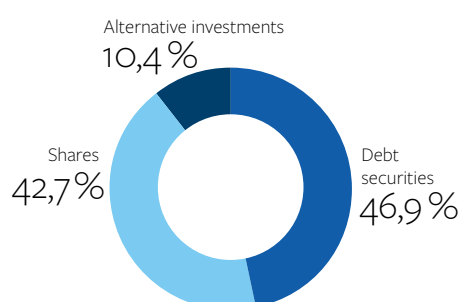
With few companies in the portfolio, we also have time to meet representatives of the companies' management teams, which we do continuously with essentially all of our holdings. Through discussions, we improve our understanding of how the companies are managed and of their approach to sustainability. Dialogue is our most important channel to exert and influence, and openness and transparency are prerequisites. Companies that do not meet our criteria do not qualify for inclusion in our portfolio.

A structured – and certified – investment process

Alecta's investment process takes into account both sustainability and return potential. The process comprises a combination of information gathering, internal analysis and screening. It is applied for all equity and corporate bonds, which account for nearly 60 per cent of our total assets. Sustainability is one factor in the analysis, both prior to an investment and in continuous follow-up. For more information on how the assessment is carried out, please refer to our 2019 Ownership Report. The report is available at alecta.se.

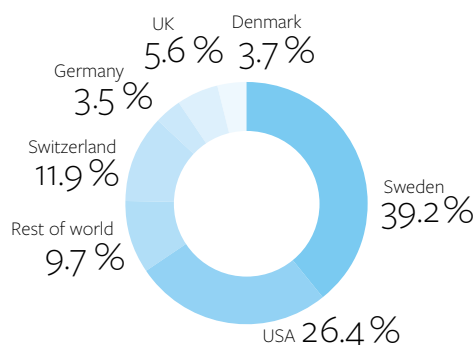
ESG4Real is a new certification issued by the Responsible Investors Alliance International (RIA International). RIA was founded by a number of players in the finance industry, primarily asset managers from Sweden and the Netherlands. In June 2019, Alecta became, as the world's first asset manager,

TOTAL INVESTMENT PORTFOLIO

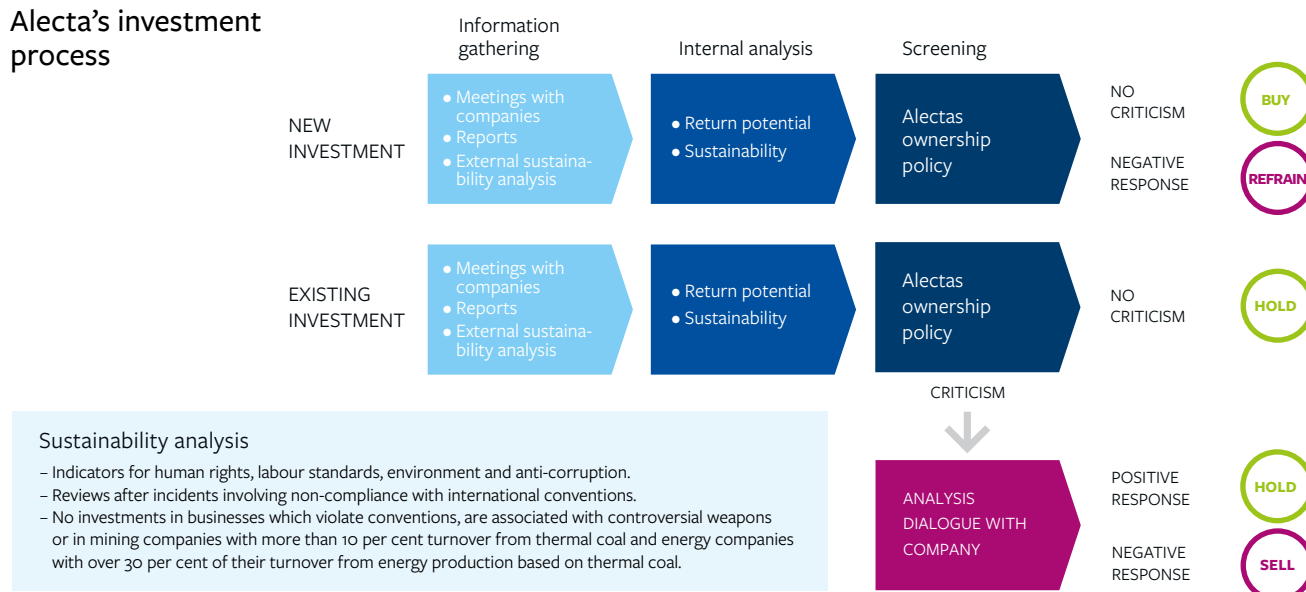


A complete list of Alecta's holdings in shares, participations and real estate is available on alecta.se.

GEOGRAPHIC DISTRIBUTION OF SHARES



Alecta's investment process



certified in accordance with ESG4Real's principles. It is hoped that the certificate will help pension savers to choose managers who take sustainability into account.

The certificate requires that Alecta refrains from investing in companies active in controversial weapons (such as cluster bombs or anti-personnel mines), that listed shares and corporate bonds are screened for breaches of norms, that sustainability considerations are integrated into investment decisions and that Alecta exercises active ownership through dialogue and voting. The certificate applies to listed shares and corporate bonds.

Corporate governance, nomination committees and voting

Alecta exercises active ownership by participating in nomination committees and voting at shareholders' meetings, but also by means of continuous dialogue with our holdings. In 2019, we voted at all shareholders' meetings in which we hold shares, with one exception. In the run-up to the 2019 AGM season, Alecta participated in 22 nomination processes. In Swedish companies, it is normal practice for major shareholders to be members of nomination committees and propose directors. Alecta has a long-term approach as owner and our activities are guided by the ambition to ensure that each company's Board of Directors has the best possible composition. We therefore attach great importance to sustainability issues and particularly to diversity, which we believe ensures the Board has a good skills mix. We aim to have gender equality on boards, and in companies where Alecta was a member of the Nomination Committee in 2019, an average of 44 per cent of members were women.

Alecta's climate targets

For several years, Alecta has systematically measured and followed up the equity portfolio's carbon footprint and reported the results on the website. Since the end of 2017, Alecta has a long-term climate target, whereby the equity portfolio should be managed in line with the Paris Agreement's two-degree target, which was tightened further during the year.

In conjunction with the UN summit on climate change in New York in autumn 2019, Alecta, together with a number of major pension and insurance companies, launched the climate initiative Net-Zero Asset Owner Alliance (AOA). The ambition is that all members' investment portfolios are to be climate neutral by 2050, with clear interim targets along the way. Members are to strive for a clear transition in their investments, in line with the tougher ambition of the Paris Agreement to limit warming to 1.5 degrees above pre-industrial levels. Membership also entails a promise to observe scientific evidence from IPCC, present annual reports of work and to set up interim targets for every five-year period, exactly as stated in the Paris Agreement.

Long-term and broad perspective on risk

For the second consecutive year, Alecta has compiled a climate report for the whole investment portfolio and with a broader approach to carbon footprint. Work on the report led to several important insights and Alecta has been active in the industry and with government agencies in exchanging methods to stress test investments on the basis of different climate scenarios. Alecta's Board of Directors is the recipient of the climate report, which is part of annual reporting of risk and solvency to the Swedish Financial Supervisory Authority.

Increased investments in green bonds

In a green bond, the capital is earmarked for climate- and environment-oriented projects, such as investments in renewable energy, water purification or environmentally friendly infrastructure.

Alecta has the same required rate of return for an investment in a green bond as for other bonds. However, we demand additional documentation from the issuer of a green bond. The reason is 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 the quality of the issuer's framework.

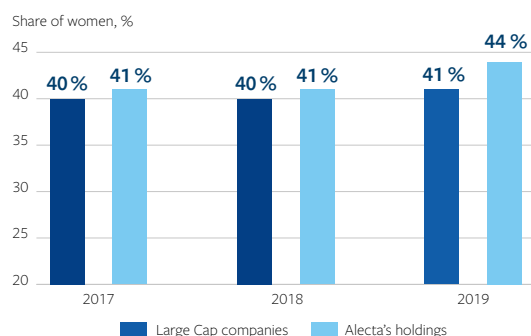
In 2019, Alecta invested approximately SEK 10 billion in green bonds and now has over SEK 40 billion invested in total in green bonds issued by 25 different issuers. The issuers include Stora Enso, Kommuninvest and Vasakronan.

Alecta has also invested just over SEK 4 billion in assets that, in addition to financial returns, also measure social or environmental benefits, what are known as impact investments. In total, these investments amounted to nearly SEK 11 billion at the end of the year.



Alecta's Ownership Report is available at alecta.se (in Swedish).

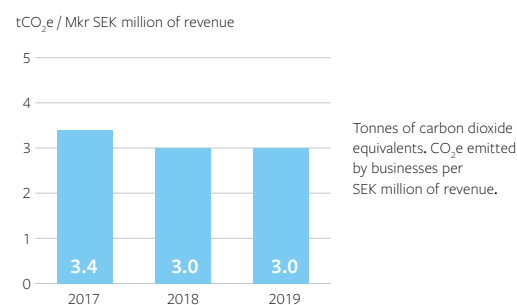
SHARE OF WOMEN ON CORPORATE BOARDS, ALECTA IN NOMINATION COMMITTEES




Share of female AGM-elected directors in companies where Alecta has a seat on the nomination committee compared with the Female Representation Index of the Second Swedish National Pension Fund (AP2), which shows the average for large cap companies. Note that chief executives are excluded from the calculation.

Source: Second Swedish National Pension Fund /Nordic Investor Services.

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 (Scope 2) emissions in connection with consumption of energy. Emissions of greenhouse gases are measured in terms of carbon dioxide equivalents (CO₂e). This is a unit of measurement which makes it possible to uniformly measure greenhouse gases. Alecta reports according to the recommendation from Insurance Sweden.



We asked a few of our customers what occupational pensions mean to them and their employees.

Helen Nordhall and Merih Hedman

HR Manager and Payroll and benefits process expert, GE Healthcare

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We are working hard to explain that as an employer we are helping to give employees a good pension. For instance, we have created a pension information board, organised a Occupational Pension Day and provided continuous information about collective agreements. Of course, some people think retirement is a long way off and they do not need to care just yet, but this is changing.

Helen and Merih are responsible for staff matters and work with benefits and pensions at GE Healthcare. As part of their role, they manage and provide information about occupational pensions, something they are both passionate about.

When they assumed responsibility for the area in 2019, they decided to streamline communications. Merih and Helen stress that communication is key to creating interest in pension issues. At the same time as they believe employers, government agencies and universities need to work harder to provide information on the issues:

“We believe a major information campaign is needed in society about occupational pensions so more people understand what a fantastic benefit it is. Some people find the pension system difficult to understand, but we can also refer them to Alecta, which is usually very good at explaining everything.”

A sustainable real estate owner

Alecta is one of Sweden's largest real estate owners with commercial properties, public-sector properties, logistics properties and hotels, primarily in Stockholm, Gothenburg and Jönköping. We also own residential properties, through property funds or limited liability companies that are jointly owned with other property developers in the Nordic region, Europe and in the US.

Properties have a direct impact on society and the environment, which requires Alecta, our business partners and suppliers to act responsibly in all parts of their business operations. Our vision is that we can build security for the future. We believe sustainability work helps to create value for tenants and visitors to the properties and thereby also for Alecta's customers through higher returns over time. Sustainability work means we strive to conduct operations in a socially, ethically and environmentally sustainable manner.

In 2019, sustainability work in real estate operations advanced further through our sustainability targets and focus areas. We are to utilise resources efficiently, make good environmental choices in business operations and offer safe and healthy environments, in and around the properties.

Environmentally certified properties and safe environments

Alecta environmentally certifies properties where possible, and 11 properties were certified in 2019 according to BREEAM In-Use, which is an international environmental certificate for existing buildings. Alecta thereby has 19 environmentally certified buildings, which constituted 40 per cent of Alecta's total lettable floor area at the end of 2019. These include Lustgården 10 and 18 in Stockholm with an "Excellent" rating, which is the highest rating available in BREEAM In-Use. The Vålmågan 8 property, also in Stockholm, received a "Platinum" rating, which is the highest rating available in the LEED environmental certificate system.

In autumn 2019, we inventoried the properties in relation to their potential to promote sustainable transportation, for example, charging points for electric cars and parking facilities for bicycles.

As part of providing safe environments in and around our properties, two of our retail sites received a security certificate under the SAFE Shopping Centers system.

Climate, energy and solar cells

We take account of climate and environmental aspects in conjunction with the design, construction and operation of

our properties. This includes a particular focus on energy efficiency. We are to promote renewable energy by procuring renewable electricity, such as wind and hydropower, and by taking advantage of the opportunity to provide the properties with renewable energy, for example, from solar panels.

In its directly owned Swedish properties, Alecta's target is to reduce energy consumption, measured as a normal year's consumption of electricity, district heating and cooling in terms of kWh per square meters, by 3 per cent each year according to customary standards. During 2019, consumption decreased 5.9 per cent compared with 2018. Since 2015, all of Alecta's directly owned Swedish properties, including our head office, only use origin-labelled electricity from renewable energy sources. Energy purchased in 2019 generated a total of 1,136 tonnes of CO₂ emissions, mainly from district heating.

In 2018, an initiative was launched involving the use of solar cells and four facilities have been installed to date at Alecta's retail sites, Värmdö Köpcentrum, Asecs, Flygfyrén and Bredden (former Infracity). The actual annual capacity of solar electricity from these facilities was just over 868,000 kWh in 2019.

Collaboration for the environment

Cooperation with tenants and suppliers is often crucial if environmental initiatives in properties are to have a lasting impact and the fullest possible effect.

Profitable energy investments

Alecta has owned the Giraffen shopping mall in Kalmar since 1991. The property has an area of approximately 46,000 m², and a single tenant uses almost one quarter of this space. The tenant has invested in new refrigeration equipment that enables its waste heat to be fed into the property's heating system. The waste heat from the refrigeration equipment is in this way recovered and generates an equivalent of some 700 MWh/year. Giraffen's total heating amounts to about 2,500 MWh/year, which means the recovered heat will cover some 28 per cent of Giraffen's total heating needs and replace some of the property's purchasing of external district heating.

Reuse and recycling

In 2018, work began to improve the recycling performance of the Terminalen 3 property, better known as the World Trade Center in Stockholm. In 2019, the project resulted in the recycling of:

- 811 kilos of plastic packaging – the amount of plastic needed to manufacture 6,488 flower pots
- 102,353 kilos of household waste – the amount needed to heat 16 houses for one year
- 660 kilos of metal – the amount of material needed to manufacture 55 bicycles
- 50,257 kilos of paper and corrugated board – corresponding to 704 trees
- 17,239 kilos of glass packaging – the amount of recycled glass needed to manufacture 57,465 glass bottles

During 2019, additional initiatives were started to improve waste management in the properties through an inventory of existing opportunities in the buildings for an effective management of waste and bulky waste.

Water

Water consumption in the directly owned properties amounted to 204,647 m³ during the year, or 0.47 m³ per sq.m. Measuring and reporting water consumption increases awareness of how much water is used per year and allows us to set targets aimed at reducing consumption.

The Vålmågan property. Photo: Jenny Lagerqvist



An attractive workplace

Alecta's ambition is to be the most attractive employer in the industry. As an employer, we invest in activities that promote health, motivation, skills development and good leadership.

Attractive employer

At the end of the year, Alecta had 343 employees and we continuously work to be an attractive employer. We are proud of the good scores we get in our employee surveys, the number of applicants for our vacant positions and the fact that our employees choose to stay with us for a long time.

Annual employee survey

Alecta conducts an annual employee survey to monitor the situation at the company. The survey provides comparability over time, such as how our employees perceive Alecta as an employer and their wellbeing. The response rate has long been exceptionally high, which was also the case in 2019, when 94 per cent responded. This is not only gratifying but also provides a credible result. We are pleased that the majority of our employees feel motivated in their work, that the dialogue between managers and employees is highly rated and that our employees have a considerable level of trust in their managers. A clear majority would also recommend Alecta as an employer. In addition to the employee survey, we implement smaller surveys when we

want to obtain in-depth information within a certain area, and follow-up discussions with new employees after six months as well as after one year of employment. We also conduct exit interviews with all those who leave the company and overall, this continuously gives us a good picture of what our employees think of Alecta as an employer.

Continuous learning a prerequisite

At Alecta, we focus on continuous learning and skills development. In 2018, we began to develop a model to clarify the development paths in the company. This work continued in 2019 and more departments have detailed their development steps. We have also launched a new structure for product training programmes, which are offered at various levels of difficulty. The aim is that the employees will both experience that they have good tools for developing in their current role and also be able to identify future development paths. Each employee is required to have a skills development plan that is followed up through our goals and skills portal. During the year, our employees spent an average of 42 hours on skills development.



Modern working method

During the year, we took additional steps in our move towards a more modern working method. As part of this work, we held thematic weeks with lectures and meetings together with inspiring individuals from various industries who shared ideas and experiences of how we can use new technology and working methods. We also held a half-day of joint creativity and to challenge how we currently work.

The aim of this work was partly to spread an agile approach within the entire organisation with a focus on utilising everyone's skills and interests and to encourage employees to dare to try something new and to continuously review solutions, and also to shorten lead times and enable a clearer focus when we pursue our business development activities. This means cross-functional teams are set up to resolve a specific improvement or challenge and this work is divided into stages with interim targets, or sprints, when solutions are tested following each sprint. This working method is traditionally used in IT development, which is why actual implementation of the working method is being tested in four pilot projects. The project has proceeded well and resulted in more effective analyses and calculations. This success has inspired the use of the method and tools in other areas than IT-related development.

Long-term work for diversity

Alecta has an even gender balance at company level and among managers. However, significant differences can exist between the various departments. In an effort to promote internal dynamics and to ensure a breadth of expertise and experience, we are working with a long-term approach to achieve greater diversity. This involves an awareness during the recruitment process and in working with leadership. Over the past two years, some of our departments have seen clear results in respect of diversity in age and gender.

It is just as important to identify potential obstacles to Alecta's ambition to be an inclusive and creative workplace, for example, by raising awareness of abusive behaviour. Discussions have taken place in various forums (at Group, departmental and corporate level) concerning the term abusive behaviour in order to increase awareness of what it is, how to stop it and what to do if it happens.



59% of employees at Alecta are women.

57% of managers at Alecta are women.

The figures refer to employees of the parent company Alecta.

Sustainability supplement

This section describes how sustainability work is governed, as well as processes linked to the framework for sustainability reporting, GRI. The outcome of sustainability targets and indicators, and comments on these are also reported here. In certain respects, this entails data supplementing the information on pages 12–25 and consolidated data.

Alecta's sustainability work

Our sustainability work is part of delivering Alecta's overall mission, to maximise the value of collectively agreed occupational pensions for both corporate and private customers. It is to support business objectives by contributing to efficient and value-creating core business, managing risks and legitimacy issues and striving to have a positive impact on society.

In 2019, within the framework of Alecta's sustainability policy, we have firmly established within the company the overall sustainability targets and indicators adopted in 2018, to be reported moving forward. The targets and indicators reflect the most important sustainability issues identified in external and internal stakeholder dialogues. An overview of these is given in the table below and are set out in more detail later in the section.

Organisation for sustainability

Alecta has appointed a Head of Sustainability, who reports to the Head of Communication and Sustainability in the management team. The Head of Sustainability works to establish greater clarity on Alecta's priorities and coordinates the company's sustainability work through shared objectives, tools and reporting. In the Asset Management department, there is a Head of Responsible Investments. Together with representatives from Communication & Sustainability, HR, Finance, Compliance, Client, IT and Purchasing, these form a steering group for sustainability, which is led by the Head of Sustainability. The team is responsible for targets and indicators in terms of both initiating activities and follow-up.

The Head of Asset Management leads an ESG Forum,

TARGETS AND INDICATORS 2019–2023*

Focus areas	SUSTAINABLE PENSION SYSTEM	AMBI-TION	RESPONSIBLE INVESTMENTS	AMBI-TION	ENVIRONMENT AND ETHICS	AMBI-TION	EMPLOYEES AND DIVERSITY	AMBI-TION
Overall sustainability objectives	Working for a sustainable pension system		Investing in line with the climate goal of 1.5 degrees and the ambition of net zero climate impact by 2050		Optimise use of resources to reduce environmental impact		Strengthen diversity throughout the organisation	
Indicators	Trust		Active ownership		Environmental impact		Employees	
	Trust in collectively agreed occupational pension schemes	↗	Number of nomination committees	✓	Energy consumption	↘	Forms of employment	✓
	Opinions on Alecta's sustainability work	↗	Diversity of boards of directors	↗	Carbon footprint of operations and travels	↘	Diversity and development	
	Stable company		Voting at general meetings	✓	Paper consumption	↘	Age, gender and turnover	✓
	Economic value generated and distributed	✓	Screening of investments	✓	Ethics and integrity		Training and education	✓
			ESG dialogues	✓	Customer complaints and customer data	✓	Skills development plans	↗
			Portfolio companies' climate reporting	↗	Regulatory compliance	✓	Performance reviews	↗
			Carbon footprint	↘	Whistleblowing	✓	Work environment and employment conditions	
			Responsible investments		Training, ethics and integrity	↗	Collective bargaining agreements	✓
			Investments with a measurable social or environmental impact	↗	Responsible purchases		Sick leave	↘
			Real estate		Suppliers' data	✓		
			Environmentally labelled properties	↗	Code of Conduct	↗		
			Environmental performance, properties	↗				

The significance of the symbols in the column headed 'Ambition' in the above table is described below. 'Ambition' refers to the direction sought for the developments of each indicator;

↗ ↘ Indicates that we strive for increased volume, a positive trend or a decrease in impact

✓ Indicates that we are transparent about our work, results or data

* The overall goals are long term, but as the sustainability work progresses, the goals may be broadened and further indicators may be added.

which comprises the heads of the asset classes Equity, Fixed Income and Real Assets, the Head of Corporate Governance, the Head of Responsible Investments, the Head of External Communication and Alecta's Head of Sustainability. Alecta's ESG forum addresses strategic matters involving work with responsible investments and is a monitoring forum, which includes the processes that are part of the ESG4Real certification. The Head of Asset Management leads an ESG group comprising the Head of Corporate Governance, the Head of Responsible Investments, and an ESG analyst who drives the development of ESG work within asset management with a focus on investments.

Alecta's Head of Corporate Governance drives the company's corporate governance work, with a particular emphasis on nomination committees, shareholders' meetings and dialogues with boards of directors. Another focus area is to contribute to good corporate governance practices.

Alecta's purchasing is conducted using established procedures that always involve a central purchasing function. Minor purchases of a non-recurring nature are exempt as is the procurement of operations outsourced to contractors in asset management and IT. An assessment of the supplier's sustainability and environmental work form a part of the tendering process when purchasing goods and services.

A description of the development of sustainability work is included in the quarterly reports submitted to senior management and the Board of Directors.

Governing documents for sustainability at Alecta

Alecta has an overall sustainability policy and an ownership policy that are adopted by the Board and that are available on the website. Alecta's Board of Directors adopts the overall and strategic governance documents, and more detailed guidelines are primarily decided by the CEO to provide clearer guidance to the employees in their day-to-day work. A number of the governance documents are described here.

Sustainability policy

Alecta's sustainability policy is designed to give internal and external stakeholders a general idea of how sustainability concerns are integrated into the company's activities. In this policy, we express our support for the UN's Global Compact initiative and its ten principles on the environment, human rights, labour standards and anti-corruption. The sustainability policy is an umbrella for other more tangible governance documents, such as environmental and sustainability work in Alecta's real estate operations.

Code of Conduct

Alecta's Code of Conduct includes four areas that are each regulated in a number of separate governing documents and are described below:

- **Ethics:** Describes how we should take an ethical approach to our work, business relations and investments. Also encompasses the whistleblower function and confidentiality.
- **Managing conflicts of interest:** Identifies the risk and the management of conflicts of interest or situations where it may be difficult to be objective.
- **Complaints handling:** Describes how we should deal with any complaints from our customers.
- **Processing personal data:** This describes how we should work with the General Data Protection Regulation's requirements and protect both customers and employees personal integrity from violations.

Examples of other governing documents for sustainability:

Corporate governance and responsible investments

The ownership policy describes Alecta's active shareholder involvement and influence in Swedish listed companies. It clarifies Alecta's position on sustainability issues and its starting point is that the companies in which Alecta invests must comply with the international conventions signed by the Swedish State.

Investments

The investment guidelines describe the focus and parameters for the risk-taking of asset management.

Risk management

The general governing document which describes Alecta's risk management with a focus on good risk control and appropriate risk management.

Information security

Describes what we need to consider when handling and disseminating verbal and written information.

Money laundering and terrorist financing

Describes how Alecta needs to act to protect itself from being exploited for money laundering and terrorism.

Purchasing and procurement

Describes the procedures and division of responsibility for purchases and procurement, where the emphasis is on efficiency and quality. Decisions on purchases must take into account the suppliers' sustainability work.

Diversity

The diversity policy describes Alecta's responsibility to give all employees the same opportunities for development and influence, combined with zero tolerance for abusive treatment and discrimination.

Working environment

Describes Alecta's general view on working environment and the division of responsibilities on working environment issues.

Bribery and other improper influencing

A governance document that provides guidance on how employees should act in relation to gifts and other benefits that could mean bribes or improper influencing. Based on the Code of Business Conduct issued by the Swedish Anti-Corruption Institute.

Environmental and sustainability work in Alecta's real estate operations

Describes the general guidelines and priorities for environmental and sustainability work in the real estate business.

Rebecca Rehn, Carina Silberg and Peter Löw, Alecta.



Stakeholders and ongoing engagement

Alecta's most important stakeholders are our customers, who are also our owners. With so many customers, and because of the mission's character, we have a strong foundation in society. During recent years, Alecta has prioritised increased openness and dialogue with stakeholders to ensure better exchanges of experience and to create opportunities for influence.



Views on sustainability from customers and employees in 2019

In the autumn, Alecta conducted a broader stakeholder survey that encompassed client companies, private-sector employees and Alecta employees. Previous surveys provided input for materiality analyses, the design of the report and for formulating sustainability targets and indicators. This year's survey clarifies the sustainability expectations of stakeholders on Alecta as a company and their views on sustainability in investments.

A majority of both corporate customers and private-sector employees have high expectations that their pension provider acts sustainably, though awareness of Alecta's sustainability work is generally low. Both groups believe the most important sustainability issues for Alecta's direct operations are good business ethics, good labour standards and health and safety. Gender equality and the environment are also considered important. In respect of the management of pension capital, labour standards and combating child labour are deemed most important, followed by corruption and climate. Both groups have ranked climate-adapted investments as the sustainability issue in investments that has the greatest positive impact on returns.

Awareness of Alecta's sustainability work is generally high among employees and an overwhelming majority believe Alecta acts sustainably today. Potential improvements mentioned include greater clarity concerning the impact of the sustainability work, clearer sustainability procedures for certain asset classes and that environmental work is more visible at the office.

CUSTOMERS – private and corporate customers

Current issues:

A secure pension, low costs, efficient asset management, ethical business behaviour, the occupational pension's carbon footprint

Dialogue channels:

Customer service, surveys, e-mail contacts, company visits, networks

Alecta's activities:

Clear targets for cost effectiveness and investment performance, increased transparency, membership of Global Compact

PRINCIPALS – unions and employers

Current issues:

Responsible investment, corporate governance, fees, investment performance

Dialogue channels:

The Board of Directors, committees, seminars, procurements

Alecta's activities:

Certification work in asset management, increased transparency and sustainability targets and indicators

EMPLOYEES

Current issues:

Skills development and career progression, equality, working environment, environmental impact, ethical business behaviour and responsible investment

Dialogue channels:

Employee surveys, whistleblower function, the intranet, internal seminars, meetings with the CEO and various meeting forums, such as breakfast and lounge meetings

Alecta's activities:

Skills development plans, diversity plan, targets and indicators for sustainability, training programmes about ethics and anti-corruption

PARTNERS AND SUPPLIERS

Mainly the selection centres for the collective bargaining areas, service providers in IT, real estate and asset management, PRI Pensionsgaranti

Current issues:

Procurements, responsible investments, environment and sustainability

Dialogue channels:

Negotiations and agreements, forums for cooperation

Alecta's activities:

Review of sustainability issues in agreements and procurement processes, certification of sustainability in asset management

SOCIETY AND BROADER STAKEHOLDER GROUPS

Current issues:

Knowledge about occupational pensions, stable management of pensions, the climate issue, sustainable financial market, the role of owner

Dialogue channels:

Lectures at universities, industry dialogue, meetings with politicians, seminars, media debate

Alecta's activities:

Take part in the debate on pensions, collaboration through the "Gilla Din Ekonomi" ("Like Your Personal Finances") network and involvement in EU's work on a sustainable finance market

Materiality analysis

Alecta's stakeholder and materiality analysis has constituted the basis for the company's overall sustainability targets and indicators and influenced the content of the report. In 2019, the steering group for sustainability reviewed the materiality analysis and chose to update and develop certain areas. For example, we perceive a greater focus and expectations on responsible and sustainable investments, as well as the impor-

tance of a clearer employer promise and more forward-thinking approach to regulatory compliance and an ethical internal culture. The analysis was also influenced by external monitoring, including reviews, and exchanges of experiences within the industry. Environment and purchasing are still identified as areas outside the materiality analysis but with expectations of high transparency, which we took into account in the work with our targets.

MATERIAL TOPIC

	RISK	BOUNDARY*	ACTIVITIES	KPIs	Page reference
Economic security and value for many	<ul style="list-style-type: none"> Collective agreement widely viewed as having a lower value Alecta's legitimacy is challenged Regulations that disfavour the customers Increased costs for society 	Impact within and outside the organisation, as the value that is created benefits Alecta's customers and employees as well as society at large.	By providing a good, stable occupational pension, Alecta adds value to the national social security system and to the economy. We have therefore sharpened the focus on our long-term operational goals: secure and satisfied customers, low costs and high efficiency, as well as good returns and a strong financial position. We prefer uncomplicated solutions and utilise economies of scale to provide the best possible customer value. We are also working to spread knowledge among and influence our stakeholders to help more people understand how the choices they make will affect their pensions.	<ul style="list-style-type: none"> Generated and distributed value (GRI 201-1) Customer satisfaction Return 	6, 36
Responsible investments	<ul style="list-style-type: none"> Sustainability losses if our holdings contribute to negative consequences for the environment and people Financial losses if our holdings decline in value due to poor sustainability Damage to Alecta's brand/reputation in critical reviews or excessively low level of ambition 	Impact outside the organisation through the companies and properties that Alecta invests in.	Alecta views sustainability as an important perspective to identify long-term risks and opportunities in the management of customers' pension capital. Our communication about responsible investments is to be transparent and clear. We have clear return targets and an overall and long-term climate target for the entire investment portfolio. Alecta invests in well-managed companies and bases investment decisions on internal research, taking into account ESG factors. Dialogue is an important tool to influence companies and we work to promote greater diversity in boards of directors. The properties we own have a direct impact on the environment that Alecta is working actively to minimise. We will increase investments in assets that contribute to financial returns and environmental or social impact. We collaborate to exert greater influence and exchange in the industry.	<ul style="list-style-type: none"> Percentage of companies with which Alecta has interacted (GRI FS10) Percentage of screened assets (GRI FS11) Investments with a measurable environmental or social impact 	37, 38

* The indicated boundaries are based on the GRI framework, where the material impact takes place within or outside the organisation.

MATERIAL TOPIC

	RISK	BOUNDARY*	ACTIVITIES	KPIs	Page reference
Inclusive and stimulating employer	<ul style="list-style-type: none"> • Alecta less attractive as an employer • Higher employee turnover at Alecta • Increased health problems among Alecta's staff • Reduced competitiveness for Alecta 	Impact internally in the organisation through better utilisation of skills, increased knowledge and employee satisfaction as well as outside the organisation, primarily in the form of increased customer value.	Alecta is to be an inclusive employer where employees are offered an opportunity to develop. We promote a good working environment and good labour standards, and we wish to create conditions that will better leverage the different perspectives and experiences of our employees, where specialists and various roles work together to develop Alecta's business in the future.	<ul style="list-style-type: none"> • Hours of training (GRI 404-1) • Evaluation and monitoring (GRI 404-3) 	41
Strong regulatory compliance	<ul style="list-style-type: none"> • Poorer customer protection • General loss of trust in the welfare system and the financial system • Higher costs and risk of sanctions • Damage to Alecta's brand and trust 	Impact internally, as this is the foundation for our activities, but poorer customer protection affects customers.	A pension company operates in a industry dependent on trust and Alecta wants to promote an internal culture of responsibility and is working with preventive action. We operate in a carefully regulated environment and regulations are updated continuously to promote stability and strong customer protection. We attach the greatest importance to ensuring compliance with laws, regulations, internal governance documents and good business ethics so that our customers feel secure.	<ul style="list-style-type: none"> • Fines or sanctions (GRI 419-1) • Training in ethics and regulatory compliance 	46
High level of customer privacy	<ul style="list-style-type: none"> • Violations of personal integrity • Financial loss for Alecta • Damage to Alecta's brand/reputation 	Impact within the organisation in the processing of customer data and outside the organisation through the impact on customer privacy.	Alecta processes large amounts of sensitive personal information and other customer data. We do our utmost to protect our customers' information in all situations.	<ul style="list-style-type: none"> • Complaints about breaches of customer privacy (GRI 418-1) 	46

AREAS WITH HIGH EXPECTATIONS OF TRANSPARENCY

	RISK	BOUNDARY*	ACTIVITIES	KPIs	Page reference
Purchasing and environment	<ul style="list-style-type: none"> • Sustainability losses if breaches contribute to negative consequences for the environment and people • Lack of credibility • Damage to Alecta's brand/reputation 	Impact within the organisation and outside with the possibility of engaging suppliers.	Alecta includes environmental and sustainability questions in all procurements. In 2020, we will gradually implement a Supplier Code of Conduct. We have begun to measure a number of environmental performance indicators and review measures to reduce the direct environmental impact of operations.	<ul style="list-style-type: none"> • Environmental impact from operations 	39, 40

* The indicated boundaries are based on the GRI framework, where the material impact takes place within or outside the organisation.

Risk analysis and preventive anti-corruption efforts

Alecta's preventive anti-corruption efforts focus on bribes and unauthorised influence and are conducted in line with the Code of Business Conduct issued by the Swedish Anti-Corruption Institute; "Code on gifts, rewards and other benefits in the business community" ("the Code"), and recommendations from Insurance Sweden, the employers' organisation for the Swedish insurance industry, from 2019.

The insurance industry is characterised by integrity-sensitive activities, whereby integrity shortcomings could have major adverse effects on both the insured and continued confidence in conducting the business. For this reason, particular restraint is required in connection with benefits and other favours that could influence behaviours or attitudes when performing duties.

Alecta conducts a yearly analysis of the risk of improper influencing in respect of various risk categories, such as Alecta's products, customers, distribution channels and geographic areas. Representatives from HR & Purchasing, Product, Legal Affairs, Client, Communication & Sustainability, IT, Asset Management and Risk took part in the update in 2019. The work is led by Compliance. The overall assessment is that the risk of improper influencing within Alecta is medium, primarily due to our size as an investor and in connection with tendering. The risk analysis forms the basis for Alecta's policy, which provides tangible guidance in what is appropriate behaviour and what constitutes improper influence. The policy comprises Alecta's employees, Board members, contractors and others who represent Alecta.

In 2019, Compliance invited Alecta's employees to take part in information meetings about bribery and corruption on two occasions, one of which had the Secretary-General of the Swedish Anti-Corruption Institute as guest. Alecta also offers employees online training programmes on bribery and other improper influencing, ethics and business entertainment and on money laundering. The training will become compulsory for certain departments and employees in 2020.

Partnerships and memberships

Alecta participates in the following initiatives or organisations with a connection to sustainability:

CDP (previously Carbon Disclosure Project)

By supporting the work of CDP, investors aim to drive the companies' transparency and environmental reports, and to influence companies to work actively to reduce their environmental impact.

Fossil-free Sweden

The government initiative Fossil-free Sweden has brought together Swedish players that want to help Sweden become one of the first fossil-free welfare countries. As part of the initiative, Alecta has accepted 'The Solar challenge', for the production of solar energy, and 'The company car challenge' for eco-friendly cars.

Global Compact

The purpose is that the business sector will support the UN's central international conventions. As a member of the Global Compact, Alecta supports the initiative's ten principles about the environment, human rights, labour standards and anti-corruption.

Sustainable value creation

Cooperation between the largest Swedish institutional investors in order to highlight the importance of Swedish listed companies working in a structured manner with sustainability issues.

ICC

ICC is an international business organisation that promotes international business operations, trade opportunities and sound economic development, and to develop self-regulation in relevant areas, such as corporate responsibility for the environment and sustainability. Alecta is a member of Swedish ICC.

Association of Institutional Shareholders

The association's aim is to promote self-regulation in the Swedish stock market, for example by continuing to develop the Swedish Corporate Governance Code. Alecta's Head of Corporate Governance is a member of the association's Board of Directors.

Nasdaq Sustainable Bond Network

The initiative aims to promote transparency in green and sustainable bonds and enable more standardised impact reporting, to lower the threshold for issuers and investors. Alecta is part of the Advisory Board together with other stakeholders.

Net-Zero Asset Owner Alliance (AOA)

The alliance is an investor collaboration led by the United Nations Environment Programme Finance Initiative (UNEP FI) and PRI. As part of the initiative, participants have declared the long-term goal of investment portfolios with zero net impact by 2050. Alecta is one of 12 co-founders of the initiative and is active in a number of working groups.

” Alecta endorses the Global Compact’s ten principles on human rights, labour, environment and anti-corruption, which are based on international conventions. They form the foundation for responsible business conduct.

Magnus Billing, CEO of Alecta

Signatory of:



WE SUPPORT



Occupational Pension Stakeholder Group (OPSG)

The European Insurance and Occupational Pensions Authority (EIOPA) is an EU financial regulatory institution. It has established a stakeholder group for regular consultation and Alecta’s Head of Compliance has been a member of the group since autumn 2018.

PRI

The UN Principles for Responsible Investment is a global initiative for institutional investors. By signing up to PRI, Alecta has undertaken to integrate the initiative’s six principles for responsible investment in its activities.

Swedish Investors for Sustainable Development (SISD)

SISD has gathered together the largest Swedish owners on the stock exchange in a network to focus on Agenda 2030 and the 17 Sustainable Development Goals. The initiative facilitates shared learning and exchange. Alecta is head of a working group focusing on Goal 8 – Decent Work and Economic Growth.

Stockholm Sustainable Finance Centre (SSFC)

The initiative is a collaboration between Stockholm Environment Institute (SEI) and the Stockholm School of Economics. The purpose is to accelerate the development of a sustainable financial market through a focus on research, innovation and new technology. Alecta’s CEO is Chairman of SSFC’s Advisory Board.

Insurance Sweden

Alecta participates in reference groups set up by Insurance Sweden, the employers’ organisation for the Swedish insurance industry, including one focusing on Sustainability. Alecta submits opinions on proposals for consultation and engages in dialogue with the Swedish Financial Supervisory Authority, the Ministry of Finance and other government agencies.

Sweden Green Building Council

The Sweden Green Building Council members’ organisation promotes exchanges of experiences between different operators in the field of civil engineering. The organisation provides tools and training as well as support for developing sustainability activities.

Swesif

Swesif is a members’ association for organisations in Sweden that want to spread and increase knowledge about sustainable investments. Alecta is an active member of the Board of Directors and of the Seminar Committee through its Head of Responsible Investments.

Other initiatives for investors

Alecta has signed a number of initiatives with various purposes. Alecta pursues direct engagement activities under the UN PRI’s Climate Action 100+ initiative, which has produced several concrete results and climate commitments from companies. The Access to Medicine Index surveys how the largest pharmaceutical companies work to increase access to medicine in developing countries. Alecta is also a partner and provides funds to the Sustainalytics Food Supply Chain Engagement initiative. Alecta supports TCFD (Task Force on Climate-related Financial Disclosures) and The Montreal Pledge, through which investors pledge to measure and report on the climate impact of their equity investments.

Research partnerships

Alecta is involved in and contributes to various academic research projects. One such project started in 2019 at Uppsala University with the aim of studying how social welfare policies influence a household’s financial resources in an internationalised market economy. Alecta also supports the research activities of the Stockholm School of Economics.

Gilla Din Ekonomi (“Like Your Personal Finances”)

Gilla Din Ekonomi is a personal finance network among public authorities, organisations and businesses. The goal is to increase people’s understanding of personal finance through various educational initiatives. Alecta’s Pension Economist contributes actively to these initiatives.

minPension (“My Pension”)

The minPension portal is a cooperation among companies in the pension sector and is 50 per cent operated and financed by the Swedish state and 50 per cent by the pension companies. As several pension funds provide information to the same portal, users can log in and view their entire pension. The aim is to provide clear and simple information on pensions from an independent platform.

SNS

SNS, the Centre for Business and Policy Studies, is a forum for dialogue about key social issues based on knowledge and research. The members include representatives from business, politics, public administration and research.

Reporting of targets and indicators

This section provides more detailed information of the outcome of objectives and indicators, and comparisons over time. The information is structured according to Alecta's overall sustainability targets and indicators.

Sustainable pension system: Working for a sustainable pension system

What does it mean:

When trust is shared it grows. Our most important sustainability responsibility is to contribute to a sustainable pension system. This is achieved by offering good pensions, being a stable and reliable pension company and a responsible investor. Trust in collectively agreed occupational pensions is therefore an important dimension in a sustainable pension system. Alecta is to work to strengthen trust by disseminating knowledge and exerting an influence.

Alecta's activities during the year:

- Published information and reports concerning the economic position of pensioners and the attitudes of young people to pensions and savings in order to provide facts, increase awareness and shatter pension myths.
- Held four discussion brunches on themes linked to occupational pensions, the pension system, the labour market, and investments, with the aim of involving different stakeholders in dialogue about the future development of the pension system.
- Brought together representatives from client companies, labour market parties, the business community and investors, academia and politics at the annual "Alecta's Ateljé" conference to discuss the future national social security system.
- The Pension Economist's work to increase knowledge surrounding pensions by lecturing at Swedish academic institutions and participation in the pension debate through blog articles and media, addressing topics such as occupational pensions and private saving.
- Being an active voice in consultations on occupational pension legislation and other legislation concerning sustainability in investments, both in Sweden and at EU level, focusing on achieving the greatest possible customer value.

Outcome 2019:

Percentage of salaried employees with high or fairly high confidence in the occupational pension system:

63 %

Percentage of salaried employees with high or fairly high confidence in the Swedish collective agreement system:

70 %

Responsible investments: Investing in line with the climate goal of 1.5 degrees and the ambition of net zero climate impact by 2050

What does it mean:

We are facing a comprehensive transition to meet the climate targets set and all players in society will be affected. A long-term perspective is needed that can help to reduce risk and provide new perspectives for investment opportunities with high returns for Alecta's customers. Alecta's ambition is an investment portfolio that develops in line with climate goals.

Alecta's activities during the year:

- Alecta was one of 12 co-founders of the Net-Zero Asset Owner Alliance, an initiative supported by the UN for investors that will work together to adapt investment portfolios to climate change.
- A climate report was drawn up for all asset classes for the second year, detailing how various scenarios could impact the assets. Included in the Risk department's report to the Swedish Financial Supervisory Authority, and parts will be included in Alecta's TCFD report in early 2020.
- Began work in the equity team in investment management to prepare climate analyses by sector, and included carbon emissions from the value chain in the analytical framework.
- Published a position paper on coal and lowered the threshold for investments in the mining of coal.
- In dialogue with companies and in collaboration with other investors, pushed for higher climate ambitions. Examples included discussions with Volvo within the Climate Action 100+ initiative, voting on climate issues at BHP's General Meeting of Shareholders, discussed greater transparency in the marketplace with Nasdaq Nordic regarding carbon emissions.
- Continued roll-out of the solar panel strategy and conducted an inventory of conditions for geoenergy solutions in real estate management.

Outcome 2019:

Number of corporate dialogues on climate:

18

Percentage of companies in the equity portfolio with science-based climate targets:

11 %

Percentage of companies in the equity portfolio that report climate footprint (Scope 1 and 2):

76 %

Carbon footprint from equity portfolio (Scope 1 and 2), tCO₂e/SEK million in income:

3.0

Environment and ethics: Optimise use of resources to reduce environmental impact

What does it mean:

Sustainability is strongly associated with the environment, also among Alecta's customers. By pursuing our own environmental agenda that is aligned with the resource focus that characterises Alecta's other work, we increase awareness within the company and reflect the demands we place on our holdings. More efficient use of resources also entails an emphasis on modern working methods using digital tools and opportunities.

Alecta's activities during the year:

- Included environmental performance indicators in operational plans.
- In February, the percentage of digital customer letters exceeded physical letters for the first time and after 2019, our major "annual statement" mailing will primarily be sent digitally.
- Alecta's office has been under refurbishment for a number of years and in conjunction with this we tested various approaches to recycling and sorting in the office landscape. Fans, pumps and lighting in the office and garage were replaced with more energy-efficient alternatives.
- Initiatives to increase awareness internally include food-waste campaigns together with our restaurant partner, distributing soil nutrients from our compost to employees during the spring, and internal lectures on climate impact in conjunction with the large climate strike on 27 September.

Outcome 2019:

Reduction in energy consumption for the office through the use of smart equipment:

9.5 %

Carbon footprint, including customer letters, travel, office



More digital mailing of customer letters resulted in paper savings of:

2.5 tonnes

If a large non-recurring mailing in 2018 is included, the saving is a total of 14.5 tonnes of paper.

Employees and diversity: Strengthen diversity throughout the organisation

What does it mean:

We must continue to challenge ourselves if we are to achieve our ambitious goals and further develop Alecta's work and offering to customers. By strengthening and increasing diversity, we gain a more innovative and effective business and enhance expertise at all levels of the organisation. Alecta is to be an attractive employer that harnesses and fosters diversity.

Alecta's activities during the year:

- The diversity perspective in management training and recruitment has contributed to greater diversity in terms of gender and age in some departments in recent years.
- Greater awareness of "collective intelligence" through lectures and internal workshops focusing on enhanced dynamics and the organisation's ability to solve complex challenges by integrating different knowledge and perspectives.
- Staff Day on modern working methods with exercises in cross-functional collaboration.
- Cooperation with Jobbsprånget resulted in full-time employment for one person in 2019.

Outcome 2019:

Percentage of women in Alecta's senior management:

44 %

Percentage of female managers:

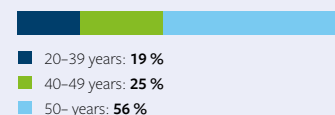
57 %

Skills development, hours per year:

Women 53

Men 26

Age distribution:



Sustainability indicators 2019–2023

As support and to provide confirmation of the work carried out, Alecta is monitoring a large number of indicators within the four chosen sustainability areas:

- Sustainable pension system
- Responsible investments
- Environment and ethics
- Employees and diversity

Certain indicators are used as key performance indicators for the overall goals, while other indicators have quantitative goals. Others have an explicit direction or serve as transparency metrics enabling us to provide information about our work.

Sustainable pension system

Confidence in occupational pension schemes and collective agreements

	2019	2018	2023
Confidence in occupational pension system among salaried employees	63 %	68 %	> 70 %
Confidence in the Swedish collective agreement system among salaried employees	70 %	67 %	n/a ¹⁾

¹⁾ No target set for indicator

The 2018 survey included private-sector employees over the age of 18, while the 2019 survey included all salaried employees between the ages of 20 and 65. In the 2019 survey, 58 per cent of salaried employees stated that they were very or fairly positive to the default option in collectively agreed occupational pensions. Individual results are difficult to interpret, but in the long term the results offer an indication of how well Alecta and other parties in collectively agreed occupational pensions are strengthening trust through good products, positive results, comprehensible and easily accessible information and enhanced awareness in the wider public debate.

Customers' opinions on Alecta's sustainability work

Percentage that believe Alecta works in a sustainable way, %	2019	2018	2023
Private-sector employees (good understanding)	12 (37)	13 (38)	20
Client companies (good understanding)	17 (37)	n/a ¹⁾	30

¹⁾ Between 2018 and 2019, the survey method was changed for client companies, which means the 2018 figure is not comparable.

Alecta examines the expectations of private-sector employees and corporate customers in relation to sustainability at pension companies, which includes questions concerning Alecta's sustainability work. Most people answer the question with a "don't know", which reflects the generally low level of awareness about companies' sustainability work among customers, particularly in industries without daily contact. Customers

who know Alecta well are also much more aware of its work. Together with trust in collectively agreed occupational pension schemes, the indicator contributes to work towards achieving the goal of secure and satisfied customers.

Economic value generated and distributed ¹⁾ (GRI 201-1)

SOCIO-ECONOMIC VALUE, Group (SEK million)	2019	2018	2017
Economic value, generated			
Return on capital, before operating expenses ^{2) 3)}	125,314	-17,809	53,252
	125,314	-17,809	53,252
Economic value, distributed			
Claims incurred ⁴⁾	-21,810	-20,884	-20,353
Waiver of premium, corporate customers	-2,654	-2,531	-2,039
Refunds in the form of adjustments to earned pension entitlement and premium reductions ⁵⁾	-11,695	-10,511	-5,618
Salaries and remuneration	-340	-325	-352
Suppliers and partners	-583	-540	-518
Yield tax and income tax in Sweden and abroad as well as social security fees for employees	-1,386	-1,039	-2,594
	-38,468	-35,829	-31,474

¹⁾ GRI requests a report of "retained value" but at Alecta the surplus goes to the policy holders.

²⁾ Unrealised gains/losses are included in an amount of SEK 97,522 million (2018: -46,291, 2017: 25,719). The year's return is described in the Administration Report on page 57.

³⁾ In the income statement, asset management and property management expenses totalling SEK 283 million (2018: 234, 2017: 250) have been offset against capital returns. See also Note 8 Operating expenses.

⁴⁾ Claims incurred also include refunds in the form of pension supplements and supplementary amounts, which are taken from the surplus fund; see Note 33 Equity.

⁵⁾ Refunds are taken from the surplus fund, see Note 33 Equity.

A high level of trust and legitimacy are fundamental to Alecta's mission. Economic value generated reflects Alecta's capacity, and the distribution is characterised by the mutual concept of maximising the value given back to customers through cost-efficient operations.

Alecta creates economic value for its customers by giving them a good and secure pension. It does so by generating a strong return over time and by keeping the costs down. In Alecta's area of business, the value that is generated and delivered needs to be viewed from a long-term perspective. The value that is created during the year will be distributed for many years to come and the value that has been distributed during the present year has been accumulated over prior years. For this reason, the value that is generated and distributed in an individual year cannot be put in relation to each other.

Responsible investments

All indicators related to active ownership and responsible investments reported here are also described in more detail in Alecta's Ownership Report, at alecta.se.

Nomination committees in Swedish listed companies

	2018/2019	2017/2018
Number of nomination committees	22	17

Its substantial holdings in Swedish limited liability companies allows Alecta to be active in nomination committees that are tasked with nominating members to the Board of Directors prior to the general meeting of shareholders. Alecta had eight representatives from investment management, of whom one woman, who took part in nomination committee work during the 2018/2019 AGM season. Moreover, one member of Alecta's Board took part as a representative in nomination processes.

Gender equality on boards

	2019	2018	TARGET
Percentage of women on the Board where Alecta is a member of nomination committee	44 %	41 %	At least 40 per cent of each gender represented

Alecta's responsibility as owner means we strive to achieve the best possible Board compositions when we participate in the nomination processes. In order to increase the experience and skills base, and to encourage a dynamic Board, we strive to broaden the representation from the perspectives of gender equality and diversity. On average, at least 40 per cent of each gender is represented on boards where Alecta is a member of the nomination committee, though some individual boards are yet to achieve the goal.

Voting at general meetings

	2018/2019	2017/2018	TARGET
Percentage of holdings where Alecta voted at the general shareholders' meeting	99 %	99 %	100 %

Alecta has voted at AGMs held by all holdings during the 2018/2019 season, with the exception of one holding in the US. Voting is an important tool for active ownership and our target is to always vote at all holdings. Every year, information is published on the website detailing how Alecta voted at shareholders' meetings, with a cut-off point at 30 June. The latest voting report concerns the 2018/2019 AGM season, and the Ownership Report describes votes of particular relevance.

Screening of holdings (GRI FS11)

	2019	2018	TARGET
Percentage of shareholdings and corporate loans reviewed in norms-based screening	100 %	100 %	100 %
Percentage of assets of total investments reviewed in norms-based screening	60 %	70 %	n/a ¹⁾

¹⁾ No target set. The indicator only specifies the proportion of shares and corporate loans in the investment portfolio at the end of the year, and can vary over time.

Screenings of all shareholdings and corporate loans are conducted four times per year based on the international conventions signed by Sweden. These include environment, labour standards, anti-corruption and human rights. In the intervening period, Alecta receives regular reports in the event of an incident or suspected breach of conventions linked to our holdings. Changes to the proportion of assets screened in terms of total investments are dependent on the percentage of share and corporate loans in the portfolio.

ESG dialogues (GRI FS10)

	2019	2018
Number of corporate dialogues	41	18
- Of which E/S/G	20/9/12	6/3/9
- Of which proactive/reactive	28/13	10/8

With its substantial holdings in certain companies, Alecta is an active owner through continuous dialogue with the company. For transparency, we report on the dialogues held that concerned sustainability, and the main focus area for the questions. Questions about the environment often have a social dimension, but we used the primary issue discussed when classifying the dialogues. ESG stands for environmental, social and governance. The dialogues encompass both shareholdings and credit holdings.

We classify a dialogue as reactive if it was initiated after an incident reported through the norm-based screening. During the year, dialogues took place concerning labour standards in the supply chain and climate reporting. Figures from 2019 show that dialogues about sustainability are increasing and that Alecta is more proactive in highlighting sustainability issues.

Climate reporting by portfolio companies

	2019
Shareholdings	
- Percentage of companies reporting climate data (Scope 1+2)	76 %
- Percentage of companies reporting climate data (Scope 1+2+3)	n/a ¹⁾
- Number and percentage of companies with science-based targets	13 companies/11 %
Credit holdings	
- Percentage of companies reporting climate data (Scope 1+2)	87 %
- Percentage of companies reporting climate data (Scope 1+2+3)	n/a ¹⁾
- Number and percentage of companies with science-based targets	4 companies/9 %

¹⁾ Alecta is aiming to specify the percentage of companies reporting Scope 3 in its next annual report.

Alecta previously reported the percentage of holdings that report climate data to CDP, but as we now look closer at the companies' climate efforts and have adopted climate targets

for the portfolio, we have decided to report this information in more detail. The figures show that there is still scope for improvement. The goal is to increase the percentage of companies that report their climate efforts. Through its own initiatives and collaboration with other investors, Alecta will strive for an increase in climate data reporting.

Carbon footprint, shares

	2019	2018	2017	2016
Carbon footprint shareholdings, tCO ₂ e/SEK million in income	3.0	3.0	3.4	4.7
Absolute footprint, tCO ₂ e	538,720	510,792	561,462	759,285

For a number of years, Alecta has measured and reported climate impact from the equities portfolio in accordance with recommendations from Insurance Sweden. This measurement complies with industry standards and applies to the companies' Scope 1 and 2 emissions according to the Greenhouse Gas Protocol (GHG). The carbon footprint has previously fallen significantly but remained relatively stable at a comparatively low level for the past four years. In 2019, the carbon footprint rose slightly due to turnover in the portfolio, with a net increase in emissions due to new holdings. Changes also took place within individual holdings. One company increased its emissions sharply due to acquisitions, while another noted substantial reductions, one holding has begun to report emission data that is much higher than previously estimated standard values.

Alecta's climate report also studies Scope 3, though data here is less reliable, and also includes other asset classes. We are planning to report climate information in more detail for the portfolio in 2020.

Investments with a measurable environmental or social impact

	2019	2018
Green bonds, SEK billion	40	31
Other investments with a measurable environmental or social impact, SEK billion	11	6

Alecta only invests in green bonds that are issued in accordance with a clear framework and reviewed by a third party. Over the past five years, Alecta has steadily increased its investments in green bonds, primarily from municipalities and supranational organisations such as the World Bank, but also in sovereign green bonds and corporate bonds.

Impact investments in Alecta's portfolio include a loan fund for small and medium enterprises in developing countries, microfinance institutions and a social government bond. In addition to returns, a number of other factors are followed up

and reported, including social and/or environmental factors. During the year, new investments were made in green bonds in an amount of SEK 10 billion. Other sustainable investments amounted to SEK 4.3 billion in 2019. Some of these investments expired or were sold. The aim is to increase investments in such assets.

Real estate portfolio, directly owned Sweden

	2019	2018	2017
Environmentally labelled properties, number	19	12	10
Environmentally labelled properties, sq.m	323,614	245,720	212,641
– percentage of lettable floor area, %	40	32	27
Energy use, kWh/sq.m	108	114	109
– of which property electricity	39	43	44
– of which district heating	56	57	54
– of which district cooling	13	14	11
Total energy consumption, MWh	47,009	49,938	47,416
– of which property electricity	17,233	18,811	19,134
– of which district heating	24,302	24,856	23,601
– of which district cooling	5,474	6,272	4,681
Carbon footprint from energy purchased, tCO ₂ ¹⁾	1,029	1,290	1,046
Water use, m ³ /sq.m	0.47	0.55	0.52

¹⁾ The calculation of climate impact does not include the two properties Vågen 12 and Krämlaren 23.

Work to environmentally classify properties has been stepped up during the year and is described in the "Responsible investments" and "A sustainable real estate owner" sections.

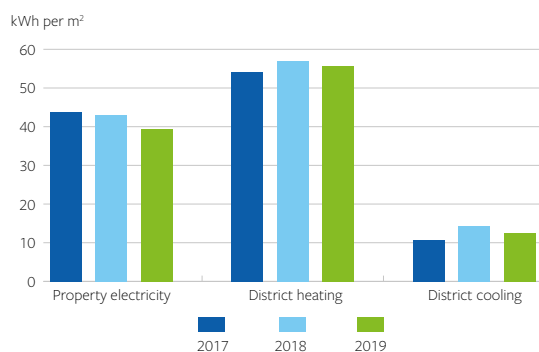
The reported property portfolio includes directly owned properties with a history of three years. District heating consumption is reported normal-year corrected. Other energy use in Alecta's property portfolio is reported as actual consumption. Data for energy was adjusted in last year's report. All directly owned properties in Sweden have an environmental plan and continuous improvement programmes. Since several years, Alecta has a goal to enhance the efficiency of energy use by at least 3 per cent per year.

Overall improvements could be seen for all energy sources for the year. This is in part due to temperature differences between the years, such as a decrease in consumption of cooling compared with the hot summer of 2018. Other improvements were the result of optimised operations, for example the connection of control systems and similar.

The property management organisation held discussions with district heating suppliers concerning the climate impact of district heating.

This is the first year Alecta has reported data for water.

ENERGY CONSUMPTION, ALECTA'S SWEDISH PROPERTY PORTFOLIO



Consumption in kWh per m² (heated area) in Alecta's Swedish property portfolio. For comparative purposes, only properties that were owned throughout the comparative period of 2017–2019 have been included, known as the “standing portfolio”. 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.

Environment and ethics

Direct environmental impact, operations

As a service-sector company with a centrally located office, our work associated with direct environmental impact is strongly connected to our office, our travel and our cooperation with various suppliers. Over the years, we have improved the efficiency of resource use at our office, which has resulted in significant financial and environmental gains. Today, our most significant environmental footprint comes from customer letters, energy that is used in our property, from business travel, paper consumption and food waste. Reducing the office's environmental impact is an overall sustainability target moving forward.

	2019	2018
Energy use, offices, MWh		
Total	2,521	2,788 ¹⁾
– of which electricity	1,155	1,387
– of which district heating	1,043	1,109
– of which district cooling	323	292
Carbon footprint, kg CO₂		
Energy, property ²⁾	85,546	90,915
Travel ³⁾	170,544	193,858
– of which air travel	169,432	192,932
– of which trains	1,112	926
Use of paper, kg		
Office operations, indicative based on volume of purchased paper ⁴⁾	4,048	7,500
Customer letters, paper mailings	17,752 ⁵⁾	32,299

¹⁾ In 2019, new systems support has increased the accuracy of readings. As a result, electricity and cooling figures for 2018 were marginally adjusted, and for district heating were reduced by just over 10 per cent compared with the previously stated level.

²⁾ All property electricity is origin-labelled from renewable sources. District cooling is produced from, for example, free cooling from water and waste heat. All carbon emissions are linked to district heating. District heating is produced in part from coal and oil, and carbon emissions from these sources are climate compensated by the supplier. We report emissions without deducting the portion that is climate compensated. The figure for 2018 has been adjusted.

³⁾ During 2019 (2018), 438 (521) flights were taken, of which 269 (333) were international. There were 289 (288) train journeys, of which two (two) were international.

⁴⁾ Office paper based on volumes purchased during the period. For 2018, purchases made between Sep 2017–Aug 2018 were reported. For 2019, purchases made between Sep 2018–Nov 2019 were reported.

⁵⁾ In addition, a large number of digital letters were sent and if these had been postal letters, they would have corresponded to another 11,554 kg. One reason for the substantial difference in paper mailings between 2019 and 2018 was a large non-recurring mailing made in 2018 connected to the ITP procurement.

During the year, extensive refurbishment work was completed at the head office. We have already identified an increase in energy efficiency as lighting, heat pumps and fans were replaced with more efficient equipment. When procuring furniture for the refurbishment work, we subjected the supplier to tangible environmental requirements in terms of the use of chemicals and our ambition of renovating and re-using office furniture to the extent possible.

We measure the carbon footprint of our business travel to enable us to make more informed decisions on the choice of travel. Most of the journeys are related to customer visits or the operations of asset management. In customer operations, we are exploring various ways to meet customers more through digital channels, using webinars for example. In order to compensate for emissions linked to travel, Alecta has financed climate benefits in the form of 28 Solvatten units during the year, which corresponded to its emissions in 2018. The units contribute to a better climate and improve hygiene and health in vulnerable areas in Kenya. Solvatten is a Swedish invention with a water container that uses UV light from the sun to clean and heat water, instead of burning coal or wood.

We are also reviewing our paper consumption, and assessing how we can switch to greater use of digital tools and work methods. Alecta sends a considerable amount of paper-based mail to our customers. In 2019, Alecta informed customers that the largest mailing of annual statements will from next year primarily be distributed via digital channels. In 2019, the number of digital customer letters surpassed the number of paper mailings for the first time.

Many environmental improvements are made in collaboration with or through our suppliers. In 2018, for example, the IT supplier of Alecta's servers moved to a modern, newly built data centre, where new technology significantly reduces energy consumption. Through the use of free cooling, using outdoor air to balance the temperature in the computer hall for optimal operational efficiency, up to 90 per cent of the need is met. Together with the contractor that has run our staff canteen since 2017, we conduct regular campaigns to reduce food waste and have expanded the range of vegetarian dishes.

Customer complaints, including data processing (GRI 418-1)

	2019	2018
Customer complaints, total	550	360
Customer complaints about processing data and customer privacy	4	2

Alecta registers and analyses all cases when a customer states that we have failed in relation to the service requested by the customer or expresses dissatisfaction with the insurance distribution, the terms of an insurance contract, with information or with staff interaction. During the year, complaints increased slightly due to individual events, for example, the transition to digital mailing of the annual statements. Most of the complaints are handled and concluded directly in the contact with customers.

During 2019, Alecta received four customer complaints concerning its processing of personal data, none of which were from regulators or other formal authorities. In one case, Alecta has submitted a report to the Data Inspection Board. All four cases were rectified, and one of the complaints resulted in a suggestion for improvements to reduce the risk of it happening again.

Fines or sanctions (GRI 419–1)

	2019	2018	2017
Fines or sanctions following shortcomings in regulatory compliance, number and amount	0	0	0

No fines or sanctions were imposed on Alecta in 2019.

Whistleblower function

Alecta has had a whistleblower function since 2017. During the year, all matters reported to the function were investigated and managed in accordance with the Board's Whistleblower Policy.

Ethics and integrity – training initiatives

A number of digital training programmes were developed and made available to all employees on the intranet during the year. The following training programmes are now available to complement governance documents in each area: ethics and whistleblowing, bribery, business entertainment, complaints handling, conflicts of interest, money laundering and terrorism, private transactions and trading with financial instruments by employees, information security and the requirements of the General Data Protection Regulation. A special initiative during the year aimed to support management in increasing understanding and awareness of Alecta's governance documents within the company.

On two occasions in 2019, all employees were given the opportunity to take part in lectures about Alecta's work to combat bribery, and the Secretary-General of the Swedish Anti-Corruption Institute attended one of these lectures.

Suppliers' data

	2019	2018	2017
Total number of suppliers	642	627	636
– of whom in Sweden	574	565	568
– of whom in other EU countries	50	41	49
– of whom outside the EU	18	21	19
Percentage of suppliers with contracts for sustainability/Code of Conduct	n/a ¹⁾	–	–

¹⁾ Alecta has drawn up a Code of Conduct that as of 2020 will be appended to supplier agreements when entering into new agreements.

Alecta's suppliers mainly comprise external parties who operate the staff canteen, outsourced IT operations, parties engaged in training contexts, purchases of licences and software, maintenance of equipment, office supplies and research services for asset management. Five suppliers accounted for 62 per cent of the total transaction volume. Swedish suppliers accounted for 95 per cent of the transaction volume.

During the year, Alecta developed a Supplier Code of Conduct that will gradually be rolled-out as new agreements are entered into as of 2020.

An important supplier in our internal environmental work is Alecta's provider of janitor services, and for this we use a company that conducts active environmental work, chooses products that are a good environmental choice and also has collective agreements for its employees.

Employees and diversity

Employment information (GRI 102-8)

Forms of employment, Group

FORMS OF EMPLOYMENT	2019		2018		2017	
	Women	Men	Women	Men	Women	Men
Group						
Number of employees at 31 December	223	147	217	148	219	145
– of whom in Sweden	223	147	217	148	219	145
Permanent employees	219	145	215	146	217	145
– of whom full-time	186	139	178	137	185	134
– of whom part-time	33	6	37	9	32	11
Temporary employees	4	2	2	2	2	0
Number of consultants (FTE)	11	24	10	22	10	26

Within the Group, which for reporting purposes also includes the subsidiary WTC, the number of employees remained relatively stable. Alecta no longer has offices abroad and all of its employees are therefore located in Sweden. Most are employed on a full-time basis. The majority of employees working part-time are women.

Employees, collective agreements, diversity

EMPLOYEE STATISTICS

Group	2019	2018	2017
Number of employees at 31 December	370	365	364
Average age of all employees	48	48	47
Percentage of female employees	60 %	59 %	60 %
Percentage of female managers	58 %	52 %	50 %
Percentage of women in management ¹⁾	44 %	33 %	33 %
Percentage of women on the Board ¹⁾	42 %	38 %	31 %
Parent Company			
Employee turnover	7.9 %	7.9 %	7.3 %
Percentage covered by collective bargaining agreements ²⁾	100 %	100 %	100 %
Age distribution employees ³⁾			
– 20–39 years, (W/M)	36/28	–	–
– 40–49 years, (W/M)	49/36	–	–
– 50+ years, (W/M)	115/76	–	–
Percentage of female employees	59 %	58 %	58 %
Percentage of female managers	57 %	53 %	53 %

¹⁾ A decision was taken not to include senior executives for the subsidiary WTC in the Group summary.

²⁾ Does not include employees in senior management.

³⁾ Does not include temporary employees.

From the Parent Company's viewpoint, there were relatively few major changes during the year. Employee turnover remains slightly below an industry average. Alecta measures employee turnover in accordance with the approach of Nyckeltalsinstitutet, by choosing the lower of the number that started or the number that terminated their employment in relation to the average number of employees during the year. Recruitments during the year were mainly sourced externally. This was partly because new services or functions required new competencies. Alecta conducts annual salary surveys to identify and correct unwarranted differences in salary.

Alecta reports the gender and age distribution of employees but has also looked at other diversity factors in 2019. Just over 11 per cent of employees were born abroad or have two parents who were born abroad.

Hours of training (GRI 404-1)

	2019	2018	2017	TARGET
Hours of training, average per employee ¹⁾	42	22	26	
– average, women	53	27		
– average, men	26	14		
Employees with skills development plan	See comment	76 %	88 %	100 %

¹⁾ Reported broken down into women and men from 2018. No target set for indicator

All skills development is registered by employees themselves in the personnel administration system, and applies to internal

development and external training programmes. We do not believe there are fewer opportunities for men than women to participate in skills development, though we are aware of several factors that may contribute to the significant gaps indicated by the data. One example is the readiness to register skills development time in the system and views on what constitutes skills development. We are continuing to work with systems support for facilitating the administration of training programmes and to increase follow-up reliability, in part through central registration of external training programmes, formal enrolments to internal training programmes, etc. Alecta's goal is that all employees will have a skills development plan that includes skills development needs and planned training programmes. We identified large gaps in reporting, and believe we must increase awareness internally and clarify the responsibility of each employee to register their plan, as well as the responsibility of managers to follow this up.

Evaluation and development (GRI 404-3)

	2019	2018	2017	TARGET
Employee performance reviews, %	See comment	90	88	100 %

All employees at Alecta take part in an annual performance review, and managers are offered support by the HR organisation to plan and conduct these reviews. Deviations from the target are mainly attributable to new employees during the year. All managers have certified that performance reviews took place during the year, though there is a lack of supporting data in the form of structured documentation.

Sick leave

	2019	2018	2017
Sick leave ¹⁾	4.5 %	3.4 %	3.7 %
– women	4.8 %		
– men	4.0 %		

¹⁾ Reported broken down into women and men from 2019.

Sick leave among employees rose slightly in 2019. Alecta is a relatively small organisation and reports short and long-term sick leave together. A few cases of long-term sick leave can, as a result, have a distinct impact on the result, which was the case during the year. There were several different causes of the long-term sick leave, from rehabilitation after surgery to medical diseases. Alecta works with frequent follow-ups and dialogues in the event of repeated sick leave to be able to provide the support that is needed. We know that it is important to quickly return to work after a longer sick leave or rehabilitation and we have therefore done our utmost to facilitate work escalation at the pace that works for the employee.

GRI table

About the sustainability reporting

Alecta's sustainability report for 2019 has been prepared according to guidelines for the Global Reporting Initiative (GRI), GRI Standards and the alternative Core. The content of the Sustainability Report is mainly found on pages 12–25 and in the sustainability supplement on pages 25–43. The sustainability reporting covers 2019 and forms part of Alecta's annual report. The annual and sustainability report are published annually in March. The preceding annual and sustainability report was published on 21 March 2019.

The report has been reviewed by Alecta's auditors, Ernst & Young AB.

Scope and boundaries

The Sustainability Report mainly encompasses the Parent Company Alecta pensionsförsäkring, ömsesidigt, and Alecta's subsidiaries, apart from those specified below. The subsidiaries are engaged in the direct or indirect ownership of real estate. The real estate companies that are joint-owned by Alecta are defined as joint ventures and are handled as financial instruments. The description of procedures and duties in the personnel section on pages 24–25 covers employees of the Parent Company while consolidated data including the subsidiary WTC is presented on pages 40–41. The description of Alecta's direct environmental impact and suppliers on pages 39–40 refers to the Parent Company. Other exceptions to the scope are indicated in the report. Alecta manages collectively agreed

occupational pension schemes in Sweden. Alecta's asset management activities comprise investments in shares, debt securities and real estate. Alecta's directly owned real estate portfolio is concentrated to Sweden. No material changes in the organisation's size, structure, ownership or suppliers occurred during the reporting period.

Calculation methods and definitions

GRI Disclosure 102-8: Consultants are recalculated to full-time equivalents (FTEs) as this offers a more accurate picture of operations. Figures from previous years have been adjusted to reflect this.

GRI Disclosure 404-1: Employees refer to permanent employees of the Parent Company with the exception of employees on long-term leave, including employees on parental leave, sick leave or unpaid leave.

Standing portfolio: In order to compare environmental performance for directly owned properties over time, we reported properties that have been part of the portfolio throughout the reporting period (three years). Project properties during the period were excluded.

Contact

The contact person for Alecta's sustainability report is Carina Silberg, Head of Sustainability.

E-mail: carina.silberg@alecta.se

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102-8	Information on employees and other workers	40–41	
102-9	Supply chain	27, 40	
102-10	Significant changes to the organisation and its supply chain	42	
102-11	Precautionary principle or approach	See comment	Alecta is not engaged in manufacturing activities, but environmental aspects are taken into account in the investment activities.
102-12	External initiatives	32–33	
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102-14	Statement from senior decision-maker	5	

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102-45	Entities included in the consolidated financial statements	95-96	Note 16
102-46	Defining report content and topic boundaries	30-31, 42	
102-47	List of material topics	30-31	
102-48	Restatements of information	See comment and pages 39 and 42	Energy data for the office was corrected, and reporting method changed for consultants.
102-49	Changes in reporting	See comment	No material changes
102-50	Reporting period	42	
102-51	Date of most recent report	42	
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404-1	Average hours of training per employee by gender and employee category	41	See Scope and boundaries, and Calculation methods and definitions.
404-3	Percentage of employees receiving regular performance and career development reviews	41	Not reported in full, see comment on page 41.
SOCIAL TOPICS – CUSTOMER PRIVACY AND PRODUCT RESPONSIBILITY			
418-1	Total number of substantiated complaints concerning breaches of customer privacy and losses of customer data	39-40	
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FS10	Percentage and number of companies in the institution's portfolio with which the reporting organisation has interacted on environmental or social issues	37	
FS11	Percentage of assets subject to positive and negative environmental or social screening	37	

Auditor's report on the review of the sustainability reporting and opinion on the mandatory sustainability report of Alecta pensionsförsäkring, ömsesidigt

To the Council of Administration of Alecta Pensionsförsäkring, ömsesidigt, corp. ID no. 502014-6865

Introduction

We have been engaged by the Board of Directors of Alecta Pensionsförsäkring, ömsesidigt to review the content of the company's sustainability reporting for 2019. The company has defined the scope of the sustainability reporting on pages 42–43 in this document, of which the mandatory sustainability report is defined on page 1.

Responsibilities of the Board of Directors and management

The Board of Directors and the CEO are responsible for the preparation of the sustainability reporting, including the mandatory sustainability report, in accordance with relevant criteria or the Annual Accounts Act. The criteria are presented in the sustainability reporting on page 42 and comprise those parts of the Sustainability Reporting Framework issued by GRI (Global Reporting Initiative) that are applicable to sustainability reporting, and the accounting and calculation policies prepared by the company itself. This responsibility also includes the internal controls considered necessary to prepare 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 about the sustainability reporting based on our review and to submit an opinion on the mandatory sustainability report. Our assignment is limited to the information contained in this document and historical information presented and therefore does not encompass forward-looking information.

We have conducted our review in accordance with ISAE 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information. A review consists of making inquiries, primarily with persons responsible for the preparation of the sustainability report, and applying analytical and other review procedures. We have conducted our examination of the mandatory sustainability report in accordance with

FAR's recommendation RevR 12 Auditor's opinion on the mandatory sustainability report. A review and an examination in accordance with RevR 12 have a different focus and significantly less scope than the focus and scope of an audit conducted in accordance with the International Standards on Auditing (ISA), and generally accepted auditing practices.

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. We are independent of Alecta pensionsförsäkring, ömsesidigt according to generally accepted auditing practices in Sweden and have in other respects performed our professional responsibilities according to these requirements.

The procedures performed in a review and examination in accordance with RevR 12 do not enable us to obtain such assurance that we would become aware of all significant matters that might be identified in an audit. Therefore, the opinion expressed based on a review and examination in accordance with RevR 12 does not give the same level of assurance as a conclusion expressed based on an audit.

Our review of the sustainability report is based on the criteria selected by the Board of Directors and management, which are defined above. We consider these criteria suitable for the preparation of the Sustainability Report.

We believe that the evidence that we have obtained during our review is sufficient and appropriate for the purpose of expressing our opinions below.

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.

A statutory sustainability report has been prepared.

Stockholm, 24 March 2020

Ernst & Young AB

Jesper Nilsson
Authorised Public Accountant

Outi Alestalo
Specialist Member of FAR



Corporate Governance Report 2019

Efficient corporate governance ensures that the company is managed responsibly, sustainably and as efficiently as possible with satisfactory risk management and internal controls.

Alecta's corporate governance

Alecta is a mutual life insurance company that is owned by the employers that have concluded retirement pension agreements with Alecta and by the people insured by Alecta.

Preparing a corporate governance report is not a requirement for Alecta according to the Swedish Insurance Companies Annual Accounts Act. However, Alecta applies the Swedish Corporate Governance Code (the Code) even though it has

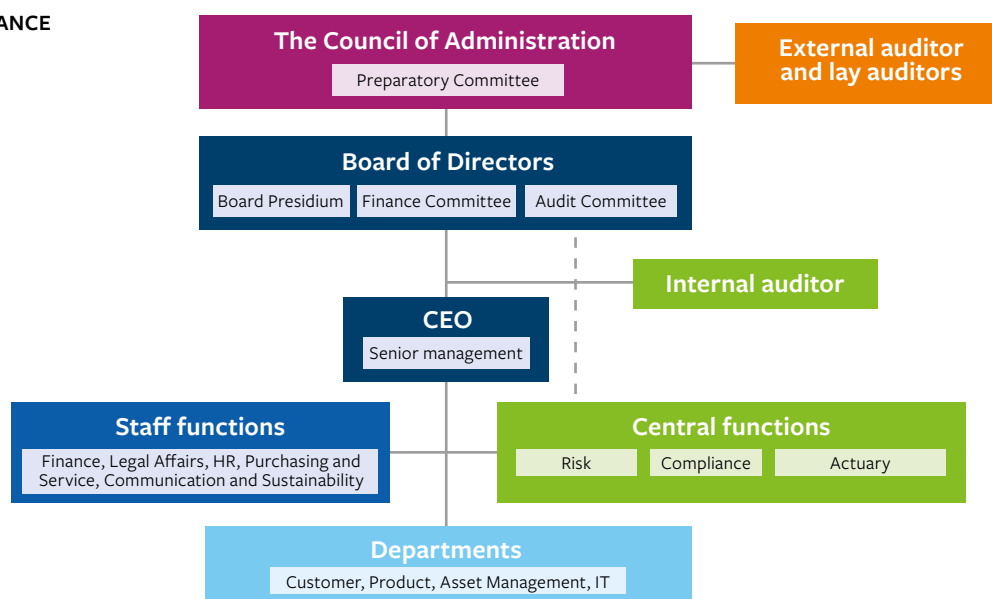
no formal obligation to do so. Rules in the Code which are not adapted to the fact that the company is a mutual insurance company are not applied, however. Another minor deviation from the Code is that the interim report is not reviewed annually by the company's auditor.

Corporate governance involves the decision-making systems and processes through which a company is governed and controlled.

Photo: Alecta



CORPORATE GOVERNANCE MODEL



Council of Administration and Preparatory Committee

The Council of Administration is Alecta's highest decision-making body, corresponding to the General Meeting of Shareholders under the Swedish Insurance Companies Act. The Council's duties include electing the members of the Board of Directors and external 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 income statements and balance sheets for the Parent Company and the 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. Of which

- 19 members and four deputy members are appointed by the Confederation of Swedish Enterprise and
- 19 members and four deputy members are appointed by Unionen, the Association of Managerial and Professional Staff (Ledarna), the Swedish Association of Graduate Engineers (Sveriges Ingenjörer) and the Council for Negotiation and Cooperation (PTK).

To ensure that the interests and views of the retirees are represented, the principle that some of 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 above.

The Council of Administration elects directors and the Chairman of the Board at the annual meeting of the Council of Administration for a period of one year and auditors for a period of one to four years.

Elections of directors, Chairman of the Board, external audi-

tors and lay auditors are prepared by a preparatory committee, appointed by the Council of Administration. The committee works in close cooperation with the organisations that appoint members of the Council of Administration and with the Chairman of the Board. The Preparatory Committee also submits proposals on director fees, including remuneration for committee work and fees for Alecta's auditors and lay auditors.

Since the meeting of the Council of Administration held in April 2019, the Preparatory Committee has the following members: Kenneth Bengtsson, convenor, Peter Hellberg, deputy convenor, Peter Larsson and Ulrik Wehtje.

The convenor and deputy convenor of the Committee are also Chairman and Deputy Chairman, respectively, of the Council of Administration. No special remuneration has been paid to the members for their work on the Preparatory Committee.

External auditor and lay auditors

External auditors are elected by the Council of Administration for a term of one to four years. The duty of the external auditors is to examine Alecta's Annual Report and accounting as well as the management performed by the Board of Directors and Chief Executive Officer.

The current external auditors, Ernst & Young AB, with Authorised Public Accountant Jesper Nilsson as auditor-in-charge, were initially elected at the 2014 annual meeting of the Council of Administration for a term of one year and were subsequently re-elected for one year at a time, most recently at the 2019 annual meeting of the Council of Administration. For each financial year, the external auditors issue an audit report, which is included in Alecta's annual and sustainability report.

During the 2019 financial year, Ernst & Young, in addition to its external audit assignment, performed other assignments for Alecta, such as tax consultations and inquiry assignments. For

more information on fees for the external auditors, refer to Note 49 Disclosures of auditors' fees.

For the purpose of examining that Alecta's operations are managed appropriately and satisfactorily from a financial standpoint, and for ensuring that other aspects of the internal control are appropriate, two lay auditors with two personal deputies are elected at the annual meeting of the Council of Administration until the time of the next annual meeting of the Council of Administration. For each financial year, the lay auditors issue a review report, which is included in Alecta's annual and sustainability report. The 2019 annual meeting of the Council of Administration elected Niklas Hjert (with Kati Almqvist as personal deputy) and Lars Jansson (with Lisbeth Gustafsson as personal deputy) as lay auditors. For information regarding the fees paid to the lay auditors, see Note 48.

The Board of Directors

The Board of Directors is responsible for the organisation and administration of Alecta. The Board decides on Alecta's strategies and long-term targets, and is responsible for ensuring that Alecta has adequate internal control. The Board is thereby responsible for ensuring that the necessary governance documents for Alecta's operations are in place, and takes decisions on matters such as Investment Guidelines, Actuarial Guidelines and Corporate Governance Policy.

Directors and CEO

At the annual meeting of the Council of Administration, the Council of Administration elects at least seven and not more than 14 directors for a term until the close of the next annual meeting of the Council of Administration. The Board of Directors also includes the directors and deputies that have been appointed in accordance with the Board Representation (Private Sector Employees) Act.

The Board appoints Alecta's CEO and the head of the internal audit and defines the framework for their work. The CEO 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 shall also 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. The CEO's general decisions in the day-to-day management of the company are normally prepared by the management team, which, in addition to the CEO, consists of eight of the heads of Alecta's departments and central functions.

Rules of procedure for the Board of Directors

As a feature of governance, Alecta applies both rules of procedure for the Board of Directors and instructions for the CEO,

which are adapted to rules in the Code. As of 1 January 2016, Alecta also complies with the Solvency II regulations on corporate governance.

Alecta's Board of Directors continuously evaluates the CEO's work. A formal evaluation is conducted once a year. Similarly, the work within the Board is also evaluated annually. The results of the Board's evaluations are reported to the Council of Administration's Preparatory Committee.

Alongside the activities of the Board itself, the Board operates through three committees: the Board Presidium, which also functions as a Remuneration Committee, the Finance Committee and the Audit Committee. The duties of the committees are defined in the rules of procedure for the Board.

Board Presidium

The main duties of the Board Presidium are to administer and adopt decisions on those matters which the Board delegates to the Board Presidium, to advise the CEO in the day-to-day management of the company and, prior to the Board meeting, prepare the business that is expected to be presented at the meeting. The Board Presidium also acts as a remuneration committee and convenes at the initiative of the Chairman of the Board. In 2019, the Board Presidium held four meetings, all of which were scheduled.

Finance Committee

The Committee's main task is to adopt detailed guidelines for and to follow up Alecta's day-to-day investment activities, to prepare finance management matters that will be addressed by the Board and to make decisions on certain investment-related matters falling outside the remit of the CEO. In 2019, the Finance Committee held six meetings, four of which were scheduled.

Audit Committee

The Audit Committee's main task is to continuously evaluate and communicate to the Board its view of Alecta's risk exposure and Management's risk management. When it comes to financial risks, this involves ensuring that financial risk reporting functions well. The Audit Committee also supports the Board in monitoring and evaluating the internal and external audits, preparing matters related to the Board's work on assuring the quality of Alecta's financial reporting and overseeing Alecta's financial reporting. In 2019, the Committee held five meetings, all of which were scheduled.

The work of the Board of Directors in 2019

In 2019, the Board of Directors held seven meetings, of which six were scheduled. Once annually, the Board meets up in a Board seminar for a couple of days to discuss matters of strategic importance to Alecta.

The major matters addressed by the Board and its committees during the year included:

- Alecta 2023 – strategy work
- Development of property management
- Refunds and premium pricing
- Implementation of the occupational pensions directive into Swedish law
- Climate scenarios in ORSA reporting
- PRI and monthly individual employer declaration data

Risk management and internal control

At Alecta, the duties of every manager and employee include working for well-balanced internal control and appropriate risk management, although the Board of Directors and the CEO have ultimate responsibility for this. In order to ensure adequate risk management and compliance with laws, regulations and internal governance documents, Alecta's risk management and internal control procedures are based on a model with three lines of defence.

The first line of defence – operational risk management

Alecta's departments and staff functions are responsible for the risks that arise in their respective activities. This responsibility entails identifying, evaluating, controlling and internally reporting risks. The operating units and support functions seek to ensure that clear processes and procedures have been established, which together with the internal governing documents govern Alecta's actions in various respects.

The second and third lines of defence – central functions

In support of the operations, the Board of Directors and the CEO, there are the central functions stipulated in the Swedish Insurance Companies Act, namely the Risk, Compliance and the Actuarial function (second line of defence) and the Internal Audit (third line of defence) which are responsible for independent company-wide monitoring in their respective areas of responsibility. These functions use a risk-based approach and therefore give priority to activities and follow-ups in those areas where Alecta's risks are greatest. Risk management is an integral part of Alecta's governance. To protect its customers and other stakeholders, Alecta applies strict standards for how risks are controlled and managed. More information on risks and risk management is provided in the Administration Report on page 65 and in Note 3 Risks and risk management on page 86.

Risk

The mission of the Risk function is to make it easier for Alecta's Board of Directors, CEO and managers to manage, control and make decisions on risks. At least quarterly, Risk submits a written report to the Board and the CEO.

Risk's mission is to:

- work for increased awareness and better knowledge of risks and to support the operations in their risk management work,
- improve processes, methods and documentation for risk management, and
- check and assess the quality of the business's risk management, make independent assessments and compile these in reports for Senior management and the Board of Directors.

Compliance

The Compliance function's mission involves regulatory compliance risks in the operations subject to licences and other regulations that govern Alecta's operations. At least quarterly, Compliance submits a written report to the Board of Directors and the CEO. The Compliance function's mission is to:

- provide advice to managers, the CEO and the Board in order to avoid shortcomings in regulatory compliance,
- assess the consequences of changes in external and internal regulations,
- identify and assess regulatory compliance risks relating to external and internal regulations, and
- assess whether Alecta's measures to prevent regulatory compliance shortcomings are appropriate.

Actuary

The Senior Actuary is organisationally a part of the Product Department, but has an independent role and reports on his own initiative to the CEO and the Board of Directors. The Senior Actuary within Alecta is responsible for the tasks that, according to the Swedish Insurance Companies Act and regulations, fall upon the Actuarial Function. These tasks include:

- coordinating and assuring the quality of Alecta's actuarial calculations and inquiries,
- assisting the Board and the CEO and, on his own initiative, submitting reports to them on matters relating to actuarial methods, calculations and assessments, and
- submitting the annual actuarial report.

Internal Audit

The internal audit is an independent examination function. The internal audit works on behalf of the Board and its duties are:

- to evaluate the internal control system,
- to evaluate other parts of the corporate governance system, and
- to report results and, following the evaluations, present recommendations to the Board of Directors.

Governance documents and monitoring

Everyone who works at Alecta has a responsibility to help ensure good internal control and is required to follow Alecta's

governance documents. The governance documents are adopted by the CEO or the Board of Directors and are revised when required or at least annually. All employees have an independent responsibility to keep themselves informed of those governance documents which affect them through Alecta's intranet. The managers also have a responsibility to inform their employees of changes in the governance documents. As part of their mandatory introduction programme, new employees receive information about Alecta's ethical rules. Regular monitoring and reporting of outcomes are essential to effective governance, ensuring that governance processes are adapted to new requirements or criteria. The managers are responsible for ensuring appropriate monitoring and that controls are in place in their respective areas of responsibility.

Business follow-up

The Controller function continuously monitors operational performance regarding planned activities as well as cost outcomes and target achievement in relation to business and operational plans. On a quarterly basis, the Controller also prepares an internal report for the Board of Directors and Senior management.

Internal control over financial reporting

The Board assures the quality of the financial reporting through, inter alia, the work of the Audit Committee. In this context, the committee addresses, where necessary, the critical accounting matters and reviews the financial reporting that Alecta intends to submit.

When compiling data for financial reporting, Alecta's Finance Department conducts checks to ensure the quality of the data provided and that the financial reporting complies with laws and other regulations. In addition, the Controllers analyse the financial results and position on a quarterly basis, the results of which are reported to Senior management and the Board.

The external auditors attended three of the Audit Committee's meetings in 2019, whereby various matters related to the audit were subject to discussion between the auditors and members of the committee. During the year, the Audit Committee also examined and evaluated the work of the external auditors.

The entire Board takes part of interim reports before they are published and takes part and approves the annual and sustainability report before it is published.

The external auditors have submitted written reports to the Board of Directors concerning the year's examination, which are an audit plan, a status report and the year-end report. They have also participated in a Board meeting to orally present a report on the 2019 audit and on the evaluation of the work of Senior management.

Guidelines for remuneration of Senior management

In March 2019, the Board adopted guidelines for remuneration and other employment conditions of Alecta's Senior management, and the Council of Administration adopted the below guidelines at its meeting on 11 April 2019:

Remuneration of the CEO and other senior executives in Senior management consists of a basic salary, pension provisions and other benefits. Other senior executives are defined as the currently eight individuals who together with the CEO comprise Senior management.

Salary

Salary is set taking into account competencies, spheres of responsibility, authorities and performance, and is to be based on market-aligned conditions and principles. Variable remuneration is not payable, either to the CEO or to any other senior executives in Senior management.

Provision for pensions

All members of Senior management are covered by the FTP plan. The normal retirement age is 65. For the CEO, a provision of 35 per cent of salary is set aside for pensions, including contributions to the FTP plan.

Severance pay and other benefits

The CEO and other Senior executives are subject to a period of notice from Alecta of six months in combination with severance pay corresponding to 12 monthly salaries, which is fully deductible against income from new employment. According to an agreement that was reached before these period of notice conditions started to apply, one senior executive is subject to a period of notice of 18 months, with full deductibility of benefits received in any new employment during a corresponding period.

All members of Senior management are entitled to a company car, and sickness compensation corresponding to 90 per cent of cash gross salary during the first 12 months of any illness. Otherwise the same benefits as for other employees apply, such as health insurance and a fitness allowance.

Process and decision-making

Matters relating to salary and other terms of employment of the CEO and other senior executives, and to Alecta's variable remuneration programme, are prepared by the Board of Directors' Presidium, in its capacity as the Remuneration Committee, for adoption by the Board.

For information on remuneration and incentive programmes for 2019, refer to Note 48 on page 116.

Council of Administration and auditors

Members and Deputy Members

The Council of Administration's 19 members and four deputy members elected by the Confederation of Swedish Enterprise for the period 2019–2021, unless otherwise indicated.

Members

Björn Alvensgrip, Mölle
 Kenneth Bengtsson, Stockholm, Chairman ¹⁾
 Mattias Dahl, Stockholm
 Marcus Dahlsten, Stockholm
 Eva Dunér, Gothenburg
 Catharina Elmsäter-Svärd, Enhörna
 Inga-Kari Fryklund, Stockholm
 Nils Åke Hallström, Näliden
 Per Hidesten, Stockholm
 Karin Johansson, Stockholm
 Ulf Larsson, Sundsvall
 Staffan Lindquist, Helsingborg
 Martin Lindqvist, Stockholm
 Jan Moström, Luleå
 Ola Månsson, Stockholm ²⁾
 Thord Sandahl, Värnamo
 Henrik van Rijswijk, Stockholm
 Ulrik Wehtje, Malmö ¹⁾
 Klas Wählberg, Västerås ²⁾

Deputy Members

Antje Dederig, Bromma
 Hans Gidhagen, Upplands Väsby
 Jonas Hagelqvist, Stockholm
 Charlott Richardson, Sollentuna

¹⁾ Member of the Preparatory Committee

²⁾ Deputy member of the Preparatory Committee

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 2019–2021.

Members

Elisabeth Arbin (Sveriges Ingenjörer), Uppsala
 Camilla Brown (PTK), Täby
 Stefan Carlsson (Unionen), Norrköping
 Björn Ekblom (Unionen), Svanesund
 Thomas Eriksson (Ledarna), Örebro
 Peter Hellberg (Unionen), Bandhagen, Vice Chairman ¹⁾
 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 (Sveriges Ingenjörer), Enskede ¹⁾
 Hans Lindau (Unionen), Sandared
 Andreas Miller (Ledarna), Uppsala ²⁾
 Leif Nicklagård (Unionen), Sundbyberg
 Kristina Rådkvist (PTK), Enköping
 Therese Svanström (Unionen), Stockholm
 Therese Sysimetsä (Unionen), Stockholm
 Marina Åman (Unionen), Strängnäs ²⁾

Deputy Members

Nils-Harald Forssell (Unionen), Olofstorp, also a representative of Alecta's retirees
 Mikael Hansson (Unionen), Billdal
 Stefan Jansson (Sveriges Ingenjörer), Stockholm
 Sara Kullgren (Ledarna), Stockholm

Auditors

Elected auditors

Ernst & Young AB,
 Lead Audit Engagement Partner
 Jesper Nilsson

Lay Auditors

Elected auditors

Niklas Hjert, Unionen
 Lars Jansson, Confederation of Swedish Enterprise

Deputy Members

Kati Almqvist, Ledarna
 Lisbeth Gustafsson, Confederation of Swedish Enterprise

Board of Directors



Ingrid Bonde

Position: Chairman
 Born: 1959
 Elected: 2019
 Committee: Finance Committee (Chairman), Board Presidium (Chairman)
 Other board assignments: Apoteket AB (Chairman), Hoist Finance AB (Chairman), Swedish Climate Policy Council (Chairman), Securitas AB, Loomis AB, Royal Swedish Academy of Engineering Sciences, Board of Trustees of the Centre for Business and Policy Studies (SNS) and Swedish Corporate Governance Board.
 Other assignments: –
 Other: –
 Attendance Board Meetings: 6/7 ¹⁾
 Committee attendance: 8/10 ¹⁾



Jan-Olof Jacke

Position: First Vice Chairman
 Born: 1965
 Elected: 2019
 Committee: Board Presidium
 Other board assignments: The Swedish Exhibition & Congress Centre Foundation (Vice Chairman), the Research Institute of Industrial Economics, ICC Sweden and the Royal Swedish Academy of Engineering Sciences.
 Other assignments: –
 Other: Confederation of Swedish Enterprise (Deputy CEO, member of the Board of Directors and member of the Executive Board).
 Attendance Board Meetings: 5/7 ¹⁾
 Committee attendance: 3/4 ¹⁾



Martin Linder

Position: Second Vice Chairman
 Born: 1973
 Elected: 2016
 Committee: Board Presidium
 Other board assignments: PTK (Chairman) and TCO
 Other assignments: –
 Other: Unionen (President)
 Attendance Board Meetings: 7/7
 Committee attendance: 4/10 ^{1) 2)}



Hanna Bisell

Position: Member
 Born: 1969
 Elected: 2016
 Committee: Audit Committee (Chairman)
 Other board assignments: Medlemsförsäkring (Chairman)
 Other assignments: –
 Other: –
 Attendance Board Meetings: 7/7
 Committee attendance: 5/5



Richard Malmberg

Position: Member
 Born: 1961
 Elected: 2003
 Committee: Audit Committee
 Other board assignments: PTK (Vice Chairman), SACO (First Vice Chairman) and Akademikertjänst AB (Chairman).
 Other assignments: –
 Other: Sveriges Ingenjörer (Director of Association)
 Attendance Board Meetings: 5/7
 Committee attendance: 2/5



Birgitta Pernkrans

Position: Employee representative FTF
 Born: 1969
 Elected: 2015
 Committee: –
 Other board assignments: –
 Other assignments: –
 Other: –
 Attendance Board Meetings: 7/7
 Committee attendance: –



Mikael Persson

Position: Employee representative SACO
 Born: 1962
 Elected: 2008
 Committee: –
 Other board assignments: –
 Other assignments: –
 Other: –
 Attendance Board Meetings: 7/7
 Committee attendance: –



Kaj Thorén

Position: Member
 Born: 1944
 Elected: 2005
 Committee: Finance Committee
 Other board assignments: –
 Other assignments: –
 Other: –
 Attendance Board Meetings: 7/7
 Committee attendance: 5/6

¹⁾ Member of Board and Committee from 11 April

²⁾ Member of Finance Committee until 11 April

³⁾ Member of Board Presidium until 11 April

All board members, apart from employee representatives, are independent in relation to Alecta and Senior management.

Since Alecta has no shareholders, the Code's regulations about independent directors in relation to major shareholders are not applicable.

**Cecilia Fahlberg Pihlgren**

Position: Member
 Born: 1960
 Elected: 2007
 Committee: Finance Committee
 Other board assignments: –
 Other assignments: –
 Attendance Board Meetings: 5/7
 Committee attendance: 6/10 ^{1) 3)}

**Markus Granlund**

Position: Member
 Born: 1975
 Elected: 2019
 Committee: Audit Committee
 Other board assignments: Swedish Exhibition & Congress Centre Group and Board assignments in several of Semcon's foreign subsidiaries.
 Other assignments: –
 Other: CEO Semcon AB
 Attendance Board Meetings: 5/7 ¹⁾
 Committee attendance: 3/5 ¹⁾

**Petra Hedengran**

Position: Member
 Born: 1964
 Elected: 2017
 Committee: Finance Committee
 Other board assignments: Electrolux AB
 Other assignments: Association for good practice in the securities market and the Swedish Association of Listed Companies (Vice Chairman).
 Other: Investor AB (General Counsel and Head of Corporate Governance and Compliance and the EQT business area).
 Attendance Board Meetings: 6/7
 Committee attendance: 6/6

**Helena Hedlund**

Position: Member
 Born: 1963
 Elected: 2019
 Committee: Audit Committee
 Other board assignments: Trygghetsrådet TRR
 Other assignments: –
 Other: Chief negotiator, Ledarna
 Attendance Board Meetings: 6/7 ¹⁾
 Committee attendance: 3/5 ¹⁾

**Anders Weihe**

Position: Member
 Born: 1961
 Elected: 2017
 Committee: Audit Committee
 Other board assignments: –
 Other assignments: –
 Other: Senior advisor to CEO Association of Swedish Engineering Industries
 Attendance Board Meetings: 4/7
 Committee attendance: 5/5

**Magnus von Koch**

Position: Member
 Born: 1962
 Elected: 2010
 Committee: Finance Committee
 Other board assignments: Klara Norra Fastigheter AB (Chairman)
 Other assignments: –
 Other: Unionen (investment manager)
 Attendance Board Meetings: 7/7
 Committee attendance: 6/6

Senior management



Magnus Billing

Position: CEO
Born: 1968
Employed since: 2016
Education: LL.M.
Previous experience: CEO of Nasdaq Stockholm and CEO of Nasdaq Nordics.
Board assignments: Insurance Sweden, Employers' Organisation for the Swedish Insurance Industry and Stockholm Sustainable Finance Centre (Chairman)
Other board assignments: Board of Trustees of the Centre for Business and Policy Studies (SNS)



Hans Sterte

Position: Deputy CEO, Head of Investment Management
Born: 1961
Employed since: 2018
Education: M.Sc. in Business Administration and Economics, Stockholm University
Previous experience: Most recently Head of Investment Management at Skandia. Previously, Director of Finance at Länsförsäkringar AB.
Other board assignments: Brandkontoret



Katarina Thorslund

Position: Deputy CEO, Head of Customer Relations
Born: 1962
Employed since: 2003
Education: B.Sc. in Mathematics
Previous experience: Chief Financial Officer and Chief Actuary at Alecta. Previously Chief Actuary at Folksam Grupp-försäkring.



Charlotte Rydin

Position: General Counsel
Born: 1968
Employed since: 2019
Education: LL.M.
Previous experience: General Counsel at the Swedish Financial Supervisory Authority, General Counsel and Chief of Staff at the National Debt Office, Swedbank, Brummer & Partners.



Maria Wahl Burvall

Position: Head of HR
Born: 1964
Employed since: 2014
Education: M.Sc. in Business and Economics, majoring in Economics and Statistics
Previous experience: Economist, HR specialist and Head of HR at the Riksbank.



Camilla Wirth

Position: Chief Financial Officer
Born: 1970
Employed since: 2017
Education: M.Sc. in Business and Economics
Previous experience: CFO Nordax Bank AB (publ), CFO Aberdeen Property Investors IIM AB, Auditor and Consultant at KPMG Financial Services.

**Martin Hedensiö**

Position: Head of Communication and Sustainability

Born: 1964

Employed since: 2016

Education: M.Sc. in Accounting and Auditing

Previous experience: Director of Communications at Svenska Spel, Vice President Corporate Communications Europe, Middle East & Africa at Nasdaq, Executive Partner, Head of Corporate and Financial Communications at Hallvarsson & Halvarsson, Deputy CEO of Springtime, Investor Relations Director at Electrolux.

**Ulf Larsson**

Position: Head of IT

Born: 1968

Employed since: 1998

Education: Bachelor of Arts in Business Administration

Previous experience: Head of IT Architecture and Group Head of Infrastructure at Alecta. Previously, consultant at WM-data.

**Fredrik Palm**

Position: Head of Products

Born: 1976

Employed since: 2013

Education: M.Sc. in Mathematical Statistics

Previous experience: Chief Actuary Alecta. Self-employed actuarial consultant. Consultant and partner of consulting firm.

Administration Report

The Board of Directors and Chief Executive Officer of Alecta pensions-försäkring, ömsesidigt hereby present their Annual and sustainability report for 2019, the company's one hundred and third 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 2019, the activities of the Group were conducted in-house with the exception of some parts of Alecta's asset 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 premiums are paid by the employer.

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 the 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 provided 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 in the other big collective bargaining areas: private-sector employees covered by the collective occupational pension plan 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, and local authority and county council employees covered by the KAP-KL/AKAP-KL plans. We are also the default option and a selectable option in the collective bargaining area for the insurance industry, FTP.

Alecta also offers occupational group life insurance (TGL).

Employees

In 2019, the average number of employees in the Alecta Group was 366 (367), or 356 on a full-time equivalent basis (356).

At year-end 2019, the total number of employees in the Group was 370 (365), of whom 343 worked in the Parent Company (340). The share of female employees was 60 per cent (59) and the average age of employees was 48 years (48).

Information on the average number of employees, salaries and benefits is provided in Note 48 on pages 116–120. 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 reported a net profit for the year of SEK 93.3 billion (net loss: -26.8). Comments on Alecta's result and financial position are presented in the following.

Premiums written

Premiums written in 2019 totalled SEK 52.8 billion (48.2), see Note 4 on page 88. Premiums written can be divided into invoiced premiums and guaranteed refunds.

Invoiced premiums were SEK 41.1 billion (37.7). The increase in invoiced premiums compared with the preceding year was chiefly due to a growing volume for Alecta's defined contribution product, Alecta Optimal Pension.

Guaranteed refunds amounted to SEK 11.7 billion (10.5) and comprised premium reductions on employers' premiums for disability and premium waiver insurance, family cover and TGL, and an increase in earned pension entitlements (adjustment of paid-up values). The increase in guaranteed refunds is largely due to the upward adjustment of paid-up values by 2.32 per cent that was implemented in January and which was based on the change in the consumer price index between September 2017 and September 2018.

Return on capital

Financial markets

In 2019, global stock markets staged a remarkable comeback from the previous year and climbed to new record highs. The positive stock-market trend is largely due to the central banks' reversal of monetary policy in order to prevent a global recession. At the end of 2018, the US Federal Reserve planned several interest rate hikes in 2019, but changed its policy and at mid-year signalled that interest rates would be lowered instead, and three cuts followed during the autumn. The ECB contributed to the expansionary monetary policy with a continued bond-buy-

ing programme and signalled that interest rates were expected to remain low for the foreseeable future.

Concerns over weak global economic growth, an escalation of US/China trade tensions and faltering Brexit negotiations led interest rates to further decline from low levels during the first half of the year. However, stock markets looked past the financial and political uncertainties and found optimism in the decreased risk of recession that led the stock markets to sharply rise in the two first quarters. During the third quarter, stock markets were impacted by a lower risk appetite when geopolitical conflicts and effects of the protracted trade war were reflected in economic data. European and US interest rates continued to fall and towards the end of summer, the interest rates hit record-low levels.

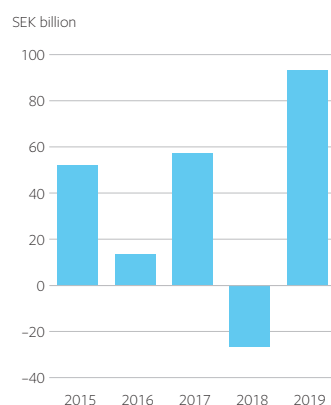
During the fourth quarter, economic statistics from both the US and Europe indicated some macroeconomic stabilisation. Fears of a recession were replaced by hopes for economic recovery. Macroeconomic statistics came in stronger than market expectations and led to rising interest rates during the autumn.

Progress in the US/China trade talks towards a 'phase one' deal were also interpreted positively, as was the decisive outcome of the UK's general election in December which removed the uncertainty surrounding the Brexit process. The UK is now unambiguously on its path towards leaving the EU. Altogether this again led to rising stock markets in the fourth quarter.

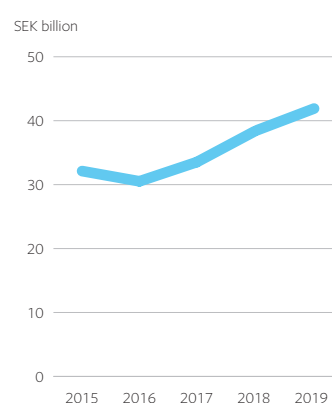
The Swedish krona has during the year continued to weaken against the major currencies. However in the final quarter, the Riksbank's increasingly clear intention to bring interest rates out of negative territory led the Swedish krona to stabilize and strengthen against both the Euro and the US dollar.

The stock markets posted their best year since 2009. Measured in local currencies, the return on MSCI Sweden was: 29.7 per cent, MSCI USA: 32.6 per cent, MSCI Europe: 27.9 per cent and MSCI Emerging Markets: 19.0 per cent.

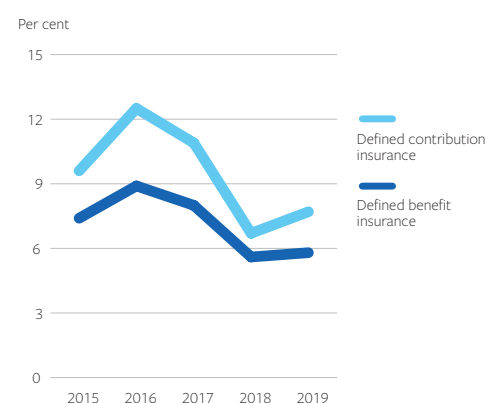
NET PROFIT/LOSS FOR THE YEAR



INVOICED PREMIUMS



TOTAL RETURN, FIVE-YEAR AVERAGE



Return

The total return on Alecta's investments in 2019 was 14.8 per cent (-2.2). The high return was largely attributable to the upturn in the stock market, but also real estate made a positive contribution. Generally lower interest rates also helped to achieve positive returns on the interest-bearing assets. Alecta's average annual return over the past five years is 6.0 per cent (5.6).

The return on shares for the year was 32.8 per cent (-6.9), while the return on debt securities was 2.6 per cent (0.3) and 7.6 per cent (6.6) on alternative investments. At year-end, real estate accounted for 98 per cent of the alternative investments.

The return on Alecta's defined contribution savings product, Alecta Optimal Pension, was 20.3 per cent (-3.5), which was 2.7

percentage points lower than Morningstar's benchmark index for balanced funds during the same period. Over the past five years, Alecta Optimal Pension has generated an average annual return of 7.7 per cent (6.7).

The return on Alecta's defined benefit insurance product was 14.1 per cent (-2.0). The average annual return over the past five years is 5.8 per cent (5.6). In the income statement, return on capital for the Group, including unrealised value changes, was SEK 125.0 billion (-18.0).

At year-end 2019, the market value of Alecta's total investment assets amounted to SEK 962.7 billion (823.9). Of this, the Alecta Optimal Pension's default portfolio accounted for SEK 131.1 billion (96.5).

Total return table for investments, total	Market value 31 Dec 2019		Market value 31 Dec 2018		Total return, per cent	
	SEK million	%	SEK million	%	2019	Average 2015–2019
Shares	410,861	42.7	322,577	39.2	32.8	10.2
Debt securities	451,424	46.9	419,781	50.9	2.6	1.6
Alternative investments ¹⁾	100,392	10.4	81,574	9.9	7.6	10.7
Total investments	962,678	100.0	823,932	100.0	14.8	6.0

¹⁾ Alternative investments include real estate.

Total returns for each year and asset class for the period 2015–2019, which are included in the average total return, are presented in the five-year summary on page 67.

The total return table has been prepared in accordance with the recommendations of 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 47.

Total return table for investments, defined contribution insurance (Alecta Optimal Pension)	Market value 31 Dec 2019		Market value 31 Dec 2018		Total return, per cent	
	SEK million	%	SEK million	%	2019	Average 2015–2019
Shares	79,278	60.5	54,518	56.6	32.8	10.2
Debt securities	37,976	29.0	32,130	33.4	2.6	1.7
Alternative investments ¹⁾	13,812	10.5	9,654	10.0	7.6	10.7
Total investments	131,066	100.0	96,302	100.0	20.3	7.7

¹⁾ Alternative investments include real estate.

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 asset classes, is SEK 140.5 billion (103.0).

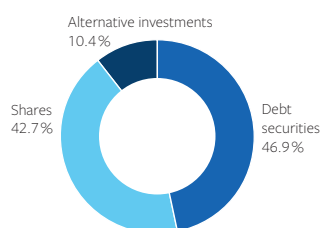
Total return table for investments, defined benefit insurance	Market value 31 Dec 2019		Market value 31 Dec 2018		Total return, per cent	
	SEK million	%	SEK million	%	2019	Average 2015–2019
Shares	327,492	39.8	265,337	36.8	32.8	10.2
Debt securities	409,112	49.8	384,353	53.3	2.6	1.6
Alternative investments ¹⁾	85,587	10.4	71,250	9.9	7.6	10.7
Total investments	822,191	100.0	720,939	100.0	14.1	5.8

¹⁾ Alternative investments include real estate.

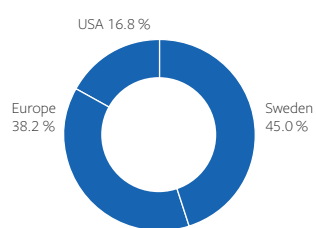
The total return tables refer to the Group. Due to rounding, the sum of the figures shown in the tables above may differ from the totals.

Alecta's portfolio composition, 31 December 2019

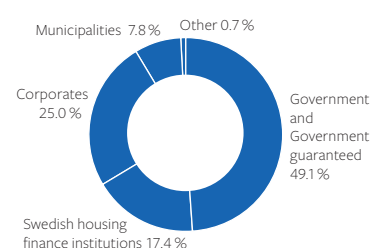
TOTAL INVESTMENT PORTFOLIO



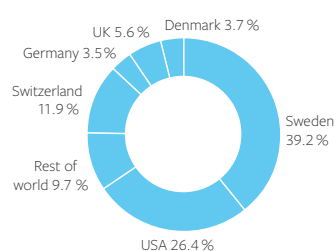
DEBT SECURITIES, geographic distribution



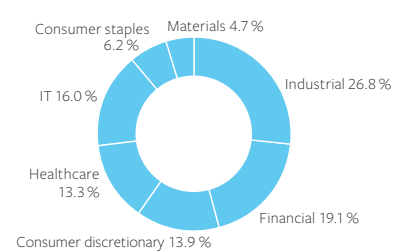
DEBT SECURITIES, type of issuer



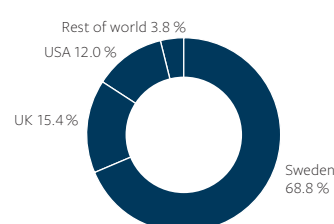
SHARES, geographic distribution



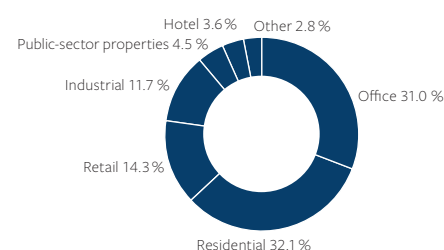
SHARES, sector



ALTERNATIVE INVESTMENTS, geographic distribution



ALTERNATIVE INVESTMENTS, category*



* The distribution of category pertains to Alecta's real estate holdings

Alecta's five largest shareholdings, 31 December 2019

Stock	Sector	Market value, SEK million
Investor AB (publ)	Financial	23,007
Atlas Copco AB (publ)	Industrial	18,572
Microsoft Corp	IT	17,203
Roche Holding AG	Healthcare	15,438
Sandvik AB (publ)	Industrial	15,014

Market value according to total return table and refers to listed shareholdings. A complete list of Alecta's holdings in shares, participations and real estate has been published on alecta.se.

Changes in the portfolio

At year-end, the proportion of shares of the portfolio was 42.7 per cent (39.2). The change is due to price increases in the stock market. The country allocation remained largely unchanged compared with the previous year.

At year-end, the real estate portion of the portfolio was 10.4 per cent (9.9). The increase was partly driven by the higher market value of the real estate, but mainly by net investments of SEK 11.5 billion in real estate. The composition of the portfolio is presented on page 59.

Claims incurred

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

In 2019, insurance claims paid, which mainly comprise benefits incurred in retirement pensions, disability and life insurance, increased to SEK 21,8 billion (21,0). 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 claims paid and in 2019 totalled SEK 143 million (140). See also Note 8 on page 89.

The change in the provision for claims outstanding was SEK -3.6 billion (-0.2).

Technical provisions

Technical provisions comprise the net present value of Alecta's guaranteed obligations for insurance contracts in force and are divided into provisions for life insurance and provisions for claims outstanding. Technical provisions were SEK 570.6 billion at 31 December 2019. This is an increase of SEK 57.5 billion (34.3) for 2019, which was due to the following reasons:

- Premiums and payment resulted in an increase in technical provisions of SEK 31.2 billion (27.3), of which SEK 7.2 billion (6.3) refers to guaranteed refunds in the form of earned pension entitlements.
- Due to the difference between underlying premiums and assumptions in the calculation of technical provisions, the provisions declined with SEK 14.7 billion (16.9) for savings insurance.
- Due to the disability and waiver of premium insurance results, the provisions declined by SEK 6.8 billion (2.5), of which morbidity assumptions reduced the provisions by SEK 3.8 billion.
- Due to new reduction factors, which are applied when an insured chooses temporary payment of a lifelong defined benefit retirement pension, technical provisions declined SEK 1.5 billion.

- Due to lower market rates in 2019, the yield curve used in the measurement declined, which increased provisions by SEK 28.5 billion (8.4). The average cash flow-weighted rate declined from 2.15 to 1.81 per cent in 2019.
- Cumulative return, after deduction for released tax and operating expenses, increased the technical provisions by SEK 13.7 billion (13.6).
- New mortality assumptions increased technical provisions by SEK 6.7 billion.
- Other changes and results led to an overall increase of SEK 0.4 billion in technical provisions.

For further information, see Notes 36 and 37 on pages 112 and 113.

Operating expenses

Operating expenses for the insurance business, which are termed operating expenses in the income statement, increased by SEK 16 million compared with the preceding year and amounted to SEK 591 million (575). The increase was mainly due to higher IT costs incurred by the work that has begun to exploit the technology for creating efficiencies and customer value, as well as higher costs for the agency agreement with Collectum.

Management expense ratio

The management expense ratio of 0.08 remained unchanged compared with full-year 2018. The ratio for pension products excluding selection centre costs also remained unchanged at 0.05.

Tax expense

In 2019, the yield tax, net of foreign tax credits, was SEK 292 million (318). Yield tax is payable on Alecta's pension products and on family cover.

The income tax expense, which comprises current and deferred tax, was SEK 4,345 million (721). The deferred tax expense is net of income and expenses. The expense includes a deferred tax expense of SEK 2,449 million attributable to a reduction of the deferred tax asset associated with future deductions of foreign tax due to the fact that foreign tax is not in its entirety expected to be used for deductions within the period permitted by law. In addition to Swedish income tax, the item also includes coupon tax and foreign income tax. 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 pages 68–69.

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 (2005–2019), Alecta has distributed SEK 106 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, which is why the collective funding ratio is normally always 100 per cent. Any surplus is distributed in connection with the payment 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 2019, the Board approved an upward adjustment of defined benefit pensions by 2.32 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 2017 and September 2018. The Board of Directors also approved

a premium reduction for the defined benefit age and family pension of 10 per cent in relation to the applicable premium for current premiums for 2019, and to retain premium reductions of 65 per cent for disability and premium waiver insurance, 75 per cent for family cover and SEK 9 per insured and month for TGL.

Collective funding and solvency

The defined contribution insurance products had a collective funding ratio of 100 per cent (100), which is the normal level when surpluses or deficits are allocated to the insureds on a monthly basis.

Alecta's funding policy for its defined benefit insurance products states to maintain a collective funding ratio of 125 to 175 per cent under normal conditions, and to apply the following limits for the allocation of refunds:

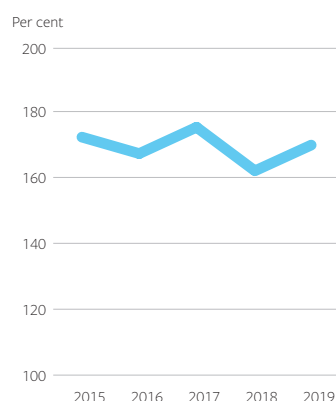
- 125 per cent – lowest limit for indexation of pensions (pension supplement)
- 135 per cent – lowest limit for increase in vested pension (adjustment of paid-up values)
- 150 per cent – lowest limit for premium reduction
- 175 per cent – lowest limit for other refunds to policy holders

At year-end 2019, the collective funding ratio for the Group's defined benefit insurance products was 148 per cent (142).

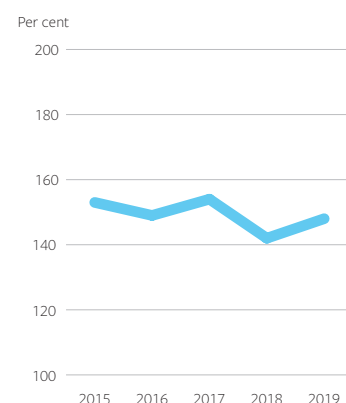
The collective funding capital was SEK 263.3 billion (210.6).

Alecta's solvency ratio at year-end 2019 was 169 per cent (161).

SOLVENCY RATIO



COLLECTIVE FUNDING RATIO, defined benefit insurance



MANAGEMENT EXPENSE RATIO for pension products, excluding selection centre costs



DEVELOPMENT IN 2019	SOLVENCY RATIO	COLLECTIVE FUNDING RATIO, defined benefit insurance
Opening balance	161.4 %	141.7 %
Return	22.8 %	19.2 %
Cumulative return, TP	-4.4 %	-3.7 %
Changed discount rate	-8.5 %	-7.0 %
Premiums	-0.2 %	-0.2 %
Guaranteed pension paid	2.4 %	1.7 %
Pension supplement paid	-0.5 %	-0.7 %
Adjustment of paid-up values	-2.2 %	-1.1 %
Premium reductions	-1.3 %	-1.2 %
Changed TP assumptions	-1.8 %	-1.6 %
Disability result	1.9 %	1.6 %
Other	-0.7 %	-0.8 %
Closing balance	168.9 %	147.9 %

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 2019 of SEK 92,469,545,106 be transferred to the surplus fund.

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 on page 61.

Significant events

Alecta is investing SEK 6.2 billion in Heimstaden Bostad AB

Heimstaden Bostad has decided to expand its core market of the Nordic region to also include most of Europe. As part of this strategy, the company will strengthen its capital base by a total of SEK 9.5 billion with an investment from its principal owners, Heimstaden AB and Alecta. Of this amount, SEK 6.2 billion will come from Alecta.

Decision on refunds and premiums for 2020

Alecta's Board of Directors has decided to increase defined benefit pensions by 1.45 per cent in January 2020, matching the inflation rate over the past year. The decision covers pensions in payment as well as earned pension entitlements. The Board of Directors has also decided to retain premium reductions of 65 per cent for disability and premium waiver insurance, and reduce premium reductions for family cover from 75 per cent to 50 per cent. For TGL, premium reductions will be raised from SEK 9 to SEK 11 per insured and month.

Raised premiums upon redemption

In autumn 2019, Alecta's Board of Directors decided to raise employers' single premiums upon the redemption of defined benefit retirement pensions. This measure is a result of the sharp fall in market rates during 2019. Current premiums are not affected by the decision. The decision means that the premium rate for single premiums will decrease from 0.85 per cent to 0.25 per cent. For an average PRI redemption, the measure will raise the premium by about 13 per cent.

New Chairman of the Board

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

Organisational changes

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

New act opens up for a conversion to a mutual occupational pension company

On 15 December 2019, a new act (2019:742) on occupational pension companies became effective, whereby the European Union's Second Occupational Pensions Directive (IORP II) was implemented in Sweden.

Alecta finds it positive that Sweden has taken advantage of the possibility enabled by the IORP II Directive, to create a separate Swedish business regulation tailored for occupational pension business, which is the kind of business that Alecta is carrying out. Alecta has also worked actively for several years to promote the introduction of the Occupational Pension Companies Act. This work was based on the assumption that a legislation tailored to the provision of occupational pensions ought to be considerably more appropriate for Alecta's customers than a legislation designed to regulate all conceivable types of insurance products.

Among other things, the new Occupational Pension Companies Act provides an opportunity for insurance companies such as Alecta, which only provides occupational pensions, to

convert from an insurance company to an occupational pension company.

A conversion decision will be made by Alecta's Council of Administration and requires at least a two-thirds majority vote on the meeting of the Council of Administration.

The Occupational Pension Companies Act also stipulates that the conversion to an occupational pension company must not impair the rights of policy holders, the insureds or other individuals who are eligible for benefits. An application to convert to an occupational pension company is reviewed and approved by the Swedish Financial Supervisory Authority.

Should Alecta not convert to an occupational pension company, the company's operations must, by 31 December 2022, be fully adapted to the Insurance Business Act introduced in 2016, which is based on the European Union's second Insurance Directive, the so called Solvency II Directive.

Critical to the decision regarding whether or not Alecta should convert to an occupational pension company is the determination of which regulation, the Occupational Pension Companies Act or the Swedish Insurance Business Act, is considered best for Alecta's customers.

Alecta has analysed the new Occupational Pension Companies Act, and its associated regulations from the Swedish Financial Supervisory Authority, and compared it with corresponding regulations for insurance companies. Alecta's conclusion is that the new regulations, in critical parts, provide better conditions for the provision of occupational pensions than those provided by the Insurance Business Act. This applies particularly to the rules for risk-adjusted capital requirement, which provide a high level of consumer protection while also providing better opportunities to generate a high risk-adjusted return on the pension capital and thereby also higher pensions.

In light of the above, it is likely that Alecta's Council of Administration, in 2020, or at least before the end of 2022, will be asked to consider a proposal that Alecta should apply for conversion from a mutual insurance company to a mutual occupational pension company.

Significant events after the balance sheet date

The beginning of 2020 has largely been characterised by concern about the coronavirus outbreak in China and its impact. At the end of February, it became apparent that the breakout of the virus had become widespread in Italy, which radically changed the situation and led to a sharp fall on stock exchanges worldwide and large declines in interest rates.

Market developments since the outbreak have, taken together, resulted in a decrease in value of Alecta's total investments since 1 January, which amounted to SEK 947 billion at the end

of February. Total return for the first two months of the year was -1.9 per cent. Alecta's financial position was adversely impacted during the first two months but remains at a healthy level. The risk margin in the stress test decreased during the period from SEK 230 billion to SEK 190 billion.

At present, there is insufficient data available to quantify any effects of the coronavirus for Alecta's insurance commitments, but because the dominant insurance risk in Alecta is the risk that insureds live longer than expected, we assess the risk for weaker key performance indicators as a result of insurance risk as minor.

Outlook

Financial markets

2019 was a record year for stock markets all over the world. Not since the years immediately after the financial crisis has a year been so strong. This was despite the fact that 2019 was characterised by economic turmoil and central banks signalling tough times ahead. The performance of stock markets is not guided by what is happening now or in the coming quarters, but by what the world will look like in the coming years. The view is that the world is not entering a new recession and that the high gains will therefore continue. Since the return on alternative investments, such as bonds, is also weak, the price of shares is considered relatively attractive even after a strong market year.

During the year, long-term interest rates fell equally as steadily as stock markets rose. Despite historically low interest rates at the start of 2019, Swedish long-term rates, for example, fell by a full 0.8 percentage points in August to the lowest level historically of -0.4 per cent. A strong contributing factor was that expectations of further stimulus from central banks rose. Fixed-income markets have become accustomed to rapid new initiatives from central banks as soon as the economy starts to slow. Interest rates remain very low but since capacity utilisation in the global economy has gradually increased in recent years and inflation has returned to normal levels in most countries, we see few reasons why interest rates should continue to fall in the coming years. In light of the increasingly expansionary fiscal policy, it is more likely that public borrowing will increase, which should create some upward pressure on interest rates moving forward. What we have experienced over the past 10 years, with increasingly expansionary and innovative central banks, also seems to be coming to an end. In the coming years, stimulus will probably be withdrawn and central banks will once again allow free setting of interest rates. In the current situation, all interest rates are set administratively by the central banks. Since interest rates affect all other investment analyses, the pricing of all assets, including risk assets, is now more or less manipulated via monetary policy.

In general, the currency market remained relatively stable in 2019. Despite a record-strong Swedish economy and world-class fiscal position, the continued weakening of the SEK stands out. There is only one explanation – the Riksbank's one-sided focus on a mechanical attempt to achieve an arbitrarily set inflation target of 2 per cent. Given the Riksbank's extreme interest-rate policy with negative benchmark rates, the SEK has become a favourable currency to borrow for investments in other higher yielding currencies. One way to illustrate the weak performance of the SEK is that in 2019, the SEK fell 10 per cent against the GBP, despite the complex and unclear situation in the UK. However, the Riksbank seems to have finally realised that its policies have obviously negative consequences for Sweden and has resumed a return to a more moderate policy, albeit at a slow pace.

Alecta's strategy for meeting these ever-present challenges in the financial market is to maintain very high safety margins in its use of risk, and by only owning, and lending money to, quality companies. Apart from faring relatively better in a stock market downturn, these companies are able to exploit turbulent situations to conclude corporate deals on favourable terms. The same applies for Alecta. With good margins, we can take a proactive approach in any recoil, and thus turn volatile markets into a good business opportunity, laying the foundation for good long-term returns for our customers.

The labour market and pensions market

Labour market demand, which has been characterised by high demand for several years, declined in 2019 and unemployment is expected to rise. However, some parts of the business sector are still affected by skill shortages due to inadequate matching of job seekers' skills with the changing requirements of companies. Automation and digitalisation are leading to continued pressure on transformation, where work content is changing, jobs are disappearing and new jobs are emerging. Skills development and skills transfer are important for good mobility.

Both the State pension and occupational pension are based on the principle of lifetime income, with a long working life as an employee. However, rapid changes in jobs and work content mean that certain groups are excluded from the labour market for long periods. In addition, relatively many newly arrived immigrants are entering the labour market when they are middle aged. That a growing group is unable to earn a pension throughout their entire working life – and will therefore have a low pension – raises questions about whether the pension system needs to be changed, alternatively supplemented with, for example, tax relief for private savings or increased deductibility for employers.

In recent decades, real wages have shown a relatively positive trend, which has increased the significance of occupational pen-

sions in relation to the State pension, especially among private-sector employees.

Premiums for occupational pensions are growing. One contributing factor is the transition from ITP 2 to ITP 1, since many private-sector employees with ITP 1 have now reached an age where their career is taking off and receive larger premiums paid on salaries exceeding 7.5 income base amounts. At the same time, higher premiums in defined benefit ITP 2, due to increased life expectancy and low market rates, have an effect on employers' costs. In addition, flexible pension provisions are also higher.

Contributions to savings insurance under the ITP plan amount to approximately SEK 50 billion in annual premiums. An estimated premium volume of about SEK 9 billion for alternative ITPs outside of the collective agreement can be added to this amount. These alternative ITP premiums are expected to remain at roughly the same level for several years to come, despite a decline in the number of ten-fold earners who have opted out of ITP 2 at some time, before the effect of retirements exceeds the premium effect of the ten-fold earners' salary increases.

Under ITP 1, it is not possible to opt out of the collectively agreed occupational pension for an alternative pension solution. Under current tax rules, however, insureds with higher salary can exchange some of their salary for extra pension premiums, usually in the market outside the products procured by Collectum. Since the salary that is exchanged reduces the ITP 1 premium, typically 30 per cent, the employer normally compensates the 30 per cent premium loss. As a consequence of salary exchange among employees with ITP 1, collectively agreed premiums are therefore transferred to the market outside the collective agreement. Salary exchange is currently marketed actively by both brokers and pension companies and the proportion is expected to grow moving forward. However, salary exchange is heavily dependent on current tax rules, including the right to deduct, and there are indications of a political desire to change the law, which could make this business opportunity more difficult.

There is now a trend that employers are seeking simple and rational solutions for occupational pensions, rather than creating special solutions. This is what makes the collectively agreed occupational pension attractive. Among employees – especially private-sector employees – there is still a high level of confidence in the occupational pension, which they mainly associate with the collective agreement, rather than their own savings.

That the collectively agreed occupational pension is both perceived as attractive and generates growing premium volumes is increasing the interest of life insurance companies to be included in the collectively agreed platforms. The rapid growth

in premiums enables high earnings, even though Collectum's procurements have pushed fee levels downwards. Several companies are investing in order to cut costs and digitalise their customer relationships. Prior to the next procurement, several competitors will be able to offer fees that are very close to Alec-ta's. Technological advances may also mean that new opera-tors, who do not need to deal with heavy investments in old IT systems, will be able to enter the market for collectively agreed occupational pensions.

Product reporting

Alecta operates in accordance with principles of mutuality and is required to ensure that income and expenses are allocated equitably among its various products. Our ability to use econo-mies 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 bargaining areas)

Risk insurance

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

Alecta monitors the financial performance of its various prod-ucts 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 is aimed at ensuring 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 con-nection with the ITP procurement in 2007. The pricing is based on the principle that fees charged should balance the operating expenses over time. For a number of years after its launch, the expenses incurred for Alecta Optimal Pension exceeded fees charged. The deficit was funded through an interest-bearing capital contribution from Alecta's defined benefit collective. For the period 1 October 2018–30 September 2023, the interest rate on the capital contribution was set at Stibor (3-month) plus a fixed risk premium of 0.88 percentage points.

Alecta Optimal Pension's operating expenses, including interest on the deficit, accounted for 0.07 per cent (0.09) of the capital in 2019. Investment management expense is additional and in 2019, amounted to approximately 0.02 per cent (0.02) of man-aged assets.

The dominant risk in 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 pen-sion products. At year-end 2019, Alecta Optimal Pension had a solvency ratio of 227 per cent (213), compared with 169 per cent (161) 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 gen-erate 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 man-aged in a way that does not prevent Alecta from fulfilling its 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 calcu-lations, which contains more detailed calculation models as well as the assumptions to be applied in the actuarial calculations. The Senior Actuary is responsible for the management and monitoring of Alecta's insurance risks, which involves a respon-sibility 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 activity, 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 86–87.

Risk management support functions:

- The independent central functions Compliance, Risk and Actuary make independent assessments of Alecta's risks and risk management. They also perform a supporting role in relation to management and other operational functions.
- The Data Protection Officer assists in ensuring that Alecta complies with the Data Protection Regulation (GDPR).
- The Anti-Money Laundering and Anti-Terrorist Financing Officer is responsible for assessing the risk of Alecta's products and services being used for such purposes.
- The Complaints Officer is tasked with assisting in the management of customer complaints.
- Risk & Performance, an Investment Management function which operates independently from Alecta's business activities, is responsible for daily control of financial risks.
- The Internal Audit function independently audits and evaluates the company's internal control on behalf of the Board. The Internal Audit function, or Compliance, is also the recipient of whistleblower reports.

Corporate governance

Alecta applies the Swedish Corporate Governance Code (the Code) even though it has no formal obligation to do so. However, one minor deviation is that the interim report has not been reviewed by the company's auditor. A corporate governance report prepared in accordance with the Code is available on pages 46–55.

Sustainability report

In accordance with Ch. 6 § 1 of the Swedish Insurance Companies Annual Accounts Act, Alecta has chosen to present its statutory sustainability report separately from its Administration Report. Alecta's sustainability report covers the whole Group and describes Alecta's standpoint on key sustainability issues, including sustainability risks and governance. The sustainability report has been submitted to the auditors together with the annual report and comprises pages 12–43. For the auditor's report on the review of the sustainability report and opinion on the statutory sustainability report, refer to page 44.

Five-year summary

GROUP, SEK MILLION	2019	2018	2017	2016	2015
Profit/loss					
Premiums written	52,776	48,184	38,514	33,557	34,377
<i>Invoiced premiums</i>	41,081	37,674	32,895	29,919	31,581
<i>Guaranteed refunds</i>	11,695	10,510	5,619	3,638	2,796
Claims incurred	-18,148	-21,238	-20,776	-21,907	-20,330
Net return on capital	125,031	-18,043	53,000	37,529	38,965
Profit/loss before tax	97,651	-26,118	57,863	12,320	52,916
Net profit/loss for the year	93,306	-26,839	57,255	13,428	52,234
Financial position					
Assets under management ¹⁾	964,029	828,572	834,416	774,059	730,511
<i>– of which pension products</i>	925,020	791,297	794,982	735,430	692,150
Technical provisions	570,634	513,149	478,814	466,273	427,877
Collective funding capital	263,282	210,613	255,779	226,484	228,404
Capital base ²⁾	385,722	308,585	349,663	302,376	294,553
Required solvency margin ²⁾	23,887	21,536	20,097	19,231	17,668
Key performance indicators					
Total return for the Group, per cent ³⁾	14.8	-2.2	6.7	5.2	5.9
<i>– of which shares</i>	32.8	-6.9	12.6	7.2	9.0
<i>– of which debt securities</i>	2.6	0.3	1.0	3.1	1.2
<i>– of which alternative investments</i>	7.6	6.6	12.1	9.2	18.4
Total return, defined contribution insurance, per cent ⁴⁾	20.3	-3.5	9.1	5.8	7.9
Total return, defined benefit insurance, per cent ⁴⁾	14.1	-2.0	6.5	5.1	5.8
Direct return for the Group, per cent	2.1	2.2	2.4	2.6	2.7
Management expense ratio ⁵⁾	0.08	0.08	0.09	0.09	0.10
<i>– of which pension products excluding selection centre costs</i>	0.05	0.05	0.06	0.06	0.06
Investment management expense ratio ⁶⁾	0.02	0.02	0.02	0.02	0.03
Collective funding ratio, defined benefit insurance, per cent	148	142	154	149	153
Collective funding ratio, defined contribution insurance, per cent ⁷⁾	100	100	100	100	100
Solvency ratio, per cent	169	161	174	166	171

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 settlement 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 and key performance indicators are deemed to be relevant to report in the five-year summary. All indicators and most of the items specified in the general recommendations of the Swedish Financial Supervisory Authority (FFFS 2015:12) are presented. In addition, some additional items and indicators not included in the general recommendations are presented. As Alecta does not apply Solvency II but the transitional provisions for occupational pension funds, Solvency II-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. 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 items Change in the provision for life insurance and Change in the provision for claims outstanding. As these figures are presented 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 total financial results for assets and liabilities.

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 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 93.3 billion (–26.8).

ALTERNATIVE INCOME STATEMENT (SEK MILLION)	2019	2018
Administration result	54	14
Risk result	1,134	–2,154
Financial result	96,392	–23,982
Tax result	–4,274	–717
Net profit/loss for the year	93,306	–26,839

Administration result

The administration result was SEK 54 million (14) 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)	2019	2018
Income	841	783
of which released operating expenses	788	729
of which other income	53	54
Expenses	–787	–769
Total administration result	54	14

Risk result

The risk result was SEK 1.1 billion (–2.2) and shows how closely Alecta's assumptions on mortality, morbidity and use of insurance options agree with actual outcomes. The result also includes changes in the assumptions for calculating TP. Of the negative mortality result of SEK 6,905 million, new life expectancy assumptions account for SEK 6,671 million. Of the positive morbidity result of SEK 6,787 million, new morbidity assumptions account for SEK 3,776 million. A detailed description of changes in 2019 is included in the Technical provisions section in the Administration Report. 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.

RISK RESULT (SEK MILLION)	2019	2018
Annual mortality result	–6,905	–84
Annual morbidity result	6,787	2,535
Insurance options	502	48
Changes in methods and assumptions used in calculating TPs	1,460	–4,716
Other	–710	63
Total risk result	1,134	–2,154

Financial result

The financial result was SEK 96.4 billion (–24.0). 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 longer description of Alecta's return on capital is given in the Capital return section of the Administration Report.

The financial result is also affected by the cumulative return on TPs, changes to the discount rate, and by actual operating expenses in investment management. Finally, the financial result is affected by the profit arising when the discount rate used to value 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. The increase compared with the preceding year is mainly due to positive returns for the year. Refer to the Technical provisions section in the Administration Report.

FINANCIAL RESULT (SEK MILLION)	2019	2018
Result, return on capital	125,008	-18,604
<i>of which investment management expenses</i>	-194	-163
Released operating expenses for investment management	62	152
Cumulative return on TPs	-15,241	-14,906
Other profit sources ¹⁾	15,100	17,270
Changes in TPs as a result of changed market interest rates	-28,537	-8,434
Total financial result ¹⁾	96,392	-23,982

¹⁾ Comparative figures for 2018 have been adjusted due to a change in the method for calculating Result, yield tax. As of 2019, Yield tax before tax credit has been used.

Tax result

The tax result amounted to SEK -4.3 billion (-0.7). TPs include a provision for future yield tax for guaranteed benefits. The result for yield tax is thus the income which arises on an ongoing basis as provisions for tax are reversed, less yield tax before tax credits for the year. Income tax is described in the Tax section of the Administration Report.

TAX RESULT (SEK MILLION)	2019	2018
Result, yield tax ¹⁾	71	4
Income tax	-4,345	-721
Total tax result ¹⁾	-4,274	-717

¹⁾ Comparative figures for 2018 have been adjusted due to a change in the method for calculating Result, yield tax. As of 2019, Yield tax before tax credit is used.

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Parent Company

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Income Statement

Group

SEK MILLION	NOTE	2019	2018
Premiums written	4	52,776	48,184
<i>Invoiced premiums</i>		41,081	37,674
<i>Guaranteed refunds</i>		11,695	10,510
Net return on capital		125,031	-18,043
<i>Return on capital, income</i>	5	28,628	29,275
<i>Unrealised gains on investment assets</i>	6	97,672	1,464
<i>Return on capital, expenses</i>	9	-1,119	-1,026
<i>Unrealised losses on investment assets</i>	10	-150	-47,756
Claims incurred		-18,148	-21,237
<i>Claims paid</i>	7	-21,764	-21,009
<i>Change in provision for claims outstanding</i>		3,616	-228
Change in other technical provisions		-61,101	-34,107
<i>Provision for life insurance</i>		-61,101	-34,107
Operating expenses	8	-591	-575
Depreciation of owner-occupied properties	15	-24	-22
Yield tax	11	-292	-318
Total operating profit/loss		97,651	-26,118
Profit/loss before tax		97,651	-26,118
Income tax	12	-4,345	-721
NET PROFIT/LOSS FOR THE YEAR		93,306	-26,839

Statement of Comprehensive Income

Group

SEK MILLION	2019	2018
Net profit/loss for the year	93,306	-26,839
Items that can subsequently be reclassified to profit or loss		
Foreign exchange difference that can subsequently be reclassified to profit or loss	29	150
Other comprehensive income	29	150
COMPREHENSIVE INCOME FOR THE YEAR	93,335	-26,689

Comprehensive income for the year is wholly attributable to the owners of the Parent Company.

Balance Sheet

Group

SEK MILLION	NOTE	31 DEC 2019	31 DEC 2018
ASSETS			
Intangible assets	13	207	233
Property, plant and equipment	14	24	20
Deferred tax	12	2,332	5,689
Investment assets			
Land and buildings			
Investment properties	15	32,225	30,901
Owner-occupied properties	15	974	933
Investments in associated companies and joint ventures			
Shares and participations in associated companies and joint ventures	18, 19, 22, 23	36,357	23,870
Loans to associated companies and joint ventures	18, 19	334	1,857
Other financial investment assets			
Shares and participations	19, 22, 23, 24	454,757	352,238
Bonds and other debt securities	19, 22, 23, 25, 43, 44	416,620	405,487
Loans secured by real estate	19, 22, 26	4,483	2,777
Other loans	19, 22, 23, 27	6,444	3,133
Derivatives	19, 22, 28, 29	12,755	5,841
		964,949	827,037
Receivables			
Receivables related to direct insurance operations	19, 30	2,549	1,726
Current tax		1,073	874
Other receivables	19, 31	8,190	1,046
		11,812	3,646
Cash and bank balances	19, 44	3,332	3,392
Prepaid expenses and accrued income			
Accrued interest and rental income	19, 32	8,982	8,031
Other prepaid expenses and accrued income		86	63
		9,068	8,094
TOTAL ASSETS		991,724	848,111

Balance Sheet, cont.

Group

SEK MILLION	NOTE	31 DEC 2019	31 DEC 2018
EQUITY AND LIABILITIES			
EQUITY			
Translation reserve	33	308	279
Discretionary participation features reserve	33	119,689	94,720
Special indexation funds	33	10,051	10,162
Retained earnings including net profit for the year	33	263,347	210,262
Total equity		393,395	315,423
LIABILITIES			
Provision for life insurance	36	556,780	495,679
Claims outstanding	37	13,854	17,470
Pensions and similar commitments	38	0	2
Other provisions	39	15	9
Current tax		0	0
Deferred tax	12	1,659	1,639
Liabilities related to direct insurance operations	19, 40	765	732
Derivatives	19, 22, 28, 29	12,375	9,139
Other liabilities	19, 41	7,335	2,999
Other accrued expenses and deferred income	19, 42	5,546	5,019
Total liabilities		598,329	532,688
TOTAL EQUITY AND LIABILITIES		991,724	848,111

Statement of Changes in Equity

Group

SEK MILLION	Translation reserve ¹⁾	Discretionary participation features reserve ^{1, 2)}	Special indexation funds ¹⁾	Retained earnings including net profit/loss for the year ¹⁾	Total
OPENING EQUITY AT 1 JANUARY 2018	129	89,388	10,298	255,787	355,602
Net profit/loss for the year				-26,839	-26,839
Other comprehensive income	150				150
Comprehensive income for the year	150			-26,839	-26,689
Allocated refunds		16,914		-16,914	-
Guaranteed refunds		-11,588		-1,468	-13,056
Collective risk premium ³⁾			-116		-116
Other changes		6	-20	-304	-318
CLOSING EQUITY AT 31 DECEMBER 2018	279	94,720	10,162	210,262	315,423
OPENING EQUITY AT 1 JANUARY 2019	279	94,720	10,162	210,262	315,423
Net profit/loss for the year				93,306	93,306
Other comprehensive income	29				29
Comprehensive income for the year	29			93,306	93,335
Allocated refunds		37,823		-37,823	-
Guaranteed refunds		-12,875		-1,663	-14,538
Collective risk premium ³⁾			-121		-121
Other changes ⁴⁾		21	10	-735	-704
CLOSING EQUITY AT 31 DECEMBER 2019	308	119,689	10,051	263,347	393,395

¹⁾ See Note 33.

²⁾ Discretionary participation features refer to allocated refunds. See Note 33.

³⁾ 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.

⁴⁾ Other changes primarily comprise distributed refunds in conjunction with the transfer of defined contribution insurance.

Cash Flow Statement

Group

SEK MILLION	2019	2018
OPERATING ACTIVITIES		
Profit/loss for the year before tax	97,651	-26,118
Interest received	2,629	5,138
Interest paid	178	583
Dividends received	13,892	11,969
Adjustment for non-cash items ¹⁾	-77,933	43,185
Tax paid	-1,491	-894
Cash flow from operating activities before changes in assets and liabilities	34,926	33,863
Change in investment assets	-31,011	-32,868
Change in other operating assets	-7,977	729
Change in other operating liabilities	7,661	1,923
Cash flow from operating activities	3,599	3,647
INVESTING ACTIVITIES		
Investments in property, plant and equipment	-11	-11
Cash flow from investing activities	-11	-11
FINANCING ACTIVITIES		
Pension supplements/Supplementary amounts	-2,843	-2,545
Payment of indexation funds	-121	-117
Other changes	-699	-321
Cash flow from financing activities	-3,663	-2,983
Cash flow for the year	-75	653
Cash and cash equivalents at beginning of year	3,392	2,731
Exchange rate differences in cash and cash equivalents	15	8
CASH AND CASH EQUIVALENTS AT END OF YEAR	3,332	3,392
¹⁾		
Depreciation/Amortisation/Impairment, Notes 13, 14, 15	57	54
Yield tax, Note 11	291	318
Foreign exchange gains, Note 5	-436	-4,074
Capital gains, Note 5	-8,931	-6,518
Capital losses, Note 9	1	1
Unrealised gains, Note 6	-97,672	-1,464
Unrealised losses, Note 10	150	47,756
Interest income, Note 5	-3,579	-4,996
Interest expenses, Note 9	297	294
Dividends, Note 5	-13,904	-11,988
Adjustment of paid-up values, Note 4	-7,223	-6,308
Premium reductions, Note 4	-4,472	-4,202
Change in provision for life insurance, Note 36	61,101	34,107
Change in provision for claims outstanding, Note 37	-3,616	229
Other	3	-24
Total adjustment for non-cash items	-77,933	43,185

Income Statement

Parent Company

SEK MILLION	NOTE	2019	2018
TECHNICAL ACCOUNT, LIFE INSURANCE BUSINESS			
Premiums written	4	52,776	48,184
<i>Invoiced premiums</i>		41,081	37,674
<i>Guaranteed refunds</i>		11,695	10,510
Return on capital, income	5	28,457	29,390
Unrealised gains on investment assets	6	97,376	375
Claims incurred		-18,148	-21,238
<i>Claims paid</i>	7	-21,764	-21,009
<i>Change in provision for claims outstanding</i>		3,616	-229
Change in other technical provisions		-61,101	-34,107
<i>Provision for life insurance</i>		-61,101	-34,107
Operating expenses	8	-591	-575
Capital return, expenses	9	-1,573	-1,099
Unrealised losses on investment assets	10	-150	-47,756
Life insurance, total balance on the technical account		97,046	-26,826
NON-TECHNICAL ACCOUNT			
Life insurance, balance on the technical account		97,046	-26,826
Profit/loss before tax		97,046	-26,826
Tax on profit/loss for the year	12	-4,576	-783
NET PROFIT/LOSS FOR THE YEAR		92,470	-27,609

Statement of Comprehensive Income

Parent Company

SEK MILLION	2019	2018
Net profit/loss for the year	92,470	-27,609
Other comprehensive income	-	-
COMPREHENSIVE INCOME FOR THE YEAR	92,470	-27,609

Performance Analysis

Parent Company 2019

SEK MILLION	DIRECT INSURANCE OF SWEDISH RISKS				
	Occupational pension insurance				Other life insurance
	Total	Defined benefit insurance	Defined contribution traditional insurance	Occupational disability insurance and waiver of premium insurance	Group life and occupational group life insurance
LIFE INSURANCE, BALANCE ON THE TECHNICAL ACCOUNT					
Premiums written	52,776	27,446	18,334	6,784	212
Return on capital, income	28,457	22,249	5,021	1,168	19
Unrealised gains on investment assets	97,376	76,134	17,180	3,996	66
Claims incurred	-18,148	-16,823	-756	-425	-144
<i>Claims paid</i>	-21,764	-16,823	-756	-4,029	-156
<i>Change in provision for claims outstanding</i>	3,616	0	-	3,604	12
Changes in other technical provisions	-61,101	-47,421	-13,680	-	-
<i>Provision for life insurance</i>	-61,101	-47,421	-13,680	-	-
Operating expenses	-591	-333	-63	-180	-15
Capital return, expenses	-1,573	-1,236	-271	-65	-1
Unrealised losses on investment assets	-150	-117	-27	-6	0
Life insurance, total balance on the technical account	97,046	59,899	25,738	11,272	137
TECHNICAL PROVISIONS					
Provision for life insurance	556,780	494,677	62,103	-	-
Claims outstanding	13,854	21	-	13,804	29
Total technical provisions	570,634	494,698	62,103	13,804	29
Surplus fund	293,459	226,770	52,725	13,556	408
Total operating expenses, excluding property management expenses					
Operating expenses (administrative expenses in the insurance business)	-591	-333	-63	-180	-15
Claims management expenses (included in Claims paid)	-143	-83	-18	-39	-3
Investment management expenses (included in Return on capital, expenses)	-195	-159	-28	-8	0
Total operating expenses, excluding property management expenses	-929	-575	-109	-227	-18

Balance Sheet

Parent Company

SEK MILLION	NOTE	31 DEC 2019	31 DEC 2018
ASSETS			
Intangible assets			
Intangible assets	13	207	233
		207	233
Investment assets			
Land and buildings	15	12,416	12,203
Investments in Group companies, associated companies and joint ventures			
Shares and participations in Group companies	16	5,673	4,902
Debt securities issued by, and loans to, Group companies	17, 19	10,923	9,066
Shares and participations in associated companies and joint ventures	18, 19, 22, 23	33,449	22,597
Loans to associated companies and joint ventures	18, 19	334	1,857
Other financial investment assets			
Shares and participations	19, 22, 23, 24	454,208	351,727
Bonds and other debt securities	19, 22, 23, 25, 44, 45	416,620	405,487
Loans secured by real estate	19, 22, 26	4,483	2,777
Other loans	19, 22, 23, 27	6,444	3,133
Derivatives	19, 22, 28, 29	12,755	5,841
		957,305	819,590
Receivables			
Receivables related to direct insurance operations	19, 30	2,549	1,726
Other receivables	19, 31	12,167	8,434
		14,716	10,160
Other assets			
Tangible assets	14	15	14
Cash and bank balances	19, 44	3,280	2,970
		3,295	2,984
Prepaid expenses and accrued income			
Accrued interest and rental income	19, 32	8,990	8,031
Other prepaid expenses and accrued income		43	34
		9,033	8,065
TOTAL ASSETS		984,556	841,032

Balance Sheet, cont.

Parent Company

SEK MILLION	NOTE	31 DEC 2019	31 DEC 2018
EQUITY, PROVISIONS AND LIABILITIES			
Equity			
Surplus fund	34	293,459	336,427
Net profit/loss for the year		92,470	-27,609
		385,929	308,818
Technical provisions			
Provision for life insurance	36	556,780	495,679
Claims outstanding	37	13,854	17,470
		570,634	513,149
Other provisions			
Pensions and similar commitments	38	0	2
Taxes		0	0
Other provisions	39	4	3
		4	5
Liabilities			
Liabilities related to direct insurance operations	19, 40	765	732
Derivatives	19, 22, 28, 29	12,375	9,139
Other liabilities	19, 41	9,610	4,440
		22,750	14,311
Accrued expenses and deferred income			
Other accrued expenses and deferred income	19, 42	5,239	4,749
		5,239	4,749
TOTAL EQUITY, PROVISIONS AND LIABILITIES		984,556	841,032

Statement of Changes in Equity

Parent Company

SEK MILLION	FUNDING RESERVE ¹⁾			Net profit/loss for the year	Total
	Collective consolidation	Discretionary participation features reserve ²⁾	Other reserves		
OPENING EQUITY AT 1 JANUARY 2018	194,892	89,389	10,299	55,341	349,921
Net profit/loss for the year				-27,609	-27,609
Other comprehensive income					-
Comprehensive income for the year				-27,609	-27,609
Appropriation of profits from previous years	55,341			-55,341	-
Allocated refunds	-16,914	16,914			-
Guaranteed refunds	-1,468	-11,588			-13,056
Collective risk premium ³⁾			-116		-116
Other changes	-306	5	-21		-322
CLOSING EQUITY AT 31 DECEMBER 2018	231,545	94,720	10,162	-27,609	308,818
OPENING EQUITY AT 1 JANUARY 2019	231,545	94,720	10,162	-27,609	308,818
Net profit/loss for the year				92,470	92,470
Other comprehensive income					-
Comprehensive income for the year				92,470	92,470
Appropriation of profits from previous years	-27,609			27,609	-
Allocated refunds	-37,823	37,823			-
Guaranteed refunds	-1,663	-12,875			-14,538
Collective risk premium ³⁾			-121		-121
Other changes ⁴⁾	-732	22	10		-700
CLOSING EQUITY AT 31 DECEMBER 2019	163,718	119,690	10,051	92,470	385,929

¹⁾ See Note 34.

²⁾ Discretionary participation features refer to allocated refunds. See Note 34.

³⁾ 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.

⁴⁾ Other changes primarily comprise distributed refunds in conjunction with the transfer of defined contribution insurance.

Cash Flow Statement

Parent Company

SEK MILLION	2019	2018
OPERATING ACTIVITIES		
Profit/loss for the year before tax and appropriations	97,046	-26,826
Interest received	2,750	5,250
Interest paid	180	583
Dividends received	14,615	11,719
Adjustment for non-cash items ¹⁾	-78,185	43,154
Tax paid	-1,430	-870
Cash flow from operating activities before changes in assets and liabilities	34,976	33,010
Change in investment assets	-31,752	-32,251
Change in other operating assets	-7,699	616
Change in other operating liabilities	8,454	1,942
Cash flow from operating activities	3,979	3,317
INVESTING ACTIVITIES		
Investments in property, plant and equipment	-6	-8
Cash flow from investing activities	-6	-8
FINANCING ACTIVITIES		
Pension supplements/Supplementary amounts	-2,843	-2,545
Payment of indexation funds	-121	-117
Other changes	-699	-321
Cash flow from financing activities	-3,663	-2,983
Cash flow for the year	310	326
Cash and cash equivalents at beginning of year	2,970	2,644
CASH AND CASH EQUIVALENTS AT END OF YEAR	3,280	2,970
¹⁾		
Depreciation/Amortisation/Impairment, Notes 13, 14	30	29
Foreign exchange gains, Note 5	-436	-4,074
Capital gains, Note 5	-8,899	-6,518
Capital losses, Note 9	1	1
Unrealised gains, Note 6	-97,376	-375
Unrealised losses, Note 10	150	47,756
Impairment of shares in Group companies, Note 9	821	371
Reversal of impairment of shares in Group companies, Note 5	-113	-393
Interest income, Note 5	-3,708	-5,108
Interest expenses, Note 9	296	294
Dividends, Note 5	-14,738	-12,654
Adjustment of paid-up values, Note 4	-7,223	-6,308
Premium reductions, Note 4	-4,472	-4,202
Change in provision for life insurance, Note 36	61,101	34,107
Change in provision for claims outstanding, Note 37	-3,616	229
Other	-3	-1
Total adjustment for non-cash items	-78,185	43,154

Notes

NOTE 1 Group and Parent Company accounting principles

This Annual and sustainability report for Alecia Pensionsförsäkring, ömsesidigt, Corporate Identity Number 502014-6865, with registered office in Stockholm, cover the financial year 2019. The company's postal address is SE-103 73 Stockholm. The visiting address of the head office is Regeringsgatan 107.

The Annual and sustainability report was approved for publication by the Board of Directors on 19 March 2020 and will be presented to the Council of Administration for adoption on 23 April 2020.

The amounts indicated in the notes refer to millions of Swedish kronor (MSEK) unless otherwise stated. Figures in parentheses refer to the previous year.

Presentation

General accounting principles and new accounting rules are described in Note 1 below. Other accounting principles are described in the relevant Note in order to enhance the reader's understanding of each area of accounting.

Basis of preparation of financial statements

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) and IFRIC interpretations, as adopted by the EU, with the exception of IFRS 8 Operating Segments, and IAS 33 Earnings per share, which is not required by companies whose shares are not publicly traded. 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.

Consolidated financial statements

The consolidated financial statements comprise the Parent Company, Alecia 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 Alecia 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 16. 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 19.

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 premiums 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, Alecia 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, Alecia determines whether the acquisition should be classified as a business or an asset. As at 31 December 2019, all of Alecia'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 Capital return, income or Capital return, expenses.

Insurance contracts

As an insurer, Alecia provides a range of insurance products. Alecia 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 Alecia'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 Alecia Optimal Pension, which is a defined contribution product, 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 Alecia's risk capital. The size of the surplus or deficit depends on changes

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

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 normally remains close to 100 per cent. The surplus is recognised in equity in the balance sheet.

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 vested 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 changed IASB accounting standards applied from 1 January 2019:

IFRS 16 Leases

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

Alecta has chosen to apply the simplified transition approach, with the cumulative effect of an initial application of the standard on the first date of application, 1 January 2019. Comparative figures for 2018 have not been restated in accordance with the simplified approach. The right-of-use assets have been measured at an amount equal to their lease liability on the transition date.

On 1 January 2019, the change related to leasehold agreements had an impact of SEK 29 million on total assets under the items of investment assets as well as other liabilities, with no impact on equity. Due to the transition to IFRS 16, the cost of land lease payments and leaseholds in their entirety has been recognised as a financial expense, in contrast to the previous policy, where these costs were recognised as an operating expense and deducted from operating profit. At 31 December, the aggregated value of the site and land leaseholds was an estimated SEK 34 million, see Note 15 Land and buildings, and Note 50 Leases.

New and changed IASB accounting standards to be applied from 1 January 2020 or later:

Only those standards that are expected to have an impact on Alecta are described.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments includes new bases for the classification and measurement of financial instruments, a forward-looking impairment model and simplified criteria for hedge accounting. IFRS 9 is effective from 1 January 2018.

Alecta conducts insurance-related activities and believes it therefore

qualifies for the temporary exemption and will postpone the application of IFRS 9 until 1 January 2022. Alecta's assessment that its activities are mainly insurance-related is based on the definition in IFRS 4 of the fact that the portion of insurance-related liabilities relating to insurance contracts covered by IFRS 4 exceeds the threshold of 90 per cent of the company's total liabilities for the financial year ending on 31 December 2015. Accordingly, Alecta will only provide those disclosures related to effects of IFRS 9 that are required under IFRS 4 to facilitate comparison with companies that apply IFRS 9. Refer to Note 3 Risks and risk management, Note 16 Shares and participations in Group companies, Note 18 Investments in associated companies and joint ventures, Note 19 Classification of financial assets and liabilities, and Note 26 Loans secured by real estate.

Classification and measurement

Under IFRS 9, all recognised financial assets covered by IAS 39 Financial Instruments should be measured at either amortised cost or fair value through other comprehensive income or at fair value through profit or loss. The classification into the three categories should be based on the company's business model for the various holdings and the characteristics of the cash flows generated by the assets.

Alecta's assessment is that the new standard will not result in any material change in the classification and measurement of Alecta's financial assets and liabilities. All financial instruments with the exception of loans to associated companies and joint ventures, and loans secured by real estate are currently measured in the fair value through profit or loss category. The loans are measured at amortised cost and account for a small portion of Alecta's investment assets.

Impairment (Recognition of expected credit losses)

Alecta applies IAS 39 due to the temporary exemption from applying IFRS 9 and therefore only provides additional information to enable comparison with companies that apply IFRS 9.

Under IFRS 9, provisions for credit losses should be recognised for loans and receivables which are measured at amortised cost or fair value through other comprehensive income. The provisions should be based on expected future credit losses and probability-weighted outcomes.

When assessing provisioning requirements for expected credit losses, Alecta uses a three-stage approach. Stage 1 pertains to assets for which the credit risk has not increased significantly since initial recognition, with recognition of a 12-month ECL that is associated with the risk of default in the next 12 months. Stage 2 pertains to assets for which the credit risk has increased significantly since initial recognition, with no underperformance since initial recognition. In order to determine whether there has been a significant increase in credit risk, the probability of a default at the reporting date is compared with the probability of a default at the date of initial recognition. Stage 3 pertains to credit impaired assets and these are assessed individually. For Stages 2 and 3, a provision for expected credit loss is based on the residual life of the asset. When calculating the provision for credit losses under IFRS 9, Alecta takes historical credit loss experience and various forward-looking scenarios into account. The assessment is that adoption of the standard would not have any significant effect on Alecta's financial statements.

Hedge accounting

As Alecta does not apply hedge accounting, this part of the standard will not have any impact on the financial statements.

IFRS 17 Insurance Contracts (Not adopted by the EU)

On 18 May 2017, the IFRS 17 standard for insurance contracts was published. The standard affects all companies with insurance contracts that report in accordance with IFRS. The standard will become effective on 1 January 2022 if it is approved by the EU.

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

IFRS 17 brings extensive changes in relation to the measurement of insurance contracts, the presentation of line items in the income statement and revenue recognition. In addition, the profit margins of insurance contracts must be accrued over the terms of the contracts. Those parts of the standard to be applied by unlisted insurance companies in Sweden is not clear. The Swedish Financial Supervisory Authority is investigating whether and how IFRS 17 should be implemented in legal entities and consolidated accounts in Sweden.

A project is taking place in Alecra to analyse the effects of adopting the standard. The assessment is that the adoption of IFRS 17 will have a major impact on Alecra's financial statements.

Capital return

Capital return 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 Capital return, income and Capital return, 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. Capital return is presented in Notes 5, 6, 9 and 10.

Investment assets

General information

Investment assets consist of the balance sheet items Land and buildings, Investments in Group companies, associated companies and joint ventures, as well as 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 Capital return, income or Capital return, 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 Capital return, expenses.

Other financial investment assets

Alecra 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 Alecra 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 with the help of established valuation techniques. Note 22 provides fair value disclosures for each class of financial instrument in a table format, based on a hierarchy with three levels of fair value.

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.

Technical provisions

Technical provisions comprise the net present 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 Alecra's employees in accordance with the FTP plan.

Pensions in the Alecra 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.

Cash flows

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

Parent Company accounting policies

The Parent Company applies IFRS with certain limitations contained in Swedish statutes, which means that international financial reporting standards are applied to the extent possible under Swedish accounting legislation. The Parent Company's financial reporting follows the Swedish Insurance Companies Annual Accounts Act (ÅRFL), the Regulations and General Guidelines on the Annual Accounts of Insurance Companies (FFFS 2015:12) of the Swedish Financial Supervisory Authority and Recommendation RFR 2 Accounting for Legal Entities of the Swedish Financial Reporting Board. In the Parent Company, the mandatory formats for income statements and balance sheets provided for in the Swedish Insurance Companies Annual Accounts Act are applied whereas IAS/IFRS formats are used in the consolidated financial statements. As the Group complies with IAS/IFRS standards, as adopted by the EU, the accounting treatment for certain income statement and balance sheet items in the Parent Company differs from the accounting treatment applied in the Group. The most significant differences are described below.

Land and buildings/other liabilities

In the Parent Company, investment properties and owner-occupied properties are recognised at fair value. In the Group, owner-occupied properties are recognised at cost less accumulated depreciation.

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

The Parent Company recognises leases in accordance with RFR 2 and does not therefore apply the new IFRS 16 standard, which the Group does.

Shares and participations in Group companies

Shares and participations in Group companies are recognised at cost in the Parent Company but are eliminated in the consolidated financial statements.

Debt securities issued by, and loans to, Group companies

Intercompany loans and receivables are recognised at cost in the Parent Company, but are eliminated in the consolidated financial statements.

Surplus fund

Life insurance companies which do not have the right to distribute profits are required to maintain a surplus fund to which funds are allocated that can be used to cover losses. The funding reserve is part of equity in the Parent Company and consists of collective funding, the discretionary participation features reserve and other reserves. This differs from the composition of equity in the Group.

Appropriations, untaxed reserves

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.

Yield tax

In the Parent Company income statement, yield tax is recognised together with income tax in the Tax on profit for the year item. In the consolidated financial statements, yield tax is included in operating profit.

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 Alecia deems to have the biggest impact on earnings and/or on assets and liabilities are presented below or in the notes indicated in the table.

Significant estimates and judgements	Note
Technical provisions	36, 37
	Provision for life insurance, Provision for claims outstanding
Financial instruments	22
	Valuation categories for financial instruments measured at fair value
Investment properties	15
	Land and buildings
Intangible assets	13
	Intangible assets
Income tax	12
	Tax
Deferred tax	12
	Tax

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 and information on current assumptions and changes introduced during the year are described in the accounting principles in Notes 36 and 37. The sensitivity of the assumptions used as a basis for the valuation of the technical provisions is described in Note 3.

Financial instruments

The measurement of financial instruments at fair value is based primarily on quoted prices in active markets. For holdings for which quoted prices in an active market are not available, valuation techniques are used. These are described in Note 22. The measurement of financial instruments is described in the accounting principles in the relevant note. A sensitivity analysis is shown in Note 3.

NOTE 3 Risks and risk management

A general description of Alecta's risk management and risk organisation is provided on page 65 of the Administration Report. 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 capital return 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.

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 is a life benefit insurance policy. 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.

Under the mortality assumptions used, a man or a woman born in the 1950s is expected to live for a further 22.8 (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 0.7 (0.8) years for each subsequent birth decade.

A 20 per cent decrease in assumed mortality means that the life expectancy of people aged 65 today will increase by 1.5 (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 would increase by approximately 30 (20) per cent.

Operating expenses risk

The operating expenses risk consists in the possibility that Alecta's operating expenses will be higher than was assumed. Alecta monitors operating expenses

on an ongoing basis to ensure that they are in line with 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 and calculation of technical provisions. 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 87. 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 2019, the central function Risk assessed the value of Alecta's investment assets. 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 alternative investments. To limit market risk and avoid concentrations in the portfolio, Alecta spreads its investments across different asset classes and markets.

Asset allocation

Asset class	Exposure		Share of portfolio	
	2019	2018	2019	2018
Shares	410,861	322,577	42.7 %	39.2 %
Debt securities	451,424	419,781	46.9 %	50.9 %
Alternative investments ¹⁾	100,392	81,574	10.4 %	9.9 %
Total	962,678	823,932	100.0 %	100.0 %

¹⁾ Alternative investments include real estate.

The table shows Alecta's asset allocation based on the classification in the total return table, see page 58. A detailed breakdown by asset class is presented in the diagrams on page 59.

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 some of its foreign shares and alternative investments. Alecta's total currency exposure after hedging was equal to 15.7 per cent (11.0) of the investments at year-end. Without currency hedging, 46.8 per cent (43.3) of Alecta's assets would have been exposed to exchange rate fluctuations.

Currency exposure after hedging

	Exposure		Share of investment portfolio	
	2019	2018	2019	2018
DKK	15,218	12,320	1.6 %	1.5 %
EUR	-32,234	-28,857	-3.3 %	-3.5 %
CHF	11,212	-34	1.2 %	0.0 %
GBP	15,812	9,140	1.6 %	1.1 %
USD	74,561	37,834	7.7 %	4.6 %
Other currencies	2,301	2,257	0.2 %	0.3 %
Net exposure	151,339	90,443	15.7 %	11.0 %

Summation is in absolute terms, which means that a negative position in one currency cannot cancel a positive exposure in another currency.

NOTE 3 Risks and risk management, cont.

Credit risk

Credit risk is the risk of financial losses 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 fixed income exposure to the same corporate group. Risk & Performance verifies that these limits are not exceeded on a daily basis. Fixed income investments 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, Moodys and Fitch rating agencies. In addition to external ratings, all issuers are assessed for credit risk using internal credit rating models.

Credit exposure	Bonds and other debt securities			
	Market value including forward exposure		Share	
	2019	2018	2019	2018
Rating Aaa/AAA	169,958	173,930	37.4 %	42.9 %
Rating Aa/AA	142,197	107,371	31.3 %	26.5 %
Rating A/A	58,358	72,572	12.9 %	17.9 %
Rating Baa/BBB	31,632	23,386	7.0 %	5.8 %
Rating Ba/BB	7,187	5,564	1.6 %	1.4 %
Unrated	44,805	22,928	9.9 %	5.7 %
<i>of which securities issued by stated-owned issuers</i>	<i>3,051</i>	<i>8,018</i>	<i>0.7 %</i>	<i>2.0 %</i>
Total	454,138	405,751	100 %	100 %

Liquidity risk

Liquidity risk is the risk of loss on financial instruments arising from the inability to immediately sell an instrument without a reduction in 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 93 per cent have a maturity in excess of five years, see Notes 36 and 37. 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 28. A maturity analysis of financial liabilities is also presented in Note 21. 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 22 shows that SEK 421.7 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 fixed income investments depends on the level of interest rates. When interest rates fall, Alecta's commitments increase, as does the value of its fixed income investments. Given that the commitments are larger and have a longer average maturity than the fixed income investments, 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 36 and 37, and Note 25, respectively.

To calculate the 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 insurance commitments. 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

Group	Effect on			
	Solvency ratio (% points)		Net profit for year/Equity	
	2019	2018	2019	2018
Interest rate decrease 1 % point	-4.7 %	-11.2 %	-9,120	-32,899
Share price decrease 10 %	-7.2 %	-6.3 %	-41,086	-32,258
Share price decrease 10 % alternative investments	-1.8 %	-1.6 %	-10,039	-8,157
Exchange rate decrease 10 %	-2.7 %	-1.8 %	-15,152	-9,095

The table shows how the solvency ratio and net profit for the year would be affected by a decrease in the value of shares, alternative investments and currencies, and by a decrease in market interest rates, regardless of maturity and market. A decrease in the market rates increases the value of Alecta's commitments by SEK 27.3 billion (48.8) and the value of its fixed income investments by SEK 18.1 million (15.9).

Other risks

In addition to the aforementioned risks, Alecta needs to manage other risks, such as compliance risks, sustainability risks and information security risks. An important method for mitigating these risks, as well as the above risk categories, is to control operational risks, see below. More information on Alecta's management of these risks is presented in the Corporate Governance Report on page 46.

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. Good internal control is achieved through a clear division of responsibilities, documented processes and procedures, effective controls and by other means.

Risk self-assessment

Using a central self-assessment method, all departments at Alecta identify and assess their risks and controls 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 to take measures to try and prevent similar incidents from recurring. Incidents are therefore discussed and reported at all levels of Alecta on a regular basis.

NOTE 4 Premiums written

Group and Parent Company	2019	2018
Current premiums	38,303	35,173
Single premiums	2,875	2,601
Premium tax ¹⁾	-97	-100
Invoiced premiums	41,081	37,674
Adjustment of paid-up values	7,223	6,308
Premium reduction	4,472	4,202
Guaranteed refunds	11,695	10,510
Total premiums written	52,776	48,184

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.

Accounting principle

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.

NOTE 5 Capital return, income

	Group		Parent Company	
	2019	2018	2019	2018
Rental income from land and buildings	1,759	1,682	563	643
Dividends received	13,904	11,988	14,738	12,654
of which Group companies	-	-	1,045	952
of which associated companies and joint ventures	591	-	591	-
Interest income, etc.	3,579	4,996	3,708	5,108
bonds and other debt securities	3,229	4,518	3,229	4,518
loans secured by real estate	93	66	93	66
other interest income	257	412	252	410
other interest expenses, Group companies	-	-	134	114
Reversal of impairment	-	-	113	393
shares in Group companies	-	-	113	393
Net foreign exchange gains	436	4,074	436	4,074
Net capital gains	8,931	6,518	8,899	6,518
land and buildings	549	3	517	3
shares and participations	7,138	5,764	7,138	5,764
bonds and other debt securities	1,109	751	1,109	751
other loans	135	-	135	-
Other	19	17	-	-
Total capital return, income	28,628	29,275	28,457	29,390

NOTE 6 Unrealised gains on investment assets

	Group		Parent Company	
	2019	2018	2019	2018
Land and buildings	893	1,380	480	291
Shares and participations	91,933	-	92,050	-
Bonds and other debt securities	4,846	-	4,846	-
Other loans	-	84	-	84
Total unrealised gains on investment assets	97,672	1,464	97,376	375

NOTE 7 Claims paid

Group and Parent Company	2019	2018
Basic amount paid before indexation	-18,418	-17,970
Waiver of premium paid	-2,653	-2,531
Cancellations and repurchases ¹⁾	-550	-368
Operating expenses for claims management	-143	-140
Total claims paid	-21,764	-21,009

¹⁾ The item includes transferred capital of SEK 536 million (353).

Accounting principle

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 8 Operating expenses

	Group		Parent Company	
	2019	2018	2019	2018
Administrative expenses	-591	-575	-591	-575
Total operating expenses in the insurance business	-591	-575	-591	-575
Claims management ¹⁾	-143	-140	-143	-140
Investment management ²⁾	-195	-162	-195	-162
Property management ³⁾	-88	-71	-37	-34
Total operating expenses	-1,017	-948	-966	-911
Specification of total operating expenses				
Personnel costs	-435	-409	-435	-409
Costs for premises	-19	-18	-21	-20
Amortisation/depreciation	-26	-26	-26	-26
IT costs	-251	-226	-251	-226
Property management costs	-88	-71	-37	-34
Selection centre costs	-151	-142	-151	-142
Other costs ⁴⁾	-96	-105	-94	-103
Administration fees	49	49	49	49
Total operating expenses	-1,017	-948	-966	-911

¹⁾ Recognised in Claims paid in the income statement, see Note 7.

²⁾ Recognised in Capital return, expenses in the income statement, see Note 9.

³⁾ Recognised in Capital return, 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.

Accounting principle

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 related to defined benefit retirement pension and disability insurance, 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. Alecia does not regard depreciation and impairment of owner-occupied property 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. Alecia does not capitalise its acquisition expenses, as the amount is insignificant.

Administrative expenses

Administrative expenses consist of operating expenses incurred by Alecia for the day-to-day administration of its insurance contracts as well as costs for central Group functions, such as Finance and Legal Affairs.

Claims management

Expenses for claims management consist of expenses for managing contracts that are under payment. They also include a portion of the IT costs 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 Capital return, 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 Capital return, expenses in the income statement. A significant expense item related to property management is external costs, as the management of Alecia's real estate has to a large extent been outsourced to external service providers.

NOTE 9 Capital return, expenses

	Group		Parent Company	
	2019	2018	2019	2018
Operating expenses for land and buildings	-567	-516	-230	-249
Investment management expenses ¹⁾	-195	-163	-195	-162
Interest expenses, etc.	-297	-294	-296	-294
<i>bonds and other debt securities</i>	-223	-262	-223	-262
<i>other interest expenses</i>	-74	-32	-73	-32
Custodian expenses	-30	-23	-30	-23
Depreciation/amortisation and impairment	-	-	-821	-371
<i>shares in Group companies</i>	-	-	-821	-371
Net capital losses	-1	-1	-1	-
<i>land and buildings</i>	-	-7	-	-
<i>loans secured by real estate</i>	-1	-	-1	-
Other	-29	-29	-	-
Total capital return, expenses	-1,119	-1,026	-1,573	-1,099

¹⁾ In addition to these expenses, external fees of approximately SEK 220 million (157) were paid for investments in unlisted real estate and fixed-income holdings. 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 losses on shares and participations in Note 6.

NOTE 10 Unrealised losses on investment assets

	Group		Parent Company	
	2019	2018	2019	2018
Shares and participations	–	–43,271	–	–43,271
Bonds and other debt securities	–	–4,484	–	–4,484
Loans secured by real estate	–	–1	–	–1
Other loans	–150	–	–150	–
Total unrealised losses on investment assets	–150	–47,756	–150	–47,756

NOTE 11 Yield tax

Group and Parent Company	2019	2018
Yield tax ¹⁾	–291	–318
Adjustment of tax attributable to previous years	–1	–
Total yield tax	–292	–318

¹⁾ Yield tax

Capital base ²⁾	793,411	797,009
Tax base ³⁾	3,967	4,065
Yield tax before tax credit ⁴⁾	–595	–610
Tax credit for paid coupon tax and income and property tax (foreign properties) in previous year	304	292
Yield tax after tax credits	–291	–318

Sensitivity analysis

Group	Effect on the yield tax before tax credit	
	2019	2018
Capital base +/- 10 %	–/+ 60	–/+ 61
Allocation percentage +/- 1 % point	–/+ 6	–/+ 6
Average government borrowing rates +/- 1 % point	–/+ 1,190	–/+ 1,196

²⁾ The calculation of the capital base for yield tax is based on the value of all assets at the beginning of 2019 less financial liabilities at the same date. The capital base is adjusted for premiums on indirectly owned foreign and Swedish properties. Of the capital base, SEK 7,700 million (6,529) refers to such premiums. The capital base for yield tax, which includes Alecia's pension products and family cover, represents 95.63 per cent (95.42) of the total base. This portion is calculated on the basis of equity and technical provisions attributable to these products.

³⁾ 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, which results in a form of standardised yield. Since the average government borrowing rate was lower than the statutory floor for a tax base, 0.50 (0.51) was used for the calculation.

⁴⁾ Tax rate: 15 per cent (15).

Accounting principle

Yield tax is payable on Alecia's pension products and on family cover.

Group: Alecia 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.

Parent Company: In the Parent Company income statement, yield tax is recognised together with income tax in the Tax on profit for the year item.

NOTE 12 Tax

	Group		Parent Company	
	2019	2018	2019	2018
Current tax				
Tax on profit for the year in Sweden ¹⁾	–61	–24	–	–
Foreign tax on directly and indirectly owned properties	–172	–77	–172	–77
Adjustment of tax attributable to previous years	–	80	–	80
Coupon tax	–766	–616	–766	–616
Total current tax	–999	–637	–938	–613

Deferred tax

Change in deferred tax assets/liabilities	–3,346	–84	–3,346	148
Total deferred tax	–3,346	–84	–3,346	148

Income tax (Group)	–4,345	–721	–4,284	–465
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Yield tax

Yield tax ²⁾			–291	–318
Adjustment of tax attributable to previous years			–1	–
Total yield tax			–292	–318

Tax on profit for the year (Parent Company)			–4,576	–783
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¹⁾ In the Parent Company, the portion subject to income tax comprises disability pension, waiver of premium and occupational group life insurance (TGL).

²⁾ For the calculation of yield tax, see Note 11.

	Group		Parent Company	
	2019	2018	2019	2018
Reconciliation of theoretical tax expense and reported tax				
Profit/loss before yield tax and income tax according to income statement	97,943	–25,800	97,046	–26 826
Less: Profit/loss from operations subject to yield tax, including consolidation adjustments	–85,209	28,710	–85,637	28,138
Profit/loss from operations subject to income tax	12,734	2,910	11,409	1,312
Tax at applicable tax rate, 21.4 % ¹⁾	–2,725	–640	–2,441	–289
Difference in tax rate ²⁾	7	–	–	–
Effect of changed tax rate	–	73	–	–5
Non-deductible expenses	–20	–9	–8	–5
Non-taxable income	60	16	27	22
Taxable income not included in profit	–2	–3	–2	–3
Loss carry-forwards	27	–	–	–
Guaranteed premium reduction	940	908	940	908
Effect of initial recognition of properties	187	14	–	–
Other	0	0	–	–
Adjustment of tax attributable to previous years ³⁾	–2,743	–1,052	–2,768	–1,061
Creditable foreign tax ⁴⁾	861	592	906	580
Foreign income tax	–171	–4	–172	4
Coupon tax	–766	–616	–766	–616
Reported income tax	–4,345	–721	–4,284	–465
Effective tax	–34 %	–25 %	–38 %	–35 %

¹⁾ The applicable tax rate for 2018 was 22 %.

²⁾ Refers to the US.

³⁾ Of which SEK 2,449 million (773) pertains to the impairment of a deferred tax asset for foreign tax and SEK 304 million (292) to the utilisation of a previously recognised tax asset for foreign tax against yield tax. Comparative figures for 2018 have been adjusted since the impairment of a tax asset for foreign tax previously recognised on the creditable foreign tax line.

⁴⁾ Comprises foreign tax paid during the year and, for the Group, the corresponding deferred tax on the difference between the book and tax values of foreign properties.

NOTE 12 Tax, cont.

	Group				Parent Company			
	2019		2018		2019		2018	
	Tax asset	Tax liability	Tax asset	Tax liability	Tax asset	Tax liability	Tax asset	Tax liability
Deferred tax related to:								
Temporary differences								
Land and buildings in Sweden	–	–1,504	–	–1,450	–	–48	–	–44
Land and buildings outside of Sweden	–	–168	–	–183	–	–	–	–
Other financial investment assets	–	–1,668	–	–836	–	–1,668	–	–836
Accelerated depreciation	–	–44	–	–50	–	–	–	–
Loss carry-forwards ¹⁾	339	–	966	–	324	–	963	–
Creditable foreign tax ²⁾	3,718	–	5,603	–	3,556	–	5,427	–
Deferred tax assets and liabilities	4,057	–3,384	6,569	–2,519	3,880	–1,716	6,390	–880
Netting of assets and liabilities	–1,725	1,725	–880	880	–1,716	1,716	–880	880
Net deferred tax assets and liabilities	2,332	–1,659	5,689	–1,639	2,164	0	5,510	–
<i>of which expected to be settled after more than 12 months, amount before netting</i>	<i>3,736</i>	<i>–3,383</i>	<i>6,263</i>	<i>–2,519</i>	<i>3,560</i>	<i>–1,716</i>	<i>6,090</i>	<i>–880</i>

¹⁾ Recognised as deferred tax asset since this is expected to be utilised against deferred tax liability attributable to temporary differences.

²⁾ Comprises creditable foreign tax exceeding the maximum limit, creditable foreign tax paid during the year and, for the Group, the corresponding deferred tax on the difference between the book and tax values of foreign properties.

Changes in net deferred tax assets and liabilities	Group		Parent Company	
	2019	2018	2019	2018
Opening balance	4,050	4,132	5,510	5,362
Recognised in profit or loss for the year	–3,346	–84	–3,346	148
Foreign exchange differences	0	2	–	–
Change through business combinations/sale	–31	–	–	–
Closing balance	673	4,050	2,164	5,510

Accounting principle

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

Deferred tax is calculated using the balance sheet liability 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 tax and income tax. Alecta's tax expense (yield tax and income tax) will thus be reduced, resulting in future economic benefits. Alecta's assessment is that a tax 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 mainly 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).

Significant estimates and judgements

Income tax

When calculating the basis for income tax in the Parent Company, 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.

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.

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.

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.

NOTE 13 Intangible assets

	Group		Parent Company	
	2019	2018	2019	2018
Cost				
Opening balance, cost	683	683	683	683
Closing balance, cost	683	683	683	683
Accumulated amortisation and impairment				
Opening balance, amortisation	-336	-310	-336	-310
Amortisation for the year	-26	-26	-26	-26
Closing balance, amortisation	-362	-336	-362	-336
Opening balance, impairment	-114	-114	-114	-114
Closing balance, impairment	-114	-114	-114	-114
Carrying amount, intangible assets	207	233	207	233

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 million (680) of the total cost.

Accounting principle

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.

Significant estimates and judgements

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 assets are also reviewed.

NOTE 14 Property, plant and equipment

	Group		Parent Company	
	2019	2018	2019	2018
Cost				
Opening balance, cost	66	55	35	27
Purchases during the year	11	11	5	8
Closing balance, cost	77	66	40	35
Accumulated depreciation				
Opening balance, depreciation	-46	-41	-21	-18
Depreciation for the year	-7	-5	-4	-3
Closing balance, depreciation	-53	-46	-25	-21
Carrying amount, property, plant and equipment	24	20	15	14

Accounting principle

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, and if this amount is less than the carrying amount, the asset is written down to the lower amount.

NOTE 15 Land and buildings

Investment properties

Specification of change in fair value

Group	2019	2018
Opening balance	30,901	28,216
Lease liability attributable to operating leases at the transition date to IFRS 16 ¹⁾	29	-
Adjusted opening balance	30,930	-
New builds, extensions and conversions	1,166	1,027
Acquisitions	2,259	113
Sales	-3,571	-
Change in value	1,439	1,545
Change in value, right-of-use asset, land	2	-
Closing balance	32,225	30,901
Parent Company ²⁾	2019	2018
Opening balance	12,203	11,282
New builds, extensions and conversions	706	631
Sales	-1,410	-
Change in value	917	290
Closing balance	12,416	12,203

¹⁾ See Note 50.

²⁾ Includes Alecta's owner-occupied properties that are recognised at fair value in the Parent Company.

Specification of historical costs

Parent Company	2019	2018
Total	7,025	7,292

	Group		Parent Company	
Fair value by sector	2019	2018	2019	2018
Industrial	0	160	0	160
Office	23,024	20,278	7,177	7,247
Residential	18	1,100	-	-
Retail	7,338	7,948	4,379	3,947
Other	1,845	1,415	860	849
Total	32,225	30,901	12,416	12,203

	Group	
Lettable floor area by sector, sq.m	2019	2018
Industrial	0	17,146
Office	545,329	420,667
Residential	640	33,719
Retail	219,817	279,652
Other	30,396	24,396
Total	796,182	775,580

	Group	
Future rental income by maturity	2019	2018
Within one year	1,552	1,395
Later than one year but within five years	3,612	3,423
Later than five years	2,518	2,381
Total	7,682	7,199

Owner-occupied properties

Group	2019	2018
Cost		
Opening balance	1,114	1,037
Purchases during the year	62	77
Right-of-use asset, land	3	-
Closing balance	1,179	1,114
Accumulated depreciation		
Opening balance	-181	-159
Depreciation for the year	-24	-22
Closing balance	-205	-181
Carrying amount, owner-occupied properties	974	933

NOTE 15 Land and buildings, *cont.*

Accounting principle

Investment properties

All properties in the Group, other than owner-occupied properties, are classified and accounted for as investment properties in accordance with IAS 40, as they are held for rental income or capital appreciation of a combination of the two. All investment properties are located in Sweden.

Investment properties are measured at fair value, which is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. In accordance with IFRS 13, Alecta's investment properties are classified in Level 3 of the fair value hierarchy, which means that non-observable inputs have been used. No properties were transferred to a different level of the hierarchy during the year. 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. Gains and losses arising from changes in the fair values of the investment properties are recognised in the income statement in the period in which the gain or loss occurs. Purchases and sales of investment properties are recognised in the balance sheet on the completion date.

Alecta also owns properties that are being developed or exploited for future use as investment properties. These project properties are measured at fair value or, if fair value cannot be determined at the time of construction, this investment property is measured at cost until its fair value can be reliably determined. Project properties recognised at cost account for SEK 3,516 million (3,340) of the total carrying amount of SEK 32,226 million (30,901) in the Group.

All rental agreements for the Group's investment properties are classified as operating leases according to IFRS 16. 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.

Owner-occupied properties

Alecta's owner-occupied properties are recognised at fair value in the Parent Company in accordance with the Swedish Insurance Companies Annual Accounts Act and classified as land and buildings in the balance sheet. The Group applies IAS 16 for owner-occupied properties, since a large portion of the property is held for the provision of the company's own services. In the Group, owner-occupied properties are measured at cost. The cost is recognised 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. Actual operating and maintenance expenses for Alecta's owner-occupied properties are recognised in operating expenses in the income statement. The full amount of depreciation and impairment of owner-occupied properties is recognised as Depreciation of owner-occupied properties in the consolidated income statement.

Significant estimates and judgements

Valuation method

Alecta engages an external valuation firm to assess the market value of all properties as at 31 December and 30 June each year. The external valuer bases its estimates on information about the specific characteristics of each property, such as current tenancies, running costs and estimated market rents. In connection with the external valuation the information is quality-assured by Alecta.

The total value of Alecta's property portfolio is based on the estimated market value of each individual property. The market value consists of the future benefits which an acquirer could obtain from the property. The key factors are what the property may be used for, and the extent to which and in what way an acquirer can use the property.

Market values of properties are normally determined through cash flow assessments based on estimates of each property's earnings potential. The method involves analysing expected future cash flows over a period of time, normally ten years, and calculating the present value of these cash flows using an estimated discount rate. The components of the nominal discount rate are the estimated inflation rate, the risk-free real interest rate and a risk premium. In determining the risk premium, account is taken of the nature of the investment, the property, contractual relationships and financial risks. The valuations have been designed to meet the requirements of the MSCI Sweden Real Estate Index.

Significant valuation assumptions

The valuation method used is based on several assumptions, such as estimates of market rents, future costs, long-term vacancies, inflation, discount rates and required rates of return in the residual value assessment. A change in any of these assumptions will affect the valuation. Some of the key valuation assumptions are presented below.

Valuation assumptions, weighted	2019	2018
Market rent per square metre	SEK 2,612	SEK 2,366
Long-term vacancy rate	5.55 %	4.16 %
Required rate of return, initial	4.03 %	4.10 %
Required rate of return, exit	4.45 %	4.47 %

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 valuation, a number of parameters which show the impact on the valuation in SEK million have been singled out.

Sensitivity analysis	Change	2019	2018
Market rent	+/- 10 %	+/- 3,250	+/- 2,967
Property costs	+/- SEK 50/sq.m	+/- 748	+/- 729
Long-term vacancy rate	+/- 2 %	+/- 740	+/- 619
Required rate of return, exit	+/- 0.25 %	+/- 1,891	+/- 1,652

NOTE 16 Shares and participations in Group companies ¹⁾

Swedish companies, Parent Company	Corporate Identity Number	Registered office	Number of shares	Share of equity	Carrying amount 2019	Carrying amount 2018
Alecta AB	556597-9266	Stockholm	1,000	100 %	0	0
Alecta Köpcentrum AB	556943-7071	Stockholm	500	100 %	10	10
Alfab Nacka 12 AB	559006-1015	Stockholm	1,000	100 %	–	–
Alfab Värmdö 1 AB	556687-7071	Stockholm	1,000	100 %	–	–
Alfab Värmdö 2 AB	556743-0102	Stockholm	100,000	100 %	–	–
Lidingö Hotellfastighets AB	556701-7099	Stockholm	1,000	100 %	–	–
Alecta Retail Holding AB	556660-2594	Stockholm	1,000	100 %	124	124
Alfab Borås 1 AB ²⁾	556708-2002	Stockholm	–	–	–	–
Alfab Järfälla 1 AB	556664-7599	Stockholm	1,000	100 %	–	–
Alfab Jönköping 1 AB	556692-9385	Stockholm	1,000	100 %	–	–
– Alfab Västerås 1 AB ²⁾	556606-3656	Stockholm	–	–	–	–
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 ²⁾	556604-9275	Stockholm	–	–	–	–
Fastighetsaktiebolaget Borås Filtret ²⁾	556790-5525	Stockholm	–	–	–	–
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
Alecta Fastigheter AB	559103-4086	Stockholm	500	100 %	0	0
Alecta BRF Komplementär AB ³⁾	559187-3210	Stockholm	500	100 %	0	0
Alfab Indirekt Holding AB	556931-5459	Stockholm	50,000	100 %	319	319
Kabelverket Holding AB	556587-1075	Stockholm	1,000	100 %	500	500
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 Helsingborg 1 AB ²⁾	559032-2128	Stockholm	–	–	–	–
Alfab Stockholm 1 AB	556660-5530	Stockholm	1,000	100 %	–	–
Alfab Vällingby 1 AB	556892-7858	Stockholm	500	100 %	–	–
Alfab Vällingby 2 AB	556892-7882	Stockholm	500	100 %	–	–
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 %	–	–
Alecta Bredden Holding AB ⁴⁾	556922-4198	Stockholm	1,000,000	100 %	548	–
Alecta Bredden Holding 2 AB ⁴⁾	556918-4806	Stockholm	50,000	100 %	–	–
– Bredden 1 Fastighets AB ⁴⁾	556684-3784	Stockholm	100,000	100 %	–	–
Fastighetsbolaget Augustendal KB	916635-9084	Stockholm	–	99.9 %	795	679
Fastighetsbolaget Båthamnen KB	916626-5711	Stockholm	–	99.9 %	52	51
Fastighetsbolaget Ellensvik KB	916625-6991	Stockholm	–	99.9 %	207	163
Fastighetsbolaget Gustafshög KB	916625-6983	Stockholm	–	99.9 %	4	4
Fastighetsbolaget Klaraberg KB	916625-6975	Stockholm	–	99.9 %	465	445
Fastighetsbolaget Mässan KB	916626-5653	Stockholm	–	99.9 %	97	85
Fastighetsbolaget Oljekällaren KB	916626-5638	Stockholm	–	99.9 %	177	187
Fastighetsbolaget Philipin KB	916626-5679	Stockholm	–	99.9 %	336	315
Fastighetsbolaget Saluhallen KB	916626-5695	Stockholm	–	99.9 %	50	46
Kontorshotellet Nacka Strand KB	969646-7225	Stockholm	–	99.9 %	0	0
Morgonen 1 i Lund KB	969784-9975	Stockholm	–	99.9 %	12	12
2 Kilo i Halmstad KB	969784-9967	Stockholm	–	99.9 %	43	44
Alfab Helsingborg 2 KB ²⁾	969775-2583	Stockholm	–	–	–	12
Naraden Göteborg 1 KB	969697-7892	Stockholm	–	99.9 %	320	320
SoliFast Finansiering KB ³⁾	969787-1292	Stockholm	–	99.9 %	–	–
Total, Sweden					4,059	3,316

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 divested in 2019. ³⁾ The company was acquired in 2019. ⁴⁾ Subsidiary 2019.

NOTE 16 Shares and participations in Group companies ¹⁾, cont.

Foreign companies, USA ²⁾ , Parent Company	Corporate Identity Number	Registered office	Number of shares	Share of equity	Carrying amount 2019	Carrying amount 2018
Alecta Real Estate USA, LLC	DE ID 4078782	Delaware	–	100 %	854	1,586
Alecta Real Estate Investment, LLC	DE ID 4223706	Delaware	–	100 %	–	–
– Alecta Real Estate Winsted, LLC ³⁾	DE ID 3601057	Delaware	–	100 %	–	–
Alecta Value Add Investments, LLC	DE ID 5469880	Delaware	–	100 %	–	–
Boylston Street Investors, LLC	DE ID 5405204	Delaware	–	100 %	–	–
Cupertino – Tantau, LLC ³⁾	DE ID 4895201	Delaware	–	100 %	–	–
SRP Valley, LLC	DE ID 5125176	Delaware	–	100 %	–	–
PMAK MOB ALECTA REIT FEEDER, LLC ⁴⁾	EIN 84-3660029	Delaware	–	100 %	760	–
Total, USA					1,614	1,586
Total shares and participations in Group companies					5,673	4,902

¹⁾ As all shares are unlisted, market values are not indicated. Carrying amounts are not indicated for subsidiaries of sub-groups.

²⁾ In 2017, the sale of the entire directly owned foreign real estate property portfolio in the US was completed. The remaining assets of foreign companies mainly comprise indirect holdings.

³⁾ The company was liquidated in 2019.

⁴⁾ The company was acquired in 2019.

Parent Company	Carrying amount 2019	Carrying amount 2018
Cost		
Opening balance, cost	14,216	13,245
Purchases during the year	548	55
Shareholder contributions during the year	841	–
Divestments for the year	–12	–
Share of profit for the year	102	916
Closing balance, cost	15,695	14,216
Accumulated impairment		
Opening balance, impairment	–9,314	–9,336
Impairment for the year	–821	–371
Reversal of impairment	113	393
Closing balance, impairment	–10,022	–9,314
Total shares and participations in Group companies	5,673	4,902

Accounting principle

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

NOTE 17 Debt securities issued by, and loans to, Group companies

Parent Company	Carrying amount 2019	Carrying amount 2018
Cost		
Opening balance, cost	9,066	9,272
Change for the year	1,857	–206
Total debt securities issued by, and loans to, Group companies	10,923	9,066

Accounting principle

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.

NOTE 18 Investments in associated companies and joint ventures

31 Dec 2019 Parent Company – joint ventures	Country	Corporate Identity Number	Share of equity	Fair value, shares	Carrying amount, loans	Interest income
Alfa SSM JV AB	Sweden	556840-4262	50.00 %	0	–	–
KB Alfa SSM	Sweden	969715-3998	49.00 %	92	–	7
Ancore Fastigheter AB	Sweden	556817-8858	50.00 %	1,467	–	–
Convea AB	Sweden	556912-4505	50.00 %	67	–	–
Fastighets AB Stenvalvet ¹⁾	Sweden	556803-3111	–	–	–	1
Bredde III Förvaltning AB ²⁾	Sweden	556922-4198	–	–	–	5
Global Business Gate JV AB	Sweden	559109-9030	50.00 %	0	–	–
Global Business Gate JV KB	Sweden	969781-4847	49.50 %	67	–	–
Kongahälla Holding AB	Sweden	559126-1903	50.00 %	395	–	–
Logistikfastigheter Sverige AB ¹⁾	Sweden	559047-9738	–	–	–	7
Midstar Hotels AB	Sweden	559007-7979	49.80 %	2,135	334	–
Sollentuna Stinsen JV AB	Sweden	559085-9954	50.00 %	51	–	–
Stadsrum Fastigheter AB	Sweden	559028-9624	49.00 %	1,141	–	–
Swedish Airport Infrastructure Holding AB	Sweden	559012-5182	50.00 %	0	–	23
Swedish Airport Infrastructure Holding KB	Sweden	969775-2609	49.90 %	1,842	–	–
Parent Company – Associated companies						
Heimstaden Bostad AB – Pref B	Sweden	556864-0873	60.53 %	20,194	–	–
Heimstaden Bostad AB – Ordinary share	Sweden	556864-0873	35.31 %	5,777	–	–
Bain Capital Credit CLO	USA	–	24.35 %	221	–	–
Total, Parent Company				33,449	334	43
Group company – joint ventures						
Långeberga Logistik AB	Sweden	556928-2840	50 %	478	–	–
ARE-LEI Venture, LLC	USA	DE ID 5473708	95.00 %	436	–	–
Boylston Street Associates LLC	USA	DE ID 4906542	95 %	5	–	–
PMAC MOB JV REOC, LLC ³⁾	USA	EIN 84-3591471	48 %	1,989	–	–
Total, Group				36,357	334	43

¹⁾ The company was divested in 2019. ²⁾ Subsidiary 2019. ³⁾ The company was acquired in 2019.

31 Dec 2018 Parent Company	Country	Corporate Identity Number	Share of equity	Fair value, shares	Carrying amount, loans	Interest income
Alfa SSM JV AB	Sweden	556840-4262	50.00 %	0	–	–
KB Alfa SSM	Sweden	969715-3998	49.00 %	44	121	3
Ancore Fastigheter AB	Sweden	556817-8858	50.00 %	1,396	–	–
Bredde III Förvaltning AB	Sweden	556922-4198	39.30 %	194	105	19
Convea AB	Sweden	556912-4505	50.00 %	54	–	–
Fastighets AB Stenvalvet	Sweden	556803-3111	25.60 %	655	652	59
Global Business Gate JV AB	Sweden	559109-9030	50.00 %	0	–	–
Global Business Gate JV KB	Sweden	969781-4847	49.50 %	35	–	–
Heimstaden Bostad AB – Pref B	Sweden	556864-0873	59.20 %	12,527	–	–
Heimstaden Bostad AB – Ordinary share	Sweden	556864-0873	30.80 %	3,331	–	–
Kongahälla Holding AB	Sweden	559126-1903	50.00 %	105	275	–
Logistikfastigheter Sverige AB	Sweden	559047-9738	50.00 %	515	370	21
Midstar Hotels AB	Sweden	559007-7979	49.90 %	1,140	–	–
Sollentuna Stinsen JV AB	Sweden	559085-9954	50.00 %	77	334	20
Stadsrum Fastigheter AB	Sweden	559028-9624	49.00 %	828	–	–
Swedish Airport Infrastructure Holding AB	Sweden	559012-5182	50.00 %	0	–	–
Swedish Airport Infrastructure Holding KB	Sweden	969775-2609	49.90 %	1,696	–	–
Total, Parent Company				22,597	1,857	122
Group company						
Långeberga Logistik AB	Sweden	556928-2840	50.00 %	429	–	–
ARE-LEI Venture, LLC	USA	DE ID 5473708	95.00 %	839	–	–
Boylston Street Associates, LLC	USA	DE ID 4906542	95.00 %	5	–	–
Total, Group				23,870	1,857	122

Accounting principle

Alecta owns shares and participations in companies that are categorised either as jointly controlled entities (joint ventures) or associated companies. Investments in jointly controlled entities are made through joint ventures.

Shares and participations in associated companies and joint ventures are recognised as financial instruments at fair value through profit or loss in accordance with IAS 28. In the balance sheet, shares and participations are recognised in the investment assets category. Changes in value are accounted for in the income statement as unrealised gains or losses. Dividends are recognised as dividends received in the item Return on capital, income. Valuation techniques for shares and participations are described in Note 22.

Loans in joint ventures refer to shareholder loans which are measured at amortised cost using the effective interest method and recognised in the loans receivable category. Accrued interest income and interest payments received are recognised as interest income in the item Return on capital, income. During the 2018–2021 period, a temporary exception will be made from the IFRS 9 Financial Instruments accounting standard. Refer to Note 1 for more information. Alecta's assessment is that the standard will not result in any material change in classification and measurement, and that there is no need to make provisions for the Group's loans in joint ventures.

Information on transactions between Alecta and the above joint ventures is provided in Note 51 Related party disclosures.

NOTE 19 Classification of financial assets and liabilities

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

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

NOTE 19 Classification of financial assets and liabilities, *cont.*

Parent Company, 31 Dec 2019					
Financial assets	Financial assets/ liabilities measured at fair value through profit or loss on initial recognition	Financial assets/ liabilities measured at fair value through profit or loss through trading	Loans and receivables/ other financial assets and liabilities	Total carrying amount	Fair value
Debt securities issued by, and loans to, Group companies	–	–	10,923	10,923	10,923
Shares and participations in associated companies and joint ventures	33,449	–	–	33,449	33,449
Loans to associated companies and joint ventures	–	–	334	334	334
Shares and participations	454,208	–	–	454,208	454,208
Bonds and other debt securities	416,620	–	–	416,620	416,620
Loans secured by real estate	1,914	–	2,569	4,483	4,483
Other loans	6,444	–	–	6,444	6,444
Derivatives	–	12,755	–	12,755	12,755
Receivables related to direct insurance operations	–	–	2,549	2,549	2,549
Other receivables	–	–	8,915	8,915	8,915
Cash and bank balances	–	–	3,280	3,280	3,280
Accrued interest and rental income	–	–	8,990	8,990	8,990
Total	912,635	12,755	37,560	962,950	962,950
Financial liabilities					
Liabilities related to direct insurance operations	–	–	9	9	9
Derivatives	–	12,375	–	12,375	12,375
Other liabilities	–	–	9,554	9,554	9,544
Other accrued expenses and deferred income	–	–	4,944	4,944	4,944
Total	–	12,375	14,507	26,882	26,882

Parent Company, 31 Dec 2018					
Financial assets	Financial assets/ liabilities measured at fair value through profit or loss on initial recognition	Financial assets/ liabilities measured at fair value through profit or loss through trading	Loans and receivables/ other financial assets and liabilities	Total carrying amount	Fair value
Debt securities issued by, and loans to, Group companies	–	–	9,066	9,066	9,066
Shares and participations in joint ventures	22,597	–	–	22,597	22,597
Loans to joint ventures	–	–	1,857	1,857	1,857
Shares and participations	351,727	–	–	351,727	351,727
Bonds and other debt securities	405,487	–	–	405,487	405,487
Loans secured by real estate	–	–	2,777	2,777	2,777
Other loans	3,133	–	–	3,133	3,133
Derivatives	–	5,841	–	5,841	5,841
Receivables related to direct insurance operations	–	–	1,726	1,726	1,726
Other receivables	–	–	2,050	2,050	2,050
Cash and bank balances	–	–	2,970	2,970	2,970
Accrued interest and rental income	–	–	8,028	8,028	8,028
Total	782,944	5,841	28,474	817,259	817,259
Financial liabilities					
Liabilities related to direct insurance operations	–	–	6	6	6
Derivatives	–	9,139	–	9,139	9,139
Other liabilities	–	–	4,390	4,390	4,390
Other accrued expenses and deferred income	–	–	4,458	4,458	4,458
Total	–	9,139	8,854	17,993	17,993

NOTE 20 Net profit by class of financial assets and liabilities

	Group		Parent Company	
	2019	2018	2019	2018
Financial assets at fair value through profit or loss				
shares and participations	121,026	-14,308	120,976	-14,363
debt securities	18,622	11,349	18,622	11,349
loans secured by real estate	63	-	63	-
loans	227	418	227	418
Financial assets and liabilities held for trade				
derivatives	-16,599	-18,269	-16,599	-18,269
Loans and receivables	147	232	280	346
Other liabilities	-21	-27	-21	-27
Total net profit ¹⁾	123,465	-20,605	123,548	-20,546
Land and buildings, net	1,745	2,745	741	1,637
Investment management and custodian expenses	-224	-186	-225	-184
Other, net	45	3	46	3
Total return on capital as reported in income statement	125,031	-18,043	124,110	-19,090

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

NOTE 21 Maturity analysis of financial liabilities

Time to maturity

Group, 31 Dec 2019	< 3 months	3 months < 1 year	1-5 years	>5 years	Total
Non-liquidated securities transactions	-71	-	-	-	-71
Liability for cash collateral received for derivatives	-6,764	-	-	-	-6,764
Derivatives gross – outflow	-355,589	-28,128	-23,037	-43,150	-449,904
Derivatives gross – inflow	362,953	27,867	21,931	35,244	447,995
Other liabilities	-361	-	-	-	-361
Other accrued expenses and deferred income	-4,948	-	-	-	-4,948
Total cash flow	-4,780	-261	-1,106	-7,906	-14,053

Time to maturity

Group, 31 Dec 2018	< 3 months	3 months < 1 year	1-5 years	>5 years	Total
Non-liquidated securities transactions	-554	-	-	-	-554
Liability for cash collateral received for derivatives	-2,069	-	-	-	-2,069
Derivatives gross – outflow	-325,526	-27,027	-30,616	-42,059	-425,228
Derivatives gross – inflow	326,500	27,419	29,525	34,941	418,385
Other liabilities	-281	-	-	-	-281
Other accrued expenses and deferred income	-4,458	-	-	-	-4,458
Total cash flow	-6,388	392	-1,091	-7,118	-14,205

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 remaining contractual times 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 22 Valuation categories for financial instruments measured at fair value

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

Level 1: Measurement using prices quoted in an active market

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

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

Level 2: Measurement based on observable inputs

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

- Quoted interest rates, credit spreads and exchange rates
- Market information on prices for similar financial instruments
- Market information on prices in recently completed transactions in the same or similar financial instruments

Examples of financial assets and liabilities which are classified to this level include debt instruments in the form of Swedish and foreign corporate bonds, structured bonds, and all OTC derivatives, where applicable, in the form of interest rate swaps, currency derivatives and credit derivatives. For debt instruments, daily prices from the external price providers Refinitiv and Bloomberg are used. Under the concluded agreements, Alecra 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 Alecra's financial system in accordance with market practice by estimating the present value of each derivative's future cash flows based on quoted market prices in respect of interest rates, credit spreads and exchange rates.

Level 3: Measurement based on unobservable inputs

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

Examples of financial assets in this level mainly comprise financial instruments with real estate and debt securities as underlying asset but also, to a lesser degree, unlisted shares and venture capital investments. Fair values for these assets are obtained from fund managers, counterparties or property-owning companies following an external valuation of the underlying properties.

Principles for reclassification between levels

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

Principle for reclassification between Level 1 and Level 2

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

No financial instrument was transferred from Level 1 to Level 2, or from Level 2 to Level 1, in either 2019 or 2018.

Principle for reclassification between Level 2 and Level 3

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

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

Principle for reclassification between Level 1 and Level 3

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

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

Sensitivity analysis for Level 3 financial instruments

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

Alecra's assets in Level 3 mainly comprise financial instruments with real estate and debt securities as underlying asset and, to a lesser degree, unlisted shares and venture capital investments.

As we do not have the means to inspect the unobservable inputs used by external price providers, fund managers, counterparties or real estate companies in their fair value measurements of these financial instruments, any sensitivity analysis is subject to a degree of uncertainty. For real estate-related investments, however, it is reasonable to assume that these will be affected by roughly the same value-influencing factors as directly owned properties, i.e. changes in net operating income and required rates of return, while the debt securities are mainly impacted by interest and credit risk and unlisted shares, and venture capital by equity market risk.

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

Sensitivity analysis

Group (SEK million)	Fair value	Value-influencing factor	Effect on fair value
Real estate-related holdings	56,585	Return requirement increase of 0.5 percentage points	-7,073
Interest-related holdings	27,146	Interest-rate increase of 1 percentage point	-1,491
Equity-related holdings	6,531	Share price decrease of 10 per cent	-653
Total Level 3	90,262		-9,217

NOTE 22 Valuation categories for financial instruments measured at fair value, *cont.*

Group	Fair values of financial instruments, 31 Dec 2019			Carrying amount 31 Dec 2019
	Measurement using prices quoted in an active market Level 1	Measurement based on observable inputs Level 2	Measurement based on unobservable inputs Level 3	
Assets				
Shares and participations	421,740	–	33,017	454,757
Shares and participations in associated companies and joint ventures	–	–	36,357	36,357
Bonds and other debt securities	230,010	174,080	12,530	416,620
Loans secured by real estate ¹⁾	–	–	1,914	1,914
Other loans	–	–	6,444	6,444
Derivatives	–	12,755	–	12,755
Total assets	651,750	186,835	90,262	928,847
Liabilities				
Derivatives	–	12,375	–	12,375
Total liabilities	–	12,375	–	12,375
Parent Company				
Assets				
Shares and participations	421,740	–	32,468	454,208
Shares and participations in associated companies and joint ventures	–	–	33,449	33,449
Bonds and other debt securities	230,010	174,080	12,530	416,620
Loans secured by real estate ¹⁾	–	–	1,914	1,914
Other loans	–	–	6,444	6,444
Derivatives	–	12,755	–	12,755
Total assets	651,750	186,835	86,805	925,390
Liabilities				
Derivatives	–	12,375	–	12,375
Total liabilities	–	12,375	–	12,375

¹⁾ Loans secured by real estate were added during 2019.

Group	Fair values of financial instruments, 31 Dec 2018			Carrying amount 31 Dec 2018
	Measurement using prices quoted in an active market Level 1	Measurement based on observable inputs Level 2	Measurement based on unobservable inputs Level 3	
Assets				
Shares and participations	330,327	–	21,911	352,238
Shares and participations in joint ventures	–	–	23,870	23,870
Bonds and other debt securities	212,358	186,874	6,255	405,487
Other loans	–	–	3,133	3,133
Derivatives	–	5,841	–	5,841
Total assets	542,685	192,715	55,169	790,569
Liabilities				
Derivatives	–	9,139	–	9,139
Total liabilities	–	9,139	–	9,139
Parent Company				
Assets				
Shares and participations	330,327	–	21,400	351,727
Shares and participations in joint ventures	–	–	22,597	22 597
Bonds and other debt securities	212,358	186,874	6,255	405,487
Other loans	–	–	3,133	3,133
Derivatives	–	5,841	–	5,841
Total assets	542,685	192,715	53,385	788,785
Liabilities				
Derivatives	–	9,139	–	9,139
Total liabilities	–	9,139	–	9,139

NOTE 23 Disclosures on financial instruments measured at fair value based on Level 3 ¹⁾

Group	Fair value at year-end 2019					Total
	Shares and participations	Shares and participations in associated companies and joint ventures	Bonds and other debt securities	Loans secured by real estate ²⁾	Other loans	
Opening balance 2019	21,911	23,870	6,255	–	3,133	55,169
Purchased	11,887	12,376	7,281	1,886	3,990	37,420
Sold	–2,939	–2,035	–	–10	–726	–5,710
Gains and losses	2,158	2,146	167	38	47	4,556
<i>Realised gains/losses, sold entire holding</i>	129	1,201	–	–	184	1,514
<i>Realised gains/losses, sold portion of holding</i>	40	70	–	–	–	110
<i>Unrealised gains/losses</i>	1,359	981	123	38	–150	2,351
<i>Unrealised foreign exchange gains/losses</i>	630	–106	44	–	13	581
Transferred from Level 3	–	–	–1,173	–	–	–1,173
Closing balance 2019	33,017	36,357	12,530	1,914	6,444	90,262
Total unrealised gains and losses recognised in the income statement for financial instruments held at the end of the period	2,165	2,011	168	38	6	4,388
Gains and losses recognised as return on capital during the period	2,158	2,146	168	38	47	4,557
Parent Company						
Opening balance 2019	21,400	22,597	6,255	–	3,133	53,385
Purchased	11,887	10,263	7,281	1,886	3,990	35,307
Sold	–2,939	–1,713	–	–10	–726	–5,388
Gains and losses	2,120	2,302	167	38	47	4,674
<i>Realised gains/losses, sold entire holding</i>	129	1,201	–	–	184	1,514
<i>Realised gains/losses, sold portion of holding</i>	40	–	–	–	–	40
<i>Unrealised gains/losses</i>	1,334	1,107	123	38	–150	2,452
<i>Unrealised foreign exchange gains/losses</i>	617	–6	44	–	13	668
Transferred from Level 3	–	–	–1,173	–	–	–1,173
Closing balance 2019	32,468	33,449	12,530	1,914	6,444	86,805
Total unrealised gains and losses recognised in the income statement for financial instruments held at the end of the period	2,126	2,167	168	38	6	4,505
Gains and losses recognised as return on capital during the period	2,120	2,302	168	38	47	4,675

¹⁾ The definition of Level 3 is found in Note 22 Valuation categories.

²⁾ Loans secured by real estate were added during 2019.

NOTE 23 Disclosures on financial instruments measured at fair value based on Level 3¹⁾, cont.

Group	Fair value at year-end 2018				Total
	Shares and participations	Shares and participations in joint ventures	Bonds and other debt securities	Other loans	
Opening balance 2018	15,310	15,359	–	2,039	32,708
Purchased	7,565	6,815	6,327	1,069	21,776
Sold	–275	–141	–	–109	–525
Gains and losses	1,167	1,837	–72	134	3,066
Realised gains/losses, sold entire holding	–40	0	–	–	–40
Realised gains/losses, sold portion of holding	7	25	–	–	32
Unrealised gains/losses	458	1,760	–1	84	2,301
Unrealised foreign exchange gains/losses	742	52	–71	50	773
Transferred from Level 3	–1,856	–	–	–	–1,856
Transferred to Level 3	0	–	–	–	0
Closing balance 2018	21,911	23,870	6,255	3,133	55,169
Total unrealised gains and losses recognised in the income statement for financial instruments held at the end of the period	1,167	1,837	–72	134	3,066
Gains and losses recognised as return on capital during the period	1,167	1,837	–72	134	3,066
Parent Company					
Opening balance 2018	14,865	13,900	–	2,039	30,804
Purchased	7,537	6,802	6,327	1,069	21,735
Sold	–275	–	–	–109	–384
Gains and losses	1,129	1,895	–72	134	3,086
Realised gains/losses, sold entire holding	–40	–	–	–	–40
Realised gains/losses, sold portion of holding	7	–	–	–	7
Unrealised gains/losses	451	1,895	–1	84	2,429
Unrealised foreign exchange gains/losses	711	–	–71	50	690
Transferred from Level 3	–1,856	–	–	–	–1,856
Transferred to Level 3	0	–	–	–	0
Closing balance 2018	21,400	22,597	6,255	3,133	53,385
Total unrealised gains and losses recognised in the income statement for financial instruments held at the end of the period	1,129	1,895	–72	134	3,086
Gains and losses recognised as return on capital during the period	1,129	1,895	–72	134	3,086

¹⁾ The definition of Level 3 is found in Note 22 Valuation categories.

NOTE 24 Shares and participations

Group	2019		2018	
	Fair value	Cost	Fair value	Cost
Swedish listed shares	175,467	103,011	143,306	106,635
Swedish unlisted shares	3,180	2,269	1,636	1,503
Foreign listed shares	246,273	165,984	187,021	160,390
Foreign unlisted shares	29,837	25,457	20,275	16,473
Total	454,757	296,721	352,238	285,001
Parent Company				
Swedish listed shares	175,467	103,011	143,306	106,635
Swedish unlisted shares	3,180	2,269	1,636	1,503
Foreign listed shares	246,273	165,984	187,021	160,390
Foreign unlisted shares	29,288	25,089	19,764	16,118
Total	454,208	296,353	351,727	284,646

A list of all shares is available at alecta.se

Accounting principle

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 22. 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 (Note 5).

NOTE 25 Bonds and other debt securities

Group and Parent Company	2019		2018	
	Fair value	Amortised cost	Fair value	Amortised cost
Swedish government	36,696	32,808	48,996	44,908
Swedish mortgage bonds	77,486	77,168	56,822	56,423
Other Swedish issuers	69,661	68,756	92,738	92,124
Foreign governments	159,038	148,220	131,577	125,089
Other foreign issuers	73,739	72,299	75,354	69,758
Total	416,620	399,251	405,487	388,302

The fair value of debt securities exceeds or is lower than the amount payable on the due date by SEK 26,917 million (20,289) and SEK 152 million (786), respectively. The items Swedish government and Foreign governments also include state-guaranteed holdings.

Group and Parent Company	2019	2018
Fixed-rate term		
0–1 years	130,473	133,689
>1–5 years	128,205	143,465
>5–10 years	100,514	85,633
>10 years	57,428	42,700
Total	416,620	405,487

Accounting principle

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 22. 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.

NOTE 26 Loans secured by real estate

Group and Parent Company	2019		2018	
	Fair value	Cost	Fair value	Cost
Swedish loans secured by real estate	2,409	2,371	312	312
Foreign loans secured by real estate	2,074	2,074	2,465	2,465
Total	4,483	4,445	2,777	2,777

Accounting principle

Swedish loans secured by real estate are primarily measured at fair value. Foreign loans secured by real estate are measured at amortised cost in accordance with the effective interest method.

During the 2018–2021 period, a temporary exception will be made from the IFRS 9 Financial Instruments accounting standard, disclosures are made to facilitate comparison with companies that apply IFRS 9. The disclosures are intended to emulate the groupings made when IFRS 9 is applied without, however, constituting a full application of the regulatory framework. When assessing provisioning requirements for expected credit losses, Alecta uses a three-stage approach. Stage 1 pertains to assets for which the credit risk has not increased significantly since initial recognition, with recognition of a 12-month ECL that is associated with the risk of default in the next 12 months. Stage 2 pertains to assets for which the credit risk has increased significantly since initial recognition, with no underperformance since initial recognition. In order to determine whether there has been a significant increase in credit risk, the probability of a default at the reporting date is compared with the probability of a default at the date of initial recognition. Stage 3 pertains to credit impaired assets and these are assessed individually. For Stages 1 and 2, a provision for expected credit loss is based on the residual life of the asset. When calculating the provision for credit losses under IFRS 9, Alecta takes historical credit loss experience and various forward-looking scenarios into account. The assessment is that adoption of the standard would not have any significant effect on Alecta's financial statements.

NOTE 27 Other loans

Group and Parent Company	2019		2018	
	Fair value	Cost	Fair value	Cost
Other loans, Swedish	3,516	3,521	1,071	1,025
Other loans, foreign	2,928	2,545	2,062	1,581
Total	6,444	6,066	3,133	2,606

Accounting principle

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.

NOTE 28 Derivatives

Group and Parent Company	2019			2018		
	Fair value			Fair value		
	Nominal value	Assets	Liabilities	Nominal value	Assets	Liabilities
Equity-related instruments	-11,720	-	-	-5,862	-	-
<i>Futures</i>	-11,720	-	-	-5,862	-	-
Fixed-income instruments	180,175	3,885	8,495	138,742	3,608	6,828
<i>Swaps¹⁾</i>	164,109	3,885	8,495	145,762	3,608	6,828
<i>Futures</i>	16,066	-	-	-7,020	-	-
Currency-related instruments	328,109	8,870	3,880	282,573	2,233	2,311
<i>Futures/swaps</i>	328,109	8,870	3,880	282,573	2,233	2,311
Total	496,564	12,755	12,375	415,453	5,841	9,139

¹⁾ Nominal amount for 2018 has been adjusted from 136,780 till 145,762

The management of collateral for derivatives is described in Note 29 Financial instruments subject to enforceable master netting agreements.

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

Accounting principle

A derivative is a financial instrument whose value is based on the performance of an underlying instrument. Alecta uses derivatives to improve the efficiency of the management of its assets and to reduce financial risks. 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 20. Alecta does not apply hedge accounting.

NOTE 29 Financial instruments subject to enforceable master netting agreements

Group and Parent Company	Financial assets recognised in the balance sheet	of which amounts are not netted but which are subject to enforceable master netting agreements or similar agreements in the event of insolvency	Financial collateral received	Cash collateral received	Net amount ³⁾
31 Dec 2019					
Assets					
Derivatives ⁴⁾	15,940	-10,361	–	-6,764	0
Securities lending ¹⁾	24,351	–	-24,856	–	0

	Financial liabilities recognised in the balance sheet	of which amounts are not netted but which 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⁾	15,555	-10,361	-1,322	-6,170	0

Group and Parent Company	Financial assets recognised in the balance sheet	of which amounts are not netted but which are subject to enforceable master netting agreements or similar agreements in the event of insolvency	Financial collateral received	Cash collateral received	Net amount ³⁾
31 Dec 2018					
Assets					
Derivatives ⁴⁾	8,497	-7,459	-46	-2,069	0
Securities lending ¹⁾	22,995	–	-23,456	–	0

	Financial liabilities recognised in the balance sheet	of which amounts are not netted but which 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⁾	11,973	-7,459	-5,986	-512	0

¹⁾ Lending of debt securities is described in Note 45 Transfer of financial assets.

²⁾ Collateral pledged is also presented in Note 44 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 3,185 million (2,656) and accrued interest expenses of SEK 3,179 million (2,834).

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/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 15,940 million and derivatives with a negative value of SEK 15,555 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 6,764 million in debt securities in the form of Swedish cash in cases where the sum of all derivatives is positive. Similarly, Alecta has pledged SEK 1,322 million in debt securities in the form of Swedish mortgage bonds, and French government bonds, and SEK 6,170 million in cash in cases where the sum of all derivatives is negative.

NOTE 30 Receivables related to direct insurance operations

Group and Parent Company	2019	2018
Receivables from policy holders	2,549	1,726
Total	2,549	1,726

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

Accounting principle

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

NOTE 32 Accrued interest and rental income

	Group		Parent Company	
	2019	2018	2019	2018
Accrued interest income	8,982	8,031	8,990	8,031
Total	8,982	8,031	8,990	8,031

Accounting principle

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.

NOTE 31 Other receivables

Group	2019	2018
Payment receivables from sale of investment assets	1,492	29
Approved dividend	78	66
Value-added tax	40	81
Receivable, PRI Pensionsgaranti	201	193
Collateral pledged for derivatives ¹⁾	6,170	512
Other	209	165
Total	8,190	1,046
Parent Company		
Payment receivables from sale of investment assets	1,492	29
Swedish tax	68	30
Foreign tax	1,020	844
Deferred tax ²⁾	2,164	5,510
Approved dividend	78	66
Value-added tax	0	0
Receivable from subsidiary	892	1,129
Receivable, PRI Pensionsgaranti	201	193
Collateral pledged for derivatives ¹⁾	6,170	512
Other	82	121
Total	12,167	8,434

¹⁾ See also Note 29.

²⁾ See also Note 12.

Accounting principle

Other receivables are recognised at amortised cost.

NOTE 33 Equity

Group	Translation reserve	Discretionary participation features reserve ¹⁾	Special indexation funds ²⁾	Retained earnings including net profit/loss for the year	Total
Opening balance 2018	129	89,388	10,298	255,787	355,602
Net profit/loss for the year	–	–	–	–26,839	–26,839
Allocated refunds					
<i>Defined benefit plan</i>	–	15,751	–	–15,751	–
<i>Defined contribution plan</i>	–	1,162	–	–1,162	–
Guaranteed refunds					
<i>Pension supplements, defined benefit plan</i>	–	–2,390	–	–	–2,390
<i>Supplementary amounts, defined contribution plan</i>	–	–156	–	–	–156
<i>Adjustment of paid-up values, defined benefit plan</i>	–	–4,841	–	–1,468	–6,309
<i>Premium reduction</i>	–	–4,202	–	–	–4,202
Collective risk premium ³⁾	–	–	–116	–	–116
Other changes					
<i>Fees</i>	–	–	6	–6	–
<i>Interest</i>	–	290	–47	–243	–
<i>Effect of changes in market interest rates</i>	–	126	–	–126	–
<i>Effect of changes in assumptions</i>	–	141	–	–141	–
<i>Exchange rate fluctuations for the period</i>	150	–	–	–	150
<i>Other ⁴⁾</i>	–	–549	21	211	–317
Closing balance 2018	279	94,720	10,162	210,262	315,423
Opening balance 2019	279	94,720	10,162	210,262	315,423
Net profit/loss for the year	–	–	–	93,306	93,306
Allocated refunds					
<i>Defined benefit plan</i>	–	12,915	–	–12,915	–
<i>Defined contribution plan</i>	–	24,908	–	–24,908	–
Guaranteed refunds					
<i>Pension supplements, defined benefit plan</i>	–	–2,676	–	–	–2,676
<i>Supplementary amounts, defined contribution plan</i>	–	–167	–	–	–167
<i>Adjustment of paid-up values, defined benefit plan</i>	–	–5,560	–	–1,663	–7,223
<i>Premium reduction</i>	–	–4,472	–	–	–4,472
Collective risk premium ³⁾	–	–	–122	–	–122
Other changes					
<i>Fees</i>	–	–	21	–21	–
<i>Interest</i>	–	236	–10	–225	1
<i>Effect of changes in market interest rates</i>	–	661	–	–661	–
<i>Effect of changes in assumptions</i>	–	–40	–	40	–
<i>Exchange rate fluctuations for the period</i>	29	–	–	–	29
<i>Other ⁴⁾</i>	–	–836	–	132	–704
Closing balance 2019	308	119,689	10,051	263,347	393,395

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 119,689 million (94,720) 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⁾ Funds contributed to Alecta for indexation of pensions or for other pension-promoting purposes or, alternatively, to be transferred to a foundation designed for indexation of pensions. The Council of Administration decides how the funds should be used.

³⁾ 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.

⁴⁾ The item comprises cumulative return, inheritance gains and portfolio changes.

NOTE 33 Equity, cont.

Accounting principle

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. Currencies that have been translated are US dollars.

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 contributed to Alecta for indexation of pensions in payment and for other pension-promoting purposes or, alternatively, to be transferred to a foundation designed for indexation of pensions. Decisions on the use of the funds for these purposes are made by the Council of Administration. Special indexation funds are not included in collective funding capital. Change items are recognised directly in equity.

Retained earnings including net profit/loss for the year

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

NOTE 34 Surplus fund

Parent Company	Collective funding	Discretionary participation features reserve	Other reserves	Total
		Allocated refunds to insureds and policyholders ¹⁾	Special indexation funds ²⁾	
Opening balance 2018	194,894	89,388	10,298	294,580
Appropriation of profits from previous years	55,341		–	55,341
Allocated refunds				
<i>Defined benefit plan</i>	–15,751	15,751	–	–
<i>Defined contribution plan</i>	–1,162	1,162	–	–
Guaranteed refunds				
<i>Pension supplements, defined benefit plan</i>	–	–2,390	–	–2,390
<i>Supplementary amounts, defined contribution plan</i>	–	–156	–	–156
<i>Adjustment of paid-up values, defined benefit plan</i>	–1,468	–4,841	–	–6,309
<i>Premium reduction</i>	–	–4,202	–	–4,202
Fees	–6	–	6	–
Interest	–243	290	–47	–
Collective risk premium ³⁾	–	–	–116	–116
Effect of changes in market interest rates	–126	126	–	–
Effect of changes in assumptions	–141	141	–	–
Other changes ⁴⁾	208	–549	20	–320
Closing balance 2018	231,546	94,720	10,161	336,427
Opening balance 2019	231,546	94,720	10,161	336,427
Appropriation of profits from previous years	–27,609	–	–	–27,609
Allocated refunds				
<i>Defined benefit plan</i>	–12,915	12,915	–	–
<i>Defined contribution plan</i>	–24,908	24,908	–	–
Guaranteed refunds				
<i>Pension supplements, defined benefit plan</i>	–	–2,676	–	–2,676
<i>Supplementary amounts, defined contribution plan</i>	–	–167	–	–167
<i>Adjustment of paid-up values, defined benefit plan</i>	–1,663	–5,560	–	–7,223
<i>Premium reduction</i>	–	–4,472	–	–4,472
Fees	–21	–	21	–
Interest	–225	236	–10	1
Collective risk premium ³⁾	–	–	–121	–121
Effect of changes in market interest rates	–661	661	–	–
Effect of changes in assumptions	40	–40	–	–
Other changes ⁴⁾	134	–835	–	–701
Closing balance 2019	163,718	119,690	10,051	293,459

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 119,690 million (94,720) 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⁾ Funds contributed to Alecta for indexation of pensions or for other pension-promoting purposes or, alternatively, to be transferred to a foundation designed for indexation of pensions. The Council of Administration decides how the funds should be used.

³⁾ 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.

⁴⁾ The item comprises cumulative return, inheritance gains and portfolio changes.

Accounting principle

Surplus fund

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

NOTE 35 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 2019 of SEK 92,469,545,106 be transferred to the surplus fund. 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 on page 61.

See also Proposed appropriation of profits in Administration Report on page 62.

NOTE 36 Provision for life insurance

Group and Parent Company	2019	2018
Opening balance	495,679	461,572
Change for the year	42,538	37,964
Premiums	45,993	41,821
Payments	-17,631	-16,943
Cumulative returns	15,104	14,712
Released operating expenses	-581	-627
Yield tax	-667	-614
Mortality result	234	84
Other changes	86	-469
Change in interest rate assumption	28,089	8,349
Difference between premium and TP assumptions	-14,737	-16,922
Change in operating expenses assumption	-	-3,075
Changed assumption for yield tax	-	7,791
Change in reduction factors	-1,460	-
Changed assumption for mortality	6,671	-
Closing balance	556,780	495,679

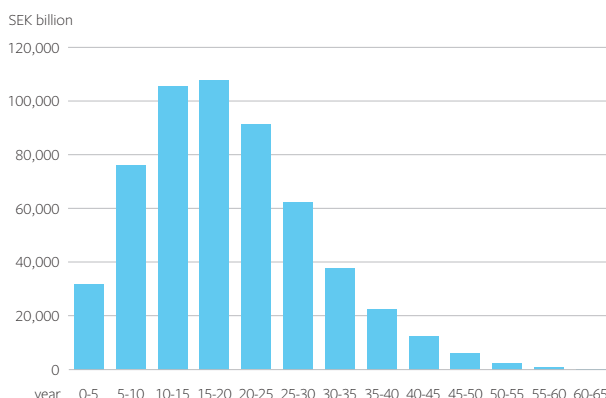
The following assumptions have been applied in calculating the provision for life insurance at 31 December 2019:

- Interest rate assumption: The average rate of interest was 1.81 per cent (2.16) at 31 December 2019. The method of determining this rate is described in Note 3.
- Mortality assumption: In 2019, a review of the cohort mortality rates applied was conducted and new mortality assumptions were introduced at 31 Dec 2019. The life expectancy of a 65-year-old man increased from 22.2 years to 22.8 years due to the change. The remaining life expectancy for a 65-year-old woman remained unchanged at 23.9 years. The change increased the life provision by SEK 6,671 million.
- 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 Alecia is expected to pay on assets representing the present value of guaranteed commitments. The load for yield tax is 0.12 per cent, corresponding to 15 per cent of the discount rate with a maturity of 15 years.

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 rates were to fall by 1 percentage point, the average interest rate would fall by 0.3 percentage points and the provision for life insurance would increase by SEK 27.0 billion (42.6).

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



Accounting principle

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.

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 cumulative returns, assumed operating expenses, mortality results and the exercise of the right to switch 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.

NOTE 37 Provision for claims outstanding

Group and Parent Company	2019	2018
Opening balance	17,470	17,242
Change for the year	-75	144
Provision for new claims	6,415	6,234
Discontinuation income	-3,242	-2,907
Payments	-3,285	-3,241
Cumulative returns	137	194
Released operating expenses	-54	-56
Other changes	-46	-80
Change in interest rate assumption	448	85
Changed assumption for morbidity	-3,776	-
Changed assumption for unknown claims	-213	-
Closing balance	13,854	17,470

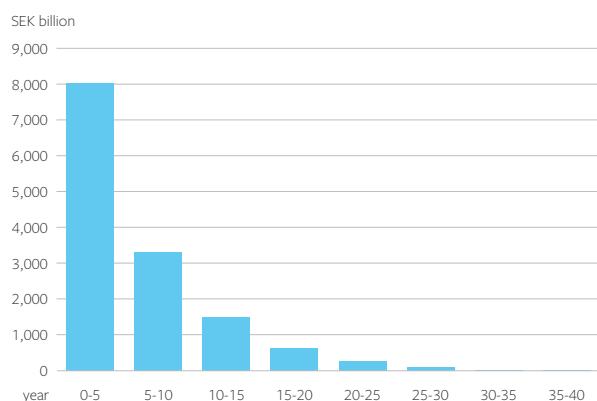
The following assumptions have been used in calculating, as at 31 December 2019, the provision for claims outstanding in respect of disability pension and waiver of premium, which comprise the dominant portion of the provision:

- Interest rate assumption: The rate of interest was 0.52 per cent (1.03) at 31 December 2019. The method of determining this rate is described in Note 3.
- 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. In 2019, the assumptions that were applied regarding the probability of remaining ill were reviewed and new assumptions were introduced at 31 December 2019. The change reduced the expected period of illness and the provision was reduced by SEK 3,776 million.
- 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

- If market rates fall by 1 percentage point, the provision increases by SEK 0.2 billion (0.5).

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



Accounting principle

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.

Change in 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.

NOTE 38 Provision for pensions and similar obligations

	Group		Parent Company	
	2019	2018	2019	2018
Provision for pensions	0	2	0	2
Total	0	2	0	2

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 and Note 48.

Accounting principle

All pension plans in the Group are recognised as defined contribution plans. 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 assumptions that the benefit will be earned on a straight-line basis up to the age of 62 and that 60 per cent (60) of employees will exercise the option.

NOTE 39 Other provisions

	Group		Parent Company	
	2019	2018	2019	2018
Indexation of pensions for former employees	1	1	1	1
Provision for real estate	14	8	3	2
Total	15	9	4	3

Accounting principle

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, and it is probable that an outflow of resources will be required to settle the obligation and that 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.

NOTE 40 Liabilities related to direct insurance operations

Group and Parent Company	2019	2018
Liabilities to policy holders	9	6
Preliminary tax, pensions	746	716
Other	10	10
Total	765	732

Accounting principle

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

NOTE 41 Other liabilities

Group	2019	2018
Payment liability on purchase of investment assets	71	554
Collateral received for derivatives ¹⁾	6,764	2,069
Accounts payable	274	238
Property tax	123	97
Value-added tax	25	4
Lease liability ²⁾	34	–
Other	44	37
Total	7,335	2,999

All liabilities mature within one year after the balance sheet date, except for the lease liability which is long-term. See also Note 50.

Parent Company	2019	2018
Liabilities to subsidiaries	2,441	1,573
Payment liability on purchase of investment assets	71	554
Collateral received for derivatives ¹⁾	6,764	2,069
Accounts payable	258	171
Property tax	49	46
Value-added tax	6	4
Other	21	23
Total	9,610	4,440

¹⁾ See also Note 28.

²⁾ See also Notes 15 and 50.

NOTE 42 Other accrued expenses and deferred income

	Group		Parent Company	
	2019	2018	2019	2018
Accrued interest expense	4,914	4,439	4,914	4,439
Accrued property costs	115	82	82	56
Accrued personnel costs	82	96	80	93
Prepaid rental income	401	383	133	142
Other	34	19	30	19
Total	5,546	5,019	5,239	4,749

Accounting principle

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 for currency swaps.

NOTE 43 Assets and comparable collateral pledged for own liabilities and for obligations reported as provisions

Group and Parent Company	2019	2018
Assets registered on behalf of policy holders	944,870	803,574
<i>in addition to required pledge</i>	342,279	287,628
	944,870	803,574
Land and buildings	24,202	23,025
Shares and participations in associated companies and joint ventures	33,449	22,597
Loans to associated companies and joint ventures	334	1,859
Shares and participations	454,208	351,727
Bonds and other debt securities	418,060	398,946
Loans secured by real estate	4,506	2,794
Other loans	6,446	3,133
Derivatives	384	-3,477
Cash and bank balances	3,281	2,970
Total	944,870	803,574

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

NOTE 44 Other pledged assets and comparable collateral

Group and Parent Company	2019	2018
Collateral pledged to clearing houses for derivatives trading		
Bonds and other debt securities	3,013	2,460
Cash and bank balances	432	62
Collateral pledged for derivatives trading in accordance with CSA contracts		
Bonds and other debt securities	489	5,748
Cash and bank balances	6,143	511
Total	10,077	8,781

Collateral pledged for derivatives trading in accordance with CSA contracts is described in Note 29 Financial instruments subject to enforceable master netting agreements.

NOTE 45 Transfers of financial assets

Group and Parent Company	2019	2018
Loaned debt securities	24,351	22,995
Collateral received for loaned securities	24,856	23,456

Accounting principle

Loaned debt securities consist of Swedish and French government bonds, which are recognised at fair value in the balance sheet, in accordance with the applicable accounting principles. Collateral received for loaned debt securities consists of Swedish and Danish covered bonds and are not recognised in the balance sheet. Compensation received for loaned debt securities has been recognised as interest income in the item Capital return, income, see Note 5.

NOTE 46 Contingent liabilities

Group	2019	2018
Remaining balance to be invested in investment assets	30,016	15,622
Guarantee commitments	631	709
Total	30,647	16,331
Parent Company		
Remaining balance to be invested in investment assets	29,831	15,614
Liabilities in limited partnerships	87	97
Total	29,918	15,711

Contingent liabilities is a generic term for guarantees, financial commitments and obligations that are not included in the balance sheet.

Remaining balance to be invested in investment assets refers to an obligation to inject capital, if requested, into unlisted real estate-related investments and unlisted fixed-income investments.

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 47 Reconciliation of total return table to financial statements

Group	2019	2018
Market value according to total return table ¹⁾	962,678	823,932
Assets not classified as investments	4,294	7,482
Items from the liabilities side of the balance sheet which have been deducted in the total return table	24,848	16,852
Valuation differences	-96	-155
Total assets according to balance sheet	991,724	848,111

¹⁾ See page 58.

²⁾ Notes 5, 6, 9 and 10 in the income statement.

Group	2019	2018
Total return according to total return table	122,942	-18,300
Items from the income statement (Notes 5, 6, 9, 10) which are not included in the total return table	-447	-367
Foreign exchange effects in foreign subsidiaries, recognised in equity in the financial statements	-3	-152
Tax included in the total return table, classified as tax in the income statement	2,510	797
Other	29	-21
Net return on capital according to income statement ²⁾	125,031	-18,043

NOTE 48 Average number of employees, salaries and remuneration

Average number of employees ¹⁾	2019			2018		
	Number of employees	Of whom women	Of whom men	Number of employees	Of whom women	Of whom men
Parent Company						
Sweden	341	201	140	343	202	141
Total, Parent Company	341	201	140	343	202	141
Subsidiaries						
Sweden	25	19	6	24	17	7
Total, subsidiaries	25	19	6	24	17	7
Total, Group	366	220	146	367	219	148

Gender distribution in senior positions	2019		2018	
	Women	Men	Women	Men
Parent Company				
Board of Directors	5	7	5	8
CEO	-	1	-	1
Other senior executives	4	4	3	6
Total, Parent Company	9	12	8	15
Subsidiaries				
Board of Directors	1	8	1	6
Total, subsidiaries	1	8	1	6
Total, Group	10	20	9	21

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

kSEK	2019				2018			
	Salaries, fees and other remuneration	Social security contributions	Pension costs	Total	Salaries, fees and other remuneration	Social security contributions	Pension costs	Total
Parent Company								
CEO and senior executives ³⁾	24,305	11,654	7,661	43,620	23,558	9,216	7,479	40,253
Board of Directors ⁴⁾	3,152	862	-	4,014	3,077	833	-	3,910
Other employees	243,258	78,724	46,774	368,756	229,867	70,064	49,684	349,615
Total, Parent Company	270,715	91,240	54,435	416,390	256,502	80,113	57,163	393,778
Subsidiaries								
Other employees	10,911	3,637	940	15,488	11,073	3,690	972	15,735
Total, subsidiaries	10,911	3,637	940	15,488	11,073	3,690	972	15,735
Total, Group	281,626	94,877	55,375	431,878	267,575	83,803	58,135	409,513

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 2019. For the current composition of senior management, see pages 54-55.

⁴⁾ Members of the Board receive Directors' fees and fees for work on Board committees, which are determined by the Council of Administration. One Director also receives remuneration for nomination committee work.

NOTE 48 Average number of employees, salaries and remuneration, *cont.*

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

kSEK	2019					
	Salaries, fees and other remuneration ¹⁾	Variable remuneration ^{1, 4)}	Benefits ³⁾	Total remuneration	Social security contributions	Pension costs
Parent Company						
CEO						
Magnus Billing	6,222	–	102	6,324	2,546	2,306
Deputy CEO						
Katarina Thorslund	2,438	–	16	2,454	909	568
Hans Sterte	4,880	–	3	4,883	1,988	1,870
Senior executives						
Senior executives ²⁾	10,627	–	17	10,644	4,052	2,917
Total, CEO and senior executives	24,167	–	138	24,305	9,495	7,661
Chairman of the Board						
Ingrid Bonde ⁵⁾	398	–	–	398	125	–
Other members of the Board						
Hanna Bisell	210	–	–	210	66	–
Cecilia Fahlberg Pihlgren	213	–	–	213	67	–
Markus Granlund	99	–	–	99	31	–
Petra Hedengran	195	–	–	195	61	–
Helena Hedlund	99	–	–	99	31	–
Jan-Olof Jacke	117	–	–	117	37	–
Magnus von Koch	195	–	–	195	61	–
Martin Linder	213	–	–	213	67	–
Richard Malmberg	195	–	–	195	61	–
Kaj Thorén	295	–	–	295	30	–
Anders Weihe	195	–	–	195	61	–
Members of the Board that have left						
Erik Åsbrink	309	–	–	309	32	–
Anna-Karin Hatt	97	–	–	97	30	–
Per Hedelin	111	–	–	111	35	–
Peter Jeppsson	97	–	–	97	30	–
Carola Lemne	114	–	–	114	36	–
Total, Board	3,152	–	–	3,152	862	–
Total, Parent Company	27,319	–	138	27,457	10,357	7,661

¹⁾ Salaries, fees, other remuneration and variable remuneration shown as total salaries, fees and other remuneration charged to expense in the financial year 2019.

²⁾ Other senior executives refer to six positions (seven), which together with the CEO and the Deputy CEO comprised Alecia's senior management team. For the composition of senior management, see pages 54–55. 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, attractive mortgage rates, 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 Alecia, including variable remuneration, in accordance with the Swedish Financial Supervisory Authority's Regulations and General Guidelines on Annual Reports of Insurance Undertakings (FFFS 2015:12) will be published on alecia.se in April 2020.

⁵⁾ Assumed chairmanship at the Council of Administration's meeting on 11 April 2019.

NOTE 48 Average number of employees, salaries and remuneration, *cont.*

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

kSEK	2018					
	Salaries, fees and other remuneration ¹⁾	Variable remuneration ^{1, 4)}	Benefits ³⁾	Total remuneration	Social security contributions	Pension costs
Parent Company						
CEO						
Magnus Billing	5,925	–	78	6,003	2,423	2,212
Deputy CEO						
Katarina Thorslund	2,402	–	13	2,415	889	537
Senior executives						
Senior executives ²⁾	14,948	190	2	15,140	5,904	4,730
Total, CEO and senior executives	23,275	190	93	23,558	9,216	7,479
Chairman of the Board						
Erik Åsbrink	609	–	–	609	100	–
Other members of the Board						
Hanna Bisell (previously Brandt Gonzalez)	190	–	–	190	60	–
Cecilia Fahlberg	225	–	–	225	71	–
Anna-Karin Hatt	190	–	–	190	60	–
Per Hedelin	219	–	–	219	69	–
Peter Jeppsson	190	–	–	190	60	–
Carola Lemne	114	–	–	114	36	–
Martin Linder	190	–	–	190	60	–
Petra Hedengran	190	–	–	190	60	–
Richard Malmborg	190	–	–	190	60	–
Anders Weihe	190	–	–	190	60	–
Kaj Thorén	280	–	–	280	46	–
Magnus von Koch	190	–	–	190	60	–
Other members of the Board that have left						
Christer Ågren	110	–	–	110	35	–
Total, Board	3,077	–	–	3,077	833	–
Total, Parent Company	26,352	190	93	26,635	10,049	7,479

¹⁾ Salaries, fees, other remuneration and variable remuneration shown as total salaries, fees and other remuneration charged to expense in the financial year 2018.

²⁾ Other senior executives refer to seven positions (seven), which together with the CEO and the Deputy CEO comprised Alecta's senior management team in 2018. 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, attractive mortgage rates, 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 Regulations and General Guidelines on Annual Reports of Insurance Undertakings (FFFS 2015:12) was published on alecta.se in April 2019.

NOTE 48 Average number of employees, salaries and remuneration, *cont.*

Remuneration to Directors, CEO and 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 2019 comprised basic salary, other benefits, such as a company car, mortgage interest benefits, healthcare insurance, household services, pension costs and social security contributions.

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 eight individuals who together with the CEO have constituted Alecia's management team. For the current composition of senior management, see pages 54–55.

In accordance with the Swedish Financial Supervisory Authority's General Regulations and General Guidelines on Annual Reports of Insurance Undertakings (FFFS 2015:12), supplementary disclosures on remuneration will be presented on Alecia's website, alecia.se, in April 2020.

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 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. The contract can be terminated by the CEO on six months' notice.

The Deputy CEOs are also covered by the FTP plan. 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 contract can be terminated by the Deputy CEO on six months' notice. The Deputy CEO Hans Sterte is covered by a mutual notice period of six months, with any benefits received being fully deductible from severance pay.

Senior executives are covered by the FTP plan. Three executives are covered by FTP 2 and the remaining executives by FTP 1. 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 Alecia have had the option of exchanging a part of their salary for occupational pension premiums. Salary exchange is cost-neutral for Alecia. This option is available to all employees of Alecia Pensionsförsäkring, ömsesidigt.

Incentive schemes

In 2019, employees in the Equity and Interest Management and Investment Management departments and employees of a subsidiary which provides restaurant and conference services were covered by an incentive scheme. Alecia has been running a general variable pay incentive scheme covering all employees except senior management, employees of the Equity and Interest Management Department and employees of the Internal Audit, Risk and Compliance units. The outcome for the general incentive scheme is contingent on achievement of targets linked to the business plan for 2019, with a

maximum payout of kSEK 12 per employee in the form of increased occupational pension premiums. In 2019, two of the targets were fully achieved. The outcome per employee was kSEK 8 (4), representing a total cost for Alecia of approximately SEK 3 million (1), including social security contributions. The Investment Management incentive scheme for employees in the Equity and Interest Management Department has an evaluation period of three years. The Board of Directors has defined caps 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 Alecia's competitors and return from active management in the asset classes shares and debt instruments. The outcome for each individual also depends on the extent to which individually defined targets have been achieved. For 2019, a provision of SEK 4.4 million, excluding social security contributions, has been made for variable remuneration. For 2018, the vested variable remuneration was SEK 2.1 million excluding social security contributions.

In the incentive scheme for subsidiaries engaged in restaurant and conference activities, SEK 0.2 million excluding social security contributions was vested for 2019. For 2018, the vested variable remuneration was SEK 0.5 million excluding social security contributions.

Pension plans

All employees of Alecia Pensionsförsäkring, ömsesidigt, who are based in Sweden are covered by an occupational pension plan, FTP 17. 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 cover, disability pension and waiver of premium insurance. The premium for retirement pension is 4.9 per cent of the gross salary on portions of salary up to 7.5 times the income basic amount and 30.5 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 ten 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 recognised 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. Alecia 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 22.0 million in 2019 and is expected to reach SEK 18.2 million in 2020. The premium represents approximately 0.10 per cent of the total premiums for defined benefit retirement and family pensions paid to Alecia by the client companies. Premiums are calculated on a per insured basis and for each type of benefit by applying Alecia's assumptions on interest rates, operating expenses and yield tax.

Alecia's collective funding ratio for defined benefit plans at the end of the year was 148 per cent (142). The collective funding ratio is defined as the market value of Alecia's assets as a percentage of its commitments to policy holders calculated using Alecia's actuarial assumptions, which are not consistent with IAS 19. According to Alecia's funding policy for defined benefit insurance products, the specific normal range for the collective funding ratio is 125–175 per cent.

FTP 2 provides an option for employees born in 1955 or earlier to retire

NOTE 48 Average number of employees, salaries and remuneration, cont.

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 38.

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.

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.

Fee to lay auditors

The lay auditors receive fees in accordance with resolutions adopted by the Council of Administration. In 2019, fees amounted to kSEK 122 (118).

NOTE 49 Disclosure of auditors' fees

	Group		Parent Company	
	2019	2018	2019	2018
EY				
Statutory audit	3.7	3.6	3.7	3.6
Audit activities not included in statutory audit	0.3	0.4	0.3	0.4
Tax advisory services	0.9	2.0	–	0.4
Other services	–	0.3	–	0.2
Total, EY	4.9	6.3	4.0	4.6

NOTE 50 Leases

Alecta has entered into leases for site and land leaseholds, premises, office equipment and cars. The due dates for the sum of future minimum lease payments under non-cancellable leases at 31 December are indicated below.

Expiration	Group		Parent Company	
	2019	2018	2019	2018
Within one year	–	7.4	3.7	3.0
Later than one year but within five years	–	13.3	7.4	6.1
Later than five years	–	–	–	–
Total	–	20.7	11.1	9.1
Total lease payments during period	–	13.4	6.6	5.5
of which minimum lease payments	–	13.4	6.6	5.5

Rental contracts outside Sweden are sublet until September 2020, when the contract expires. The lease income was SEK 3.0 million (2.7) in 2019 and is estimated at SEK 2.3 million (2.8) within one year.

NOTE 50 Leases, cont.

Accounting principle

Parent Company

The recognition of leases is treated in RFR 2 for the Parent Company. According to RFR 2, legal entities do not need to apply the rules in IFRS 16. A company that is a lessee should recognise lease payments as an expense over the lease term on a straight-line basis, unless another systematic basis is more representative of the time pattern of the user's benefit. That also applies if the payments are allocated differently. The right-of-use asset and corresponding lease liability should not therefore be recognised in the balance sheet.

Changed accounting principles for the Group

On transition to IFRS 16, the Group recognises lease liabilities attributable to lease contracts previously classified as operating leases based on IAS 17 Leases. These liabilities have been measured at the present value of future minimum lease payments.

IFRS 16 – Information about the transition at 1 January 2019

Operating lease obligations at 31 December 2018	20.7
Discount rate effect	29.0
Operating lease at 31 December (discounted)	49.7
<i>Adjusted for</i>	
Less: lease contracts for which the underlying asset is of low value and expensed on a straight-line basis	–20.7
Less: contracts not considered material under IAS 1 p.31	–9.0
Less: site and land leaseholds later than one year but within five years	–18.6
Remaining: lease contracts that are covered by IFRS 16 and will be discounted. Pertains to site and land leaseholds	1.4
Discounting of future site and land leaseholds with an estimated market rate of 4.71 %	29.2
Lease liability recognised at 1 January 2019	29.2

Site and land leaseholds are treated as perpetual leases, which are measured at market value and not therefore amortised. The market value is calculated by discounting future site and land leasehold payments using an estimated market rate based on direct return as a percentage for each property. As of 1 January 2019, site and land leasehold payments have been recognised as interest expense.

Group	2019	2018
Balance Sheet		
Land and buildings, right of use	34	–
Other liabilities, lease liability	–34	–
Income Statement		
Interest expense, leases	1	–

Site and land leaseholds are not amortised.

NOTE 51 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:¹⁾

- all companies in the Alecta Group
- members of the Board, senior management and managers of central functions
- close family members of the Board of Directors and management team
- The Confederation of Swedish Enterprise, PTK and their member organisations/unions
- associated companies and joint ventures.

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 Group companies

Alecta-to-subsidary 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 16.

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 48. No remuneration was paid to family members of related parties in 2019.

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. No transactions took place between Alecta and the Confederation of Swedish Enterprise and PTK in 2019.

No portfolios were transferred in 2019. In 2018, however, Unionen and some of the Confederation of Swedish Enterprise's member organisations transferred insurance portfolios from another insurance provider to Alecta. In 2018, the transferred portfolios had a total value of SEK 691 million and the transfers 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, directly or via a subsidiary, a co-owner of a number of joint ventures in Sweden and the United States.

Transactions between Alecta and these joint ventures refer to lending, shareholder contributions and interest payments, and are shown in the table below.

In 2019, the Group sold subsidiaries to joint ventures. Transactions amounted to SEK 1,662 million.

In 2019, the Group invested SEK 8,829 million in associated companies. The largest amount pertains to the property company Heimstaden Bostad AB.

A list of associated companies and joint ventures is found in Note 18.

Information on transactions between the Parent Company, Alecta Pensionsförsäkring, ömsesidigt, and related parties

Related parties	Payments received		Payments made	
	2019	2018	2019	2018
Group company				
Interest income	133	114	–	–
Share of profit	111	917	–	–
Management fee	8	9	–	–
Dividends	934	35	–	–
Shareholder contributions provided	–	–	841	–
Associated companies and joint ventures				
Interest income	43	122	–	–
Total	1,229	1,197	841	–

Information on the Parent Company's, Alecta Pensionsförsäkring, ömsesidigt, outstanding claims and liabilities to related parties at 31 December

Related parties	Receivables		Liabilities	
	2019	2018	2019	2018
Group company				
Non-current receivables	10,923	9,066	–	–
Receivables from/liabilities to Group companies	–	–	1,550	445
Accrued interest expense	–	–	0	–
Associated companies and joint ventures				
Loans receivable	334	1,857	–	–
Accrued interest income	–	2	–	–
Total	11,257	10,925	1,550	445

NOTE 52 Significant events after the balance sheet date

The beginning of 2020 has largely been characterised by concern about the coronavirus outbreak in China and its impact. At the end of February, it became apparent that the breakout of the virus had become widespread in the rest of the world, which radically changed the situation and led to a sharp fall on stock exchanges worldwide and large declines in interest rates.

Market developments since the outbreak have, taken together, resulted in a decrease in value of Alecta's total investments since 1 January, which amounted to SEK 947 billion at the end of February. Total return for the first two months of the year was –1.9 per cent. Alecta's financial position was adversely impacted during the first two months but remains at a healthy level. The risk margin in the stress test decreased during the period from SEK 230 billion to SEK 190 billion.

At present, there is insufficient data available to quantify any effects of the coronavirus for Alecta's insurance commitments, but because the dominant insurance risk in Alecta is the risk that insureds live longer than expected, we assess the risk for weaker key performance indicators as a result of insurance risk as minor.

¹⁾ In 2019, Alecta made a new assessment of the selection centres Collectum and Fora and concluded that these should not be considered related parties.

The Board of Directors' and CEO's signatures

We hereby declare that, to the best of our knowledge, the annual accounts and consolidated financial statements have 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 could affect the view of the Company created by the annual accounts and consolidated financial statements.

Stockholm, 19 March 2020

Ingrid Bonde
Chairman

Jan-Olof Jacke
First Vice Chairman

Martin Linder
Second Vice Chairman

Hanna Bisell
Member

Cecilia Fahlberg Pihlgren
Member

Markus Granlund
Member

Petra Hedengran
Member

Helena Hedlund
Member

Richard Malmberg
Member

Birgitta Pernkrans
Employee representative

Mikael Persson
Employee representative

Kaj Thorén
Member

Anders Weihe
Member

Magnus von Koch
Member

Magnus Billing
CEO

Our audit report was submitted on 24 March 2020.

Ernst & Young AB

Jesper Nilsson
Authorised Public Accountant

Auditor's report

To the Council of Administration of Alecta pensionsförsäkring, ömsesidigt,
corporate identity number 502014-6865

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Alecta pensionsförsäkring, ömsesidigt for the year 2019 (the financial year). The annual accounts and consolidated accounts of the company are included on pages 56–122 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Insurance Companies and present fairly, in all material respects, the financial position of the parent company as of 31 December 2019 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act for Insurance Companies. The consolidated accounts have been prepared in accordance with the Annual Accounts Act for Insurance Companies and present fairly, in all material respects, the financial position of the group as of 31 December 2019 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act for Insurance Companies.

We therefore recommend that the Council of Administration adopts the income statement and balance sheet for the parent company and the group.

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the additional report that has been submitted to the parent company's audit committee in accordance with the Audit Regulation (537/2014) Article 11.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on the best of our knowledge and belief, no prohibited services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided to the audited company or, where applicable, its parent company or its controlled companies within the EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgement, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Valuation of provisions for life insurance

Description

At 31 December 2019, the Group had provisions for life insurance of SEK 557 billion, equivalent to 93 % of total liabilities. In the Parent Company, provisions for life insurance were SEK 557 billion, accounting for 93 % of the Parent Company's liabilities. Disclosures on provisions for life insurance are provided in Note 1 Accounting principles, Note 2 Significant accounting estimates and judgements, Note 3 Risks and risk management, and Note 36 Provision for life insurance. Life insurance provisions need to cover expected future payments of insurance claims. Provisions for future claims are calculated using statistical methods. Given the size of the balance sheet item relative to total liabilities, and the fact that the valuation requires management to make estimates and judgements, the valuation of life insurance provisions is considered a key audit matter in our audit.

How our audit addressed this key audit matter

We have evaluated the company's process for determining provisions and assessed whether material risks are covered by existing controls. We have also assessed the suitability of the methods and assumptions used and have made independent calculations of provisions for those insurance classes which involve the highest degree of judgement. In our audit, we have engaged our internal actuaries to assist us in carrying out audit procedures in respect of technical provisions. We have also assessed whether the disclosures made in the financial statements in respect of life insurance provisions are appropriate.

Auditor's report, *cont.*

Valuation of investment assets

Description

At 31 December 2019, the Group had investment assets of SEK 965 billion, accounting for 97 % of total assets. Investment assets in the Parent Company were SEK 957 billion, accounting for 97 % of the Parent Company's total assets. Of the investment assets, SEK 958 billion is measured at fair value in the Group and SEK 935 billion is measured at fair value in the Parent Company. Financial instruments at fair value are divided into different levels based on a fair value hierarchy (Levels 1, 2 and 3). Level 1 consists of financial instruments for which quoted (unadjusted) prices in active markets are available for identical assets or liabilities. For financial instruments in Level 2, certain estimates and judgements may be required to determine fair value, although the use of estimates and judgements is much less significant than for financial instruments in Level 3. At 31 December 2019, there were investment assets of SEK 652 billion which are measured at fair value at Level 1, SEK 187 billion measured at Level 2 and SEK 90 billion measured at Level 3. For the Parent Company, there were investment assets of SEK 652 billion which are measured at fair value at Level 1, SEK 187 billion measured at Level 2 and SEK 87 billion measured at Level 3. Disclosures on the valuation of investment assets are found in Note 1 Accounting principles and Note 22 Valuation categories for financial instruments measured at fair value.

Information is also provided in Note 19 Classification of financial assets and liabilities and in Note 23 Disclosures on financial instruments measured at fair value based on Level 3. Disclosures are also provided in Note 15 Land and buildings. Given the size of the balance sheet item relative to total assets, and the fact that the measurement of financial instruments at Level 2 and Level 3 requires management to make certain estimates and judgements, the valuation of investment assets is considered a key audit matter in our audit.

How our audit addressed this key audit matter

We have evaluated the company's process for the valuation of financial instruments and other investment assets, and the valuation methods used, and have, where applicable, assessed the reasonableness of management's estimates and judgements in calculating fair values. We have tested a selection of key controls in the valuation process and have independently valued a selection of financial instruments and other investment assets. The results of this valuation have been compared with management's own valuation and differences have been analyzed. We have also assessed whether the disclosures made in the financial statements in respect of investment assets are appropriate.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–11, 45–55 and 127–129. The Board of Directors and the Chief Executive Officer are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Chief Executive Officer

The Board of Directors and the Chief Executive Officer are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act for Insurance Companies and, concerning

the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Chief Executive Officer are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Chief Executive Officer are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Chief Executive Officer intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstate-

Auditor's report, *cont.*

ment when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of the company's internal control relevant to our audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and the Chief Executive Officer.
- Conclude on the appropriateness of the Board of Directors' and the Chief Executive Officer's use of the going concern basis of accounting in preparing the annual accounts and consolidated accounts. We also draw a conclusion, based on the audit evidence obtained, as to whether any material uncertainty exists related to events or conditions that may cast significant doubt on the company's and the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the annual accounts and consolidated accounts or, if such disclosures are inadequate, to modify our opinion about the annual accounts and consolidated accounts. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company and a group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the annual accounts and consolidated accounts, including the disclosures, and whether the annual accounts and consolidated accounts represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated accounts. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

We must inform the Board of Directors of, among other matters, the planned scope and timing of the audit. We must also inform of significant audit findings during our audit, including any significant deficiencies in internal control that we identified.

We must also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the annual accounts and consolidated accounts, including the most important assessed risks for material misstatement, and are therefore the key audit matters. We describe these matters in the auditor's report unless law or regulation precludes disclosure about the matter.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Chief Executive Officer of Alecta pensions-försäkring, ömsesidigt for the year 2019 (the financial year) and the proposed appropriations of the company's profit or loss.

We recommend to the Council of Administration that the profit be appropriated in accordance with the proposal in the Administration Report and that the members of the Board of Directors and the Chief Executive Officer be discharged from liability for the financial year.

Basis for opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinions.

Responsibilities of the Board of Directors and the Chief Executive Officer

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

Auditor's report, *cont.*

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Chief Executive Officer shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Chief Executive Officer in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Insurance Business Act, the Annual Accounts Act for Insurance Companies or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Insurance Business Act.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Insurance Business Act.

As part of an audit in accordance with generally accepted auditing standards in Sweden, we exercise professional judgement and maintain professional skepticism throughout the audit. The examination of the administration and the proposed appropriations of the company's profit or loss is based primarily on the audit of the accounts. Additional audit procedures performed are based on our professional judgment with starting point in risk and materiality. This means that we focus the examination on such actions, areas and relationships that are material for the operations and where deviations and violations would have particular importance for the company's situation. We examine and test decisions undertaken, support for decisions, actions taken and other circumstances that are relevant to our opinion concerning discharge from liability. As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss we examined whether the proposal is in accordance with the Insurance Business Act.

Ernst & Young AB, Box 7850, 10399 Stockholm, was appointed auditor of Alecta Pensionsförsäkring, ömsesidigt by the Council of Administration on the 11 April 2019 and has been the company's auditor since the 10 April 2014.

Stockholm, 24 March 2020
Ernst & Young AB

Jesper Nilsson
Authorised Public Accountant

Review report

To the Council of Administration of Alecta Pensionsförsäkring, ömsesidigt,
corp. ID. no. 502014-6865

We have, in our capacity as lay auditors, reviewed the operations of Alecta pensionsförsäkring, ömsesidigt for the year 2019.

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, 25 March 2020

Niklas Hjert

Lars Jansson

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.

Allocated refunds

Surplus that is allocated to

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

Allocated refunds are not formally guaranteed.

Assets under management

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

Capital base

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

Capital value

The estimated present value of future payment flows.

Client-company funds

Funds assigned to the policy holders in 1998 from the surplus generated by Alecta during the years 1994–1998. The funds were utilised during the years 2000–2007 and were primarily 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 ratio

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

Collective funding capital

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

Default option

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

Defined benefit insurance (ITP 2)

A defined benefit pension plan is a plan under which the size of the pension is determined in advance, for example as a specified amount or a percentage of the final salary.

Defined contribution insurance

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

Discount rate

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

Distributable assets

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

Financial position

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

Guaranteed refunds

A surplus that is guaranteed to

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

Guaranteed refunds are formally guaranteed.

Insured

The person covered by the insurance contract.

Insurance contracts

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 income) at market value in the balance sheet.

Investment assets

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

Investment management expense ratio

Operating expenses in the Company's investment management activities in relation to average assets under management.

Management expense ratio

Operating expenses in the insurance business (acquisition and administrative expenses) and claims settlement expenses in relation to average assets under management. The key ratio is calculated on an aggregate basis and for the pension products, excluding selection centre costs.

Occupational group life insurance (TGL)

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

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 defined benefit pension. Under the applicable actuarial guidelines, the pension supplement must not exceed the increase in the consumer price index for the year concerned, starting from the date on which the first pension payment was made to the insured. The pension supplement is determined by the Board each year and is allocated in conjunction with the payment.

Policy holder

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

Premium 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

Reduction in premiums through allocation or guaranteeing of refunds.

Present value

The current value of future payment flows.

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.

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 ratio

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

Solvency margin

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

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.

Supplementary amounts

Refunds allocated to the insureds in addition to the guaranteed defined contribution pension.

Technical provisions

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

Total return

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

Waiver of premium insurance

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



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