Alecta's Annual and Sustainability Report 2020

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About Alecta's Annual and Sustainability Report 2020

Alecta's annual and sustainability report is presented by the Board of Directors and CEO and is intended to provide all stakeholders with a good understanding of our activities and results in the past year. The Administration Report and the financial statements constitute Alecta's statutory financial information and are subject to external auditing. The Sustainability Report section constitutes Alecta's statutory sustainability report. It is prepared in accordance with the guidelines from the Global Reporting Initiative (GRI), Core option, and describes Alecta's organisation and governance of sustainability, detailed data and boundaries. Alecta's external auditors, Ernst & Young AB, conduct a review of the company's sustainability reporting. For 2020, a digital annual report is available at alecta.se with more in-depth information about operations and the pensions market.

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.

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.

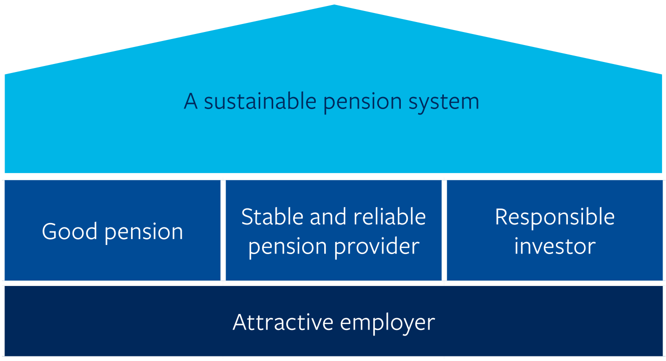
Together we are Alecta. Welcome to read more about us and our work in this report!

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, stable, 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.

1,040 SEK billion in assets under management

35,000 corporate customers

2.6 million insured private customers

Highlights of 2020

Volatility but positive end

The year began with rising stock markets, but the spread of COVID-19 changed the situation and we witnessed substantial stock market downturns. Following a very weak first quarter, the recovery was robust albeit volatile. For 2020, Alecta reported an average return over five years for Alecta Optimal Pension of 7.4 per cent and for defined benefit insurance of 5.6 per cent.

Investments during the pandemic

Alecta has helped society and companies to survive the current crisis in various ways. We have invested more than SEK 20 billion in bonds issued by Swedish companies, municipalities and regions and more than SEK 3 billion in two social bonds targeting developing countries. Alecta was also one of the largest investors in the Swedish Government's first green sovereign bond during the year. In the real estate operations, payment deferrals and certain concessions were granted to support tenants during the immediate crisis.

Raised pensions and refunds

Our continued strong balance sheet, healthy solvency and positive cash flow enabled us to raise the defined benefit pensions by 0.39 per cent for about 1.6 million private customers, and offer refunds of SEK 4 billion to our corporate customers.

SEK 1,000 billion

At the end of September, Alecta passed SEK 1,000 billion in assets under management. A milestone in Alecta's history and something we are very proud of. Such a large capital base also carries great responsibility, both to our customers and in relation to the society in which we invest.

Major investments in real assets

In recent years, Alecta has increased the share of real assets in the portfolio, a work that is continuing. During the year, major investments were made in property and infrastructure, in Europe and the US. The Swedish property management operations were unbundled during the year and became Alecta Fastigheter AB, which created a stable platform to further develop Alecta's Swedish property business.

Default option for FTP again

Alecta was again appointed as default option for the FTP 1 and FTPK defined contribution retirement pensions in the insurance industry's occupational pension plan, FTP. The agreement is valid for four years from 2021. Customers will receive a further reduction in fees, from 0.15 to 0.12 per cent.

Working pensioners

In December, we published our study into working pensioners, who both receive their pension and work. It showed there were 350,000 working pensioners, that one in three 70 year-old and one in five 75 year-old still receives salary payments and that they work because they want to, not because they have to. The study received considerable attention, including in the news and current affairs programmes Rapport and Morgonstudion on Swedish public broadcaster SVT. Read more at alecta.se/jobbonarer

New online office

In January, we rolled out our new online office. Alecta's corporate and proxy customers can use the office to retrieve information about employees' ITP insurance policies, conduct cost calculations and prepare forecasts. Our surveys show that customers are very satisfied with the new office and it has helped them in their work.

A world leader in sustainable investments

In October, the UN body UNCTAD presented a report on how pension companies and sovereign wealth funds work with sustainability. Alecta is described in the report as a frontrunner and according to the UN is at the highest level among the world's pension companies in terms of sustainable and responsible investments.

Stream of awards for Alecta

In 2020, Alecta received two prizes in the IPE Awards. As the first ever Swede, Alecta's CEO Magnus Billing received one of the event's finest awards – Pension Fund Leader of the Year. Alecta also received an award in the Innovation category for its work with the Dutch pension manager PGGM. Alecta and PGGM also received the Investor of the Year award earlier in the autumn.

Dedicated employees continued to run and develop the business remotely

Alecta's previous work to develop leadership, active employeeship, digitalisation and upskilling helped us to successfully adapt to remote working without compromising quality or pace. Self-motivated, competent and dedicated employees performed their duties, and in parallel successfully contributed to the introduction of 13 cross-functional agile development teams. Alecta as employer contributed with comprehensive training and support measures, activities to retain cohesion and continuing strong commitment and support to promote good health and ergonomics.

Message from the CEO

Continued strength during difficult year

The year was marked by the pandemic. It was a challenge for society as a whole and for Alecta. Thanks to our fantastic employees, Alecta faced up to the challenge and maintained its high level of service to customers and delivered good returns.

When the pandemic struck in early March, almost all of our employees moved from their workplaces to their homes over night. We had come a long way in our digitalisation journey, which enabled our customer service, case management, asset management, risk management, actuary assessments, annual accounts, recruitment interviews, debate brunches and so forth to take place remotely online.

Strong delivery

All employees did their utmost to prevent any disruption to operations, and they succeeded. Customer satisfaction remains at high levels. We achieved our goal for private customers but were just below our goal for corporate customers.

Despite volatile financial markets and low interest rates, we delivered good returns, 7.4 per cent for Alecta Optimal Pension on average over five years, meaning Alecta was joint first among existing and possible providers of ITP1 and 5.6 per cent for defined benefit pensions, which was slightly below the required rate of return.

We passed SEK 1,000 billion, SEK 1 trillion, in managed assets. We continue to have a strong balance sheet and healthy solvency, and a positive cash flow of approximately SEK 1.4 billion per month. This allowed us to give back to our customers. We raised the defined benefit pensions by 0.39 per cent for about 1.6 million private customers, and offered refunds of SEK 4 billion to our corporate customers. Once again, this is a sign of true strength for our business model, our management model and our employees.

Looking ahead to 2023

In parallel with this, we continued with our ambitious development work in line with the Alecta 2023 strategy plan. We changed our business development activities to become faster and more efficient, and to create greater commitment to providing the right solution to customers at the right time. We set up cross-functional development teams and introduced an agile model for business development. In so doing, we laid the foundations to further increase the pace of our digitalisation. As a means of safeguarding future skills needs in IT, we also launched a trainee programme during the year.

In the spring, we launched a new version of our online self-service tool for our corporate customers, the Internet Office. This was the final phase in the development of a completely new website, with the vision of being surprisingly simple for customers to conduct their affairs. Moreover, we digitalised a number of checks and forms that were previously manual, and automated links to external parties. Everything to make life easier and more secure for our customers.

In Asset Management, we continued to expand into more asset classes, while remaining true to our basic philosophy to have concentrated holdings without unnecessary, costly intermediaries. During the year, we came a long way in our work to establish a property company for our Swedish property portfolio. This has laid the foundations that will enable us in 2021 to take back much of the management of the properties and conduct this in-house, thereby creating favourable conditions to generate additional value for our customers.

Corporate governance and sustainability

We have also increased the integration of corporate governance and sustainability, by setting up a new group to gather together Alecta's expertise in the area. We continued developing our sustainability work, for example through the climate risk report we prepared and that attracted a great deal of interest in Sweden and abroad. We presented our annual Ownership Report for our Swedish portfolio companies at a live webinar, where we were clear about our expectations as an owner.

During the year, we also invested in Sweden's first sovereign green bond, which we have been asking for some time, and in social bonds, for example for companies struggling due to COVID-19. We now have one of the largest green bond portfolios in the world with managed assets of approximately SEK 50 billion. We published position papers on various issues and called for gender equality on boards in an opinion piece. It was therefore very gratifying when we became the only Swedish pension company chosen as one of 20 global front runners in sustainability by the United Nations Conference on Trade and Development (UNCTAD). Alecta has signed the UN Global Compact and endorses the initiative's ten principles in human rights, labour standards, environment and corruption.

Alecta has been active in debates on pensions, for example with the publication of a report on the choices facing savers who earn ten times the income basic amount per year (ten-fold earners), and to shatter myths about the pension system and counteract the image of a collapsing system.

New interface

During the year, a new information company was established that PTK, the Confederation of Swedish Enterprise and LO formed to create a uniform interface and communication regarding collectively agreed insurance, under the name of Avtalat.

Alecta has worked closely with Avtalat to help create the best possible ecosystem for customers. This means that we transferred some work duties to Avtalat on 1 January 2021. It also means Alecta has laid the foundation for additional streamlining, when combined with the efficiency improvements we are achieving through digitalisation and new agile working methods as part of the Alecta 2023 strategy programme.

Strong in the face of competition

We also saw proof that Alecta remains strong in the face of competition, in both the customer market and labour market. Firstly, we were again appointed as default option for the defined contribution retirement pensions for the insurance industry's occupational pension plan, FTP, in the face of strong competition; secondly we achieved a very high score for eNPS, which is the readiness to recommend Alecta as an employer to others, in our employee survey. Alecta received a score of 39 and the industry average was 13.

I can therefore look back with pride at the past year, despite the pandemic, and look forward to a year that will hopefully be a little more normal. We expect a demanding 2021, but feel well prepared to face the challenges. Our customers can continue to have a high level of confidence in our ability to deliver substantial customer value even in 2021.

Thank you to all of our customers for the continued trust shown in us to manage your pensions, and thank you to all of our employees for helping to make Alecta such a fantastic company. You truly show that we have chosen the right business model and strategy. When trust is shared it grows.

Magnus Billing
CEO

Alecta’s long-term operational goals

Secure and satisfied customers

Long-term operational goals

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 actor in society. Through a long-term approach, attention and expertise, we make customers feel secure with Alecta.

Follow-up

During 2020, we chose to evaluate target fulfilment by monitoring how satisfied the private and corporate customers are who call our customer service.

The target for 2020 was that corporate customers should give an average score of at least 5.4 and private customers an average of 5.3 on a six-point scale.

Outcome 2020

Customer satisfaction for corporate customers and private customers averaged

5.3 and 5.5

respectively, which means we achieved one of our two targets for secure and satisfied customers.

Low costs and high efficiency

Long-term operational goals

Alecta is to have highest efficiency in the industry. Through our mission, we have every opportunity to achieve that goal.

Follow-up

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 2020, the target was that Alecta’s operating expenses would not exceed SEK 953 million, excluding variable pay.

Outcome 2020

Alecta’s operating expenses were

SEK 953 million

excluding variable pay. We can thus see that we achieved the cost target for 2020.

Good returns and strong financial position.

Long-term operational goals

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.

Target fulfilment was monitored using two metrics in 2020. For Alecta Optimal Pension, which is a product fully exposed to competition, we have established a metric relative to competitors. For defined benefit insurances, we measure return compared with the internally calculated required rate of return, since the most important element of this product is our ability to preserve the value of our pension commitments in the long term.

Follow-up

Alecta Optimal Pension’s average five-year return is to be the highest or second highest of existing and potential ITP 1 providers.

Total return for defined benefit insurance is to exceed the required rate of return by 0.5 percentage points per year on average over a five-year period.

Outcome 2020

Alecta’s Optimal Pension’s average five-year return was

7.4 per cent

which was a joint first place among existing and potential ITP 1 providers. This means we achieved the target for Alecta Optimal Pension in 2020.

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

5.6 per cent

while the required rate of return was 6.5 per cent. This means we did not achieve the target for defined benefit insurance in 2020.

Alecta's sustainability objectives

LONG-TERM SUSTAINABILITY OBJECTIVES

FOLLOW-UP

OUTCOME 2020

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. Trust in collectively agreed occupational pensions is an important dimension in a sustainable pension system, as is trust in Alecta and our role in the system.

We strengthen this trust by disseminating knowledge and taking part in discussions. Alecta has debated pension myths and taken part in developing occupational pensions by compiling reports during the year, such as Tiotaggarvalen (report on the choice between defined benefit and defined contribution pensions for ten-fold earners) and about the financial situation of pensioners. The target is followed up every year by measuring trust in Alecta.

Trust in Alecta

36 per cent

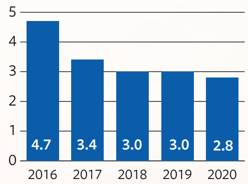
of salaried employees in Sweden view Alecta as a stable and secure company.

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 an investment portfolio that develops in line with climate goals.

We published our first climate report according to the TCFD framework and held discussions with a selection of portfolio companies on the theme of climate. During the year, we worked together with other investors in the Net-Zero Asset Owner Alliance to contribute towards the development of methods and tools to integrate climate aspects and measure results.

Equity portfolio's carbon footprint, tCO_2e/SEK million of the holdings' income



More indicators and results from this work can be found on pages 18 and 22–23.

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. During the autumn, Alecta's office property received an environmental certificate and digital customer letters accounted for 72 per cent of all mailing in 2020.

Increase in digital customer mailings reduced paper consumption compared with 2019 by

10 tonnes

Customer letters, including transportation, still account for the largest share of Alecta's direct climate impact.

For more environmental indicators, see pages 19 and 25.

Strengthen diversity throughout the 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 Alecta's management and percentage of female managers at Alecta

44 and 61 per cent

Sustainability Report

This is Alecta's statutory Sustainability Report which 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 available in a digital presentation on alecta.se. This sustainability supplement presents the systematic sustainability work through organisation, processes, targets and indicators as well as scope and boundaries. For the report on the review of the sustainability report and opinion on the statutory sustainability report from Alecta's external auditor EY, refer to page 32.

Highlights from work performed during the year

Like the rest of the world, Alecta's operations were affected by the current situation resulting from COVID-19. With almost all employees working from home since mid-March, a strong focus has remained on sustainability work linked to the investment portfolio, while there has been less focus on other aspects of work, such as those linked to Alecta's office. A few events and results from the year's sustainability work are highlighted briefly below.

During the year, Alecta has published a number of reports and communication campaigns about myths surrounding occupational pensions and about the choices facing "ten-fold earners," which illustrate how different choices impact the final pension. Alecta's Pension Economist provides information and education on issues linked to security and occupational pensions and more details about the year's activities are described in the digital overview on alecta.se.

During the spring, Alecta published its first climate report in accordance with the principles of the Taskforce for Climate related Financial Disclosure (TCFD), which describes the climate impact of various asset classes, climate risks in the investment portfolio and how asset management works with climate issues. On the basis of the climate report, Alecta also drew up customer-specific information about climate and investments for publishing on alecta.se.

Following an internal project during the spring, Alecta published in June a number of additional position papers outlining our views on human rights, and that we will continue to refrain from investments in tobacco companies and commercial gambling companies. These are available at alecta.se. Since November, a guidance document is also available on the website that describes Alecta's ESG* expectations on external managers.

* Environmental, Social and Governance

Throughout the year, Alecta has taken part in developing methods and common principles in the Net-Zero Asset Owner Alliance (AOA) investor initiative, where members aim to have climate-neutral portfolios by 2050.

As from 1 September, a new group was established in Alecta's asset management that coordinates work with corporate governance, ESG integration in asset management and Alecta's own sustainability work. This has resulted in new working methods for those who represent Alecta on nomination committees in Swedish holdings.

In September, all of Alecta's Swedish holdings were invited to view a live online presentation of our Ownership Report, which describes the overall sustainability and corporate governance issues we will prioritise moving forward.

In December, the revised guidelines for purchases and procurement were adopted, that have been clarified from a sustainability perspective and have been supplemented with a Supplier Code of Conduct that will start to be implemented in 2021. Earlier in the year, internal guidelines with respect to tax aimed at investing activities were also adopted.

During the year, Alecta's employees have been able to take part in a range of different training programmes and presentations linked to sustainability. Nanolearning was also offered in topics such as ethics and bribery, and presentations included Professor John Hassler on climate transition, the Swedish Pensions Agency on sustainable choices from the PPM marketplace, Solvatten on carbon offsetting with social and environmental benefits, and information security and cyberthreats with external lecturers. A substantial part of Alecta's asset management has completed an internal training programme and subsequent test linked to ethics and regulations, and Alecta's representatives on nomination committees took part in special training on regulations and self-regulation linked to corporate governance.

As of March 2021, new regulations for sustainability disclosure will be gradually introduced for Alecta. It is a consequence of work conducted by the EU to promote a sustainable financial market, EU Sustainable Finance, and applies especially to the two regulations referred to as the Sustainable Finance Disclosure Regulation and the Taxonomy Regulation. The regulations will in turn be supplemented with delegated acts (level 2) and Swedish law. The regulations will be gradually introduced until 2023. In 2020, Alecta took part in comprehensive consultations to ensure that the final regulatory requirements are appropriate for purpose and for Alecta's sustainability work. Alecta prepared an overarching analysis of the consequences of the new regulatory requirements and the preparation required to comply with the new requirements.

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.

Within the framework of Alecta's sustainability policy and the issues identified as most significant by external and internal stakeholders, Alecta has formulated a number of overall sustainability targets and indicators that we monitor. They were decided by the CEO in 2018 and an overview of these is provided in the table below and they are set out later in the section on targets and indicators.

Organisation for sustainability

Alecta implemented changes to its organisation for sustainability during the year. Previously, Communication and Sustainability had a Head of Sustainability, and asset management had a Head of Responsible Investments, a Head of Corporate Governance and an ESG analyst. In September, all of these roles were gathered together in asset management in a new group called Corporate Governance and Sustainability. The group is responsible for developing and coordinating work with corporate governance, ESG integration in asset management activities and sustainability work at Alecta. This is achieved through a number of collaborations, some of which are cross-functional.

The sustainability steering group is led by the Head of Corporate Governance and Sustainability and includes representatives from Communication, HR, Finance, Compliance, Client, IT and Purchasing. The team is responsible for overall targets and indicators in terms of both initiating activities and follow-up.

The Head of Investment Management leads an ESG Forum, 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 the Head of Corporate Governance and Sustainability. Alecta's ESG forum addresses strategic matters involving work with responsible investments and is a monitoring forum, which includes the processes that are

TARGETS AND INDICATORS 2019–2023 [1)]

Focus areas	SUSTAINABLE PENSION SYSTEM	AMBITION	RESPONSIBLE INVESTMENTS	AMBITION	ENVIRONMENT AND ETHICS	AMBITION	EMPLOYEES AND DIVERSITY	AMBITION
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 Alecta	↗	Number of nomination committees	✓	Energy consumption	↘	Forms of employment	✓
	Perception of 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

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

part of the ESG4Real certification. The Head of Corporate Governance and Sustainability and Alecta's Head of Corporate Governance work together to drive the company's corporate governance efforts, 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. During the autumn of 2020, a Corporate Governance Group was formed comprising these two roles, and the Head of Investment Management with the CEO as Chairman, as well as a Corporate Governance Council supplemented with two external members. The purpose of these groups is to coordinate and follow up work during the nomination committee season in a structured manner, support Alecta's representatives on nomination committees in their duties and to advance work with corporate governance.

In respect of other sustainability work, Alecta's purchasing is conducted using established procedures that always involve a central purchasing function. Minor purchases of a non-recurring nature and IT costs are exempt as is the procurement of operations outsourced to contractors in asset management. 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 the Board of Directors and senior management. ESG and corporate governance issues are regularly presented to the Board's Finance Committee.

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 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 detailed governance documents, such as purchasing and procurement guidelines.

Code of Conduct

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

- **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 constitutes Alecta's principles for shareholder engagement and describes our active shareholder involvement and influence in 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.

Work environment and physical safety
Describes Alecta's general view on work environment and the division of responsibilities on work environment issues, and issues linked to the physical safety of employees.

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 involve bribes or improper influencing. Based on the updated Code of Business Conduct issued by the Swedish Anti-Corruption Institute.

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 2020

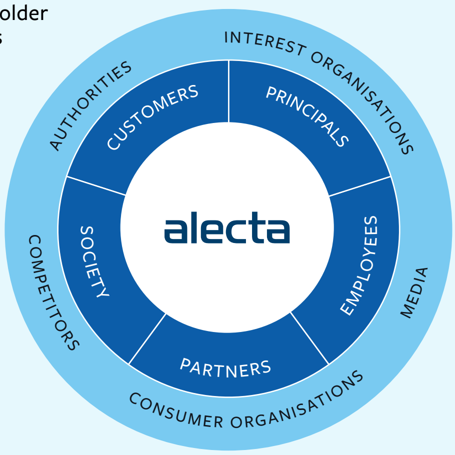
During this year, Alecta has interacted with stakeholders on many occasions about how the pandemic is impacting the economy as a whole, the investment climate and pensions. This resulted in discussions about how government grants are to contribute to inclusive climate transition and the role of pension capital, as well as questions about the opinions of owners on dividend payments given the government grants received by companies. Another recurring topic in the discussions with industry stakeholders, such as decision-makers and supervisory authorities, has been the EU's work to promote a sustainable financial market.

In late 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. The issues in this year's survey were very similar to the preceding year, which made it possible to identify shifts.

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 remains generally low. However, the values for corporate customers had strengthened slightly compared with the previous year. 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, followed by renewable energy and business ethics. Questions about sustainability received during the year from customers to Alecta via customer service have concerned fossil investments and the climate impact of occupational pensions.

Awareness of Alecta's sustainability work is generally high among employees and an overwhelming majority believe Alecta acts sustainably today, these values were noticeably stronger which in combination with a more positive perception of sustainability in the industry indicates greater awareness. Alecta's employees give Alecta's work with business ethics a particularly high rating, and convey a positive development for gender equality and inclusion and work to reduce environmental impact compared with 2019.

Alecta's stakeholder groups



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, governance

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 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 financial 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. Given the circumstances during the year, there are issues that have been raised temporarily or urgently, but we have chosen to adopt a long-term perspective in the materiality analysis. In 2020, the steering group for sustainability has confirmed the materiality analysis and the updates made in 2019, with even greater focus and expectations on responsible and sustainable investments. During the pandemic, the finance sector and pension capital played a key role in safeguarding many companies that suffered a short-term but dramatic loss of income. Other clarifications from the previous year – the importance of a clearer employer promise and more forward-thinking approach to regulatory compliance and an ethical internal culture – remain important. 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 [1]	ACTIVITIES	KPIs	Page reference
Economic security and value for many	• 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.	• Generated and distributed value (GRI 201-1) • Customer satisfaction • Return • Brand	8, 20, 21
Responsible investments	• 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 analysis, taking into account ESG factors [2]. 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.	• Percentage of companies with which Alecta has interacted (GRI FS10) • Percentage of screened assets (GRI FS11) • Investments with a measurable environmental or social impact	22, 23

1) The indicated boundaries are based on the GRI framework, where the material impact takes place within or outside the organisation.
2) ESG stands for Environmental, Social and Governance.

MATERIAL TOPIC

	RISK	BOUNDARY [1]	ACTIVITIES	KPIs	Page reference
Inclusive and stimulating employer	• Alecta less attractive as an employer • Increased health problems among Alecta's staff • High employee turnover at Alecta • 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 work 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.	• Hours of training (GRI 404-1) • Performance and development (GRI 404-3)	28, 29
Strong regulatory compliance	• 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 an industry dependent on trust and Alecta wants to promote an internal culture of responsibility and is working with preventive action. We operate in a strongly 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.	• Fines or sanctions (GRI 419-1) • Training in ethics and regulatory compliance	26
High level of customer privacy	• 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.	• Complaints about breaches of customer privacy (GRI 418-1)	26

AREAS WITH HIGH EXPECTATIONS OF TRANSPARENCY

	RISK	BOUNDARY [1]	ACTIVITIES	KPIs	Page reference
Purchasing and environment	• Sustainability losses if breaches contribute to negative consequences for the environment and people • Lack of credibility • Damage to Alecta's brand/ reputation	Impact within and outside the organisation with the possibility of engaging suppliers.	Alecta includes environmental and sustainability questions in all procurements. In 2020, we drew up a Supplier Code of Conduct that will gradually be implemented in 2021. We measure a number of environmental performance indicators and review actions to reduce the direct environmental impact of operations.	• Environmental impact from operations	25–26, 27

[1] 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

The insurance industry is characterised by integrity-sensitive activities, whereby integrity shortcomings could have major adverse effects on both the insured and their continued confidence in Alecta 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's preventive anti-corruption efforts focus on the risk of bribes and corruption and are conducted in line with the Code of Business Conduct issued by the Swedish Anti-Corruption Institute, the Code to prevent Corruption in Business (the Code), and recommendations from Insurance Sweden, the employers' organisation for the Swedish insurance industry, from 2019. The Code was revised in 2020 and includes clear expectations for how preventive efforts are to be conducted by companies that follow the Code and how the control of intermediaries shall be carried out.

Alecta conducts a yearly analysis of the risk of corruption 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, Corporate Governance and Sustainability, IT, Asset Management and Risk took part in the update in 2020. 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 2020, Compliance held special training (Ethics & Capital) on business conduct requirements, covering such areas as ethical guidelines, the management of conflicts of interest and action against corruption. The training was compulsory for parts of the investment organisation and was followed by a test on Alecta's regulations. All employees have access to online training programmes addressing areas such as measures to combat bribery and corruption, ethics and whistleblowing, guidelines for business entertainment and on actions against money laundering and terrorist financing.

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

International initiative to encourage the business sector to support the UN's central international conventions. Alecta has signed and endorses the Global Compact's ten principles in environment, human rights, labour standards and corruption. Alecta is involved on the nomination committee for the Swedish network's Board.

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. Alecta is an active participant in the collaboration.

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 initiative's 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 (see page 17). As part of the initiative, participants have declared the long-term goal of investment portfolios with net zero impact by 2050. Alecta is one of 12 co-founders of the initiative and is active in a number of working groups.

Occupational Pension Stakeholder Group (OPSG)

The European Insurance and Occupational Pensions Authority (EIOPA) is an EU financial regulatory institution. It has established a reference group for regular consultation and Alecta's Head of Compliance has been a member of the group between 2018 and 2020. During the period, the Head of Compliance took part in the preparation of a report of the various opportunities for politicians and labour-market parties to contribute to greater equality as regards the issue of pensions based on experiences from EU member states, the conclusions of which are supported by Alecta.

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 market in a network to focus on Agenda 2030 and the 17 Sustainable Development Goals. The initiative facilitates shared learning and exchange. Alecta is heading 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 through regular seminars and opportunities for exchange between members. Alecta was active on the Board until May 2020 through Head of Responsible Investments, and continues to take part in various working groups.

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 was also a partner and provided funds to the Sustainalytics Food Supply Chain Engagement initiative, which ended during the year. Alecta supports TCFD (Task Force on Climate-related Financial Disclosures), a framework for reporting financially relevant climate data, 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. In 2020, Alecta granted financing to Karolinska Institutet for continued research into sick leave among private-sector employees. 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.

Signatory of:

PRI Principles for Responsible Investment

WE SUPPORT

UN GLOBAL COMPACT

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 an important dimension in a sustainable pension system, as is trust in Alecta. We strengthen this trust by disseminating knowledge and taking part in pension discussions.

Alecta's activities during the year:

- Published information and reports on the economic position and sources of income for retirees or working pensioners, and how the choices facing ten-fold earners affect the pension situation for individuals at different ages. The aim is to provide facts and increase knowledge.
- Held two 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.
- During the current pandemic, switched to a digital version of the annual "Alecta's Ateljé" conference to discuss the future national social security system with a focus on transition, the need for new competence and further education, and the role of pension capital in financing society's recovery, with representatives from client companies, labour-market parties, the business sector, investors and academia.
- Intensified 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. One recurring theme has been to dispel myths about pensions.
- 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 2020:

Percentage of salaried employees who view Alecta as a stable and secure company in brand survey:

36 %

See more indicators linked to a Sustainable pension system on page 20.

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 in the Paris Agreement 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 published a climate report according to the principles of the TCFD framework. It describes the climate impact of the various asset classes in the investment portfolio, the risks and the financial impact of different prices for carbon emissions on the value of the portfolio based on different climate scenarios.
- Within the framework of the Net-Zero Asset Owner Alliance investor initiative, worked with methodological developments to measure and monitor the development towards net zero by 2050, and involved stakeholders in a consultation about the approach. Net-Zero Asset Owner Alliance is an initiative for investors supported by the UN.
- Invited external lecturers to asset management, such as John Hassler to talk about climate transition, interviewed a number of international experts in finance and climate, and increased interaction with different research firms on climate-related analysis in equity and fixed income.
- Presented Alecta's Ownership Report for Swedish holdings and communicated our view on the climate as a strategic issue for long-term value creation and increasing expectations for transparency and data from companies.
- During the year, we held a number of focused dialogues on climate reporting and climate targets with selected Swedish companies in the portfolio that together account for about 12 per cent of the equities portfolio's carbon footprint. In dialogue with other investors, we also pushed for higher climate ambitions. Examples included discussions with Volvo within the Climate Action 100+ initiative, and with Nasdaq Nordic regarding greater transparency in the marketplace relating to carbon emissions.
- Continued to develop the internal risk analysis of climate impacts in the portfolio as part of work with ORSA, the report presented each year by the Board to the Swedish Financial Supervisory Authority on risk and solvency.
- Alecta invested SEK 4.25 billion in Sweden's sovereign green bond.

Outcome 2020:

Number of corporate dialogues on climate:

26 (18)

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

17 % (11)

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

77 % (76)

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

2.8 (3.0)

See more indicators linked to Responsible investments on page 21.

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:

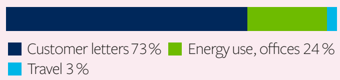
- Since mid-March, almost everyone at Alecta has worked from home, which has required a rapid switch to digital tools and virtual meetings. The impact of travel has decreased sharply during the year due to the pandemic – and even if we expect to travel again when it is considered safe, we will probably make greater use of new ways of meeting in the future.
- During the year, we continued to digitalise the letters we send to Alecta's customers, and 72 per cent of letters are now digital. This is equivalent to a saving of 10 tonnes of paper.
- Alecta's district heating supplier phased out coal from its district heating production during the year and has adopted a target for climate-positive district heating by 2025. Alecta's offices have been under renovation for a number of years and when we return to the office and normal operations we can measure the effects of the installation of energy-efficient solutions for fans, pumps and lighting. During the autumn of 2020, Alecta's office property was certified in accordance with the BREEAM In-use standard, Very good.
- All employees were invited to a presentation of Solvatten, a Swedish innovation for water purification using solar energy. Solvatten's solution improves hygiene and living standards in the most vulnerable regions of the world, and also contributes climate benefits. During the year, Alecta financed climate benefits corresponding to emissions from our travel in 2019 through 25 Solvatten devices. For Christmas 2020, Alecta's employees decided to give the company's Christmas gift to Solvatten.

Outcome 2020:

Confirmation of improvements and efficiency enhancements at the office property, certification BREEAM In-use:

Very good

Carbon footprint distribution:
customer letters (incl. transport), office (energy) and travel



More digital customer letters resulted in paper-savings of:

10 tonnes

See more indicators linked to Environment and ethics on page 25.

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:

- Development work at Alecta during the year has focused on cross-functional teams where 'collective intelligence' is one success factor to strengthen the ability to solve complex challenges. Using collective intelligence as a starting point allows different competences and perspectives to be taken into account, which fosters diversity in a broad sense.
- In mid-2020, a trainee programme was initiated in Alecta's IT department. The expressed ambition was to have a mixed group, and participants are aged 25–35 with different backgrounds, and half of whom are women. By allowing participants to join various agile development teams, we can introduce new knowledge and new perspectives into development work, while allowing participants to engage in the experience found in Alecta's organisation.
- In the development of corporate governance, there was greater gender equality in the group that represented Alecta in nomination committees during the 2020/2021 season. Four of nine representatives in nomination committees in Large Cap companies are women.

Outcome 2020:

Percentage of women in Alecta's senior management:

44 % (44)

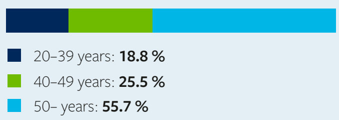
Percentage of female managers:

61 % (57)

Skills development, hours per year and person:

Women 35 (53)
Men 29 (26)

Age distribution:



See more indicators linked to Employees and diversity on page 27.

Sustainability indicators 2019–2023

To support work and monitor progress, Alecta has identified a number of relevant indicators in the four chosen target areas:

- Sustainable pension system
- Environment and ethics
- Responsible investments
- 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 desired direction or serve as transparency metrics enabling us to provide information about our work.

Sustainable pension system

Trust in Alecta as a stable and secure company

	2020	2019	2018	2023
Trust in occupational pension system among salaried employees	n/a	63 %	68 %	> 70 % [1]
Trust in the Swedish collective agreement system among salaried employees	n/a	70 %	67 %	n/a [2]
Percentage of private-sector employees who view Alecta as a stable and secure company	36 %	–	–	–

[1] This target is not applicable as the indicator is substituted in 2020.
[2] No target set for indicator, substituted in 2020.

Alecta's communications assignment changed when the principals established the Avtalat information company. Indicators that were monitored in the past are now considered outside of Alecta's new communications assignment. Communication is to strengthen trust in Alecta as a stable and secure company and a responsible societal stakeholder, with good products that provide a good pension. In 2020, Alecta therefore chose to monitor and measure the percentage who view Alecta as a stable and secure company in the brand survey. The study targets private-sector employees with collective agreements. The outcome for 2020 was 36 per cent and the target for 2021 is to achieve 37 per cent.

Customers' perception of Alecta's sustainability work

Percentage that believe Alecta works in a sustainable way, %	2020	2019	2018	2023
Private-sector employees (good knowledge)	12 (43)	12 (37)	13 (38)	20
Client companies (good knowledge)	22 (45)	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 (good knowledge) are also much more aware of its work. There is a slightly positive indication of a general strengthening of awareness among client companies. Together with the percentage of customers who view Alecta as a stable and secure company in the brand survey, 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)	2020	2019	2018	2017
Economic value, generated				
Return on capital, before operating expenses [2] [3]	50,342	125,314	–17,809	53,252
	50,342	**125,314**	**–17,809**	**53,252**
Economic value, distributed				
Claims incurred [4]	–22,681	–21,810	–20,884	–20,353
Waiver of premium, corporate customers	–2,296	–2,654	–2,531	–2,039
Refunds in the form of adjustments to earned pension entitlement and premium reductions [5]	–8,926	–11,695	–10,511	–5,618
Salaries and remuneration	–358	–340	–325	–352
Suppliers and partners	–633	–583	–540	–518
Yield tax and income tax in Sweden and abroad as well as social security fees for employees	–557	–1,386	–1,039	–2,594
	–35,451	**–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 34,255 million (2019: 97,522, 2018: –46,291, 2017: 25,719). The year's return is described in the Administration Report on page 43.
3) In the income statement, asset management and property management expenses totalling SEK 309 million (2019: 283, 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

Most indicators related to active ownership and responsible investments reported here are also described in more detail in Alecta's Ownership Report 2020, published in September 2020 on alecta.se.

Nomination committees in Swedish listed companies

	2019/2020	2018/2019	2017/2018
Number of nomination committees	21	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 boards of directors prior to the general shareholders' meetings. Alecta had eight representatives from asset management, of whom one woman, who took part in nomination committee work during the 2019/2020 AGM season. Moreover, one member of Alecta's Board took part as a representative in nomination processes. Four of Alecta's representatives for the 2020/2021 season were women.

Gender equality on boards

	2020	2019	2018	TARGET
Percentage of women on the board where Alecta is a member of nomination committee	40 %	44 %	41 %	At least 40 per cent of each gender represented

The figures refer to the board composition after the general shareholders' meetings during the first half of each year. Changes to the boards after the general shareholders' meetings were not taken into account.

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 dynamic boards, we strive for 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. The composition of individual boards is reported in Alecta's Ownership Report 2020.

Voting at general shareholders' meetings

	2019/2020	2018/2019	2017/2018	TARGET
Percentage of holdings where Alecta voted at the general shareholders' meeting	99 %	99 %	99 %	100 %

Alecta has voted at AGMs held by all holdings during the 2019/2020 season, with the exception of one holding in Sweden. 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 2019/2020 AGM season, and the Ownership Report describes votes of particular relevance.

Screening of holdings (GRI FS11)

	2020	2019	2018	TARGET
Percentage of listed shareholdings and corporate loans reviewed in norms-based screening	100 %	100 %	100 %	100 %
Percentage of assets of total investments reviewed in norms-based screening	59 %	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 listed 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)

	2020	2019	2018
Number of corporate dialogues	44	41	18
– Of which E/S/G	26/15/3	20/9/12	6/3/9
– Of which proactive/reactive	30/14	28/13	10/8

With its substantial holdings in certain companies, Alecta is an active owner with 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 2020 show that dialogues about sustainability are increasing and that Alecta is more proactive in highlighting sustainability issues. The most common topics were related to the climate, in particular reporting.

Climate reporting by portfolio companies

	2020	2019
Shareholdings		
– Percentage of companies reporting climate data (Scope 1+2)	77 %	76 %
– Percentage of companies reporting climate data (Scope 1+2+3)	57 %	n/a
– Number and percentage of companies with science-based targets	20 companies/17 %	13 companies/11 %
Credit holdings		
– Percentage of companies reporting climate data (Scope 1+2)	86 %	87 %
– Percentage of companies reporting climate data (Scope 1+2+3)	49 %	n/a
– Number and percentage of companies with science-based targets	9 companies/21 %	4 companies/9 %

Over time, Alecta has analysed climate reporting by the holdings in more detail. Our ambition is to increase the proportion of companies in the portfolio that report their climate efforts and climate targets. As a result of our dialogue, at least one of the holdings has begun to report climate data to CDP during the year, which we welcome. 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 our own initiatives and collaboration with other investors. In addition to the 20 companies in the equities portfolio with science-based climate targets, another 13 companies began the process during the year, meaning 29 per cent of holdings in the equities portfolio have made such commitments.

Carbon footprint, shares

	2020	2019	2018	2017	2016
Carbon footprint shareholdings, tCO_2e/SEK million in income	2.8	3.0	3.0	3.4	4.7
Absolute footprint, tCO_2e	427,255	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, which are based on emissions by the holdings of Scope 1 and 2 under the Greenhouse Gas Protocol (GHG). These recommendations were updated in 2020. For comparison purposes, carbon footprint is presented in the table above according to the previous recommendation. The footprint according to the new recommendation is reported on the website and will be included in the annual report starting in 2021. In 2020, the carbon footprint of the equities portfolio has decreased slightly. This is largely because companies with relatively high emissions were sold during the period and that a number of companies have reduced emissions. Some companies increased emissions in 2020, partly as the companies have expanded and failed to enhance the efficiency of their operations at the same rate.

Investments with a measurable environmental or social impact

	2020	2019	2018
Green bonds, SEK billion	50	40	31
Other investments with a measurable environmental or social impact, SEK billion	14	11	6

Alecta only invests in green bonds that are issued in accordance with a clear framework which has been reviewed by a third party. In recent 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 by Alecta in 2020 included more than SEK 3 billion in social bonds issued to finance measures in response to the coronavirus. We endeavour to follow up the contribution made by investments in a green or social bond, and in 2020 explored various approaches to value or measure the impact of these. For example, Alecta is a member of the Nasdaq Sustainable Bond Network (NSBN) Advisory Board.

NSBN is a platform where issuers can list green and social bonds and file their impact reporting. During the year, new investments were made in green bonds in an amount of almost SEK 11 billion while bonds for just over SEK 1 billion matured. Other sustainable investments amounted to about SEK 4 billion in 2020. Our aim is to increase investments in such assets.

Real estate portfolio, directly-owned properties Sweden

	2020	2019	2018
Environmentally labelled properties, number	23	19	12
Environmentally labelled properties, sq.m [1]	378,238	323,614	245,720
– percentage of lettable floor area, %	45	40	32
Energy use, kWh/sq.m [2]	**98**	**111**	**115**
– of which property electricity	39	44	45
– of which district heating	51	58	58
– of which district cooling	8	9	12
Total energy consumption, MWh [3]	**52,442**	**58,872**	**61,440**
– of which property electricity	21,090	23,473	24,077
– of which district heating	27,022	30,711	31,091
– of which district cooling	4,329	4,688	6,272
Carbon footprint from energy purchased, tCO_2	**1,071**	**3,357**	**3,225**
Water use, m^3/sq.m [2]	**0.33**	**0.46**	**0.53**

1) Square metre refers to total area for environmentally labelled properties in the portfolio
2) Square metre refers to conditioned floor area for properties in the Standing Portfolio (see definition on page 30)
3) Heating consumption is normal-year corrected (other energy is actual consumption)

Alecta's property holdings comprise a large Swedish property portfolio. Alecta has continued initiatives for environmental certificates and increased the share of certified properties in the total portfolio. In terms of environmental performance, Alecta presents the overall performance of properties with a history of at least three years and excluding project properties. This makes it possible to accurately follow developments, notwithstanding new properties in the portfolio with, for example, inferior performance at acquisition.

Every property has an environmental plan for continuous improvement and the overarching target is energy efficiency gains of at least 3 per cent per year. This year, energy efficiency gains were more than 11 per cent. We can see a general reduction for all energy sources, mainly as many of our customers have worked from home and as we endeavoured to optimise and update control systems. The carbon footprint from energy also decreased. This is in part due to a reduction in the use of district heating, but also because we signed a Bra Miljöval ("good environmental choice") contract in Gothenburg, meaning delivery of district heating with a smaller footprint.
The electricity used in Alecta's properties has been from renewable sources since 2015.

COVID-19 affected earnings as activities subject to restrictions (restaurants, cafés, hotels, certain retail, etc.) have generally had fewer customers and shorter opening hours. Fewer people in office premises has led to a reduction in water and heating consumption. Changing occupancy patterns imposed even more exacting requirements on optimising properties for the right number of people at the right time, without sacrificing comfort.

As a result of Alecta's investment in photovoltaic installations on commercial properties with suitable roof areas, five installations are now producing a total of 929 MWh. The electricity is mainly used in own properties, but any surplus can be sold.

Environment and ethics

Direct environmental impact, operations

As a service-sector company with a centrally located office, Alecta's 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. Under normal operation, Alecta's most significant direct 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. The situation in 2020 was very special as most employees worked from home for much of the year, and we have travelled less than normal due to the pandemic.

	2020	2019	2018
Energy use, offices, MWh			
Total	1,817	2,521	2,788
– of which electricity	813	1,155	1,387
– of which district heating	1,003	1,043	1,109
– of which district cooling	313	323	292
Use of paper, kg			
Office operations, indicative based on volume of purchased paper [1]	1,154	4,048	7,500
Customer letters, paper mailings [2]	7,642	17,752	32,299
Carbon footprint, kg CO_2			
Energy, property [3]	53,955	85,546	90,915
Customer letters, including transport [4]	164,890	332,360	639,880
Travel [5]	6,968	170,544	193,858
– of which air travel	6,761	169,432	192,932
– of which trains	207	1,112	926

1) 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. For 2020, purchases made between Nov 2019–Nov 2020 were reported.

2) In addition, a large number of digital letters were sent and if these had been postal letters, they would have corresponded to another 22,385 kg of paper. In 2018, a large non-recurring mailing was conducted in connection with the ITP procurement, which explains the substantial volume of paper used that year.

3) 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. The district heating supplier phased out coal during the year.

4) The carbon footprint of customer letters is calculated using a standard model that includes paper manufacturing and transport.

5) During 2020, no travel took place in the second quarter. A limited number of journeys were made in the third and fourth quarters, all of which by train except one. In previous years, travel has been at a much higher but relatively constant level.

In recent years, Alecta has carried out extensive renovations of the head office, and much of the equipment was upgraded to more efficient alternatives that demonstrated excellent results from the outset. This included the replacement of lighting, heat pumps and fans. During the autumn of 2020, Alecta's office property was certified in accordance with the BREEAM In-use standard, Very good. Particularly distinctive for the property were positive results in energy, health and transport. From mid-March 2020, most of Alecta's employees worked from home though the office has been available for particular needs. The property was not optimally operated as there was only marginal occupancy. Data for energy consumption during the year probably largely reflect this rather than actual efficiency gains.

We measure the carbon footprint of our business travel to enable us to make more informed decisions on the choice of travel. Since March 2020, almost all business travel was replaced by video conferences. Travel is normally related to customer visits or the operations of asset management. In customer interactions, we have continued to explore various ways to meet Alecta's 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 25 Solvatten units during the year, which corresponded to its emissions in 2019. 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. In view of the reduction in travel, Alecta's employees decided to donate this year's Christmas gift to Solvatten.

We aim to decrease the use of resources and make greater use of digital tools and working methods. The past year of remote working has accelerated the trend with online meetings.

Alecta sends a considerable number of letters to our customers. Following changed procedures in 2019, with more digital mailing and less paper-based mail, the number of digital customer letters surpassed for the first time the number of paper mailings. In 2020, as many as 72 per cent of mailings were sent as digital letters.

Many environmental improvements are made in collaboration with or through our suppliers. For example, our district heating supplier reached its target ahead of schedule to phase out coal as a source of energy. A few years ago, our IT supplier moved Alecta's servers 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 runs our staff canteen, we have conducted regular and recurring campaigns to reduce food waste and have expanded the range of vegetarian dishes. The canteen has been closed since mid-March.

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

	2020	2019	2018
Customer complaints, total	447	550	360
Customer complaints about processing data and customer privacy	2	4	2

A central component in the continuous improvement process is to ask customers to provide information on their experience of Alecta and to respond to and act upon complaints. 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. The number of complaints fell slightly in 2020, primarily due to fewer complaints about digital annual statements than the preceding year and that some complaints in 2019 could be traced to a few individual events that caused customers to react. Most of the complaints are handled and concluded directly in the contact with customers. 447 complaints were received, and should be viewed in light of the fact that Alecta manages occupational pensions for 2.6 million individuals and during particularly busy periods can handle 700–800 calls per day.

In 2020, Alecta registered two customer complaints that concern the processing of personal data. One of the complaints resulted in a suggestion for improvement measures. None of the complaints was deemed to be of such a nature that there was reason to submit a report of a personal data breach to the Swedish Authority for Privacy Protection.

Fines or sanctions (GRI 419-1)

	2020	2019	2018	2017
Fines or sanctions following shortcomings in regulatory compliance, number and amount	0	0	0	0

No fines or sanctions were imposed on Alecta in 2020.

Whistleblower function

Reported cases	0	1–5	6–10	11–15	16–20
2020		X			

In order to uphold the integrity of the process and protect the whistleblower, Alecta has chosen to report the number of reported cases as an interval. All matters reported to the whistleblower function were investigated and managed in accordance with the Board's Whistleblower Policy. The function was established and has been in use since 2017.

Ethics and integrity – training initiatives

A number of additional 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: market surveys, General Data Protection Regulation, ethics and whistleblowing, conflicts of interest, information security, complaints handling, crisis and continuity, business entertainment, private transactions and trading with financial instruments by employees, bribery (basic training and advanced course), operational risks, and money laundering and terrorism.

During the year, several groups in asset management took part in mandatory training in ethical guidelines and other regulations relevant to asset management, such as conflicts of interest, partiality, inside information and market abuse. The training was held by Compliance and was divided into three stages consisting of lectures and workshops, and ended with a test. 41 of the 43 course participants took part in the test and all of these passed.

Suppliers' data

	2020	2019	2018	2017
Total number of suppliers	548	642	627	636
– of whom in Sweden	486	574	565	568
– of whom in other EU countries	41	50	41	49
– of whom outside the EU	21	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 was approved at the end of 2020 and will be appended to supplier agreements when entering into new agreements as of 2021.

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 63 per cent of the total transaction volume. Swedish suppliers accounted for 93 per cent of the transaction volume.

A Supplier Code of Conduct was adopted at the end of 2020. The Code of Conduct is an appendix to guidelines for purchases and procurement and will be appended to contracts with suppliers starting in 2021.

Employees and diversity

Employment information (GRI 102-8) forms of employment, Group

FORMS OF EMPLOYMENT	2020		2019		2018		2017	
Group	Women	Men	Women	Men	Women	Men	Women	Men
Number of employees at 31 December	213	142	223	147	217	148	219	145
Permanent employees	212	142	219	145	215	146	217	145
of whom full-time	*184*	*139*	*186*	*139*	*178*	*137*	*185*	*134*
of whom part-time	*28*	*3*	*33*	*6*	*37*	*9*	*32*	*11*
Temporary employees	1	–	4	2	2	2	2	0
Number of consultants (FTE)	9	25	11	24	10	22	10	26

Within the Group, which for reporting purposes also includes the subsidiary WTC, a number of changes have taken place due to new requirements and automation in parts of the organisation. 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. In 2020, work began to unbundle the management of properties in Sweden, operations began in the Alecta Fastigheter AB subsidiary on 1 January 2021.

Employees, collective agreements, diversity

EMPLOYEE STATISTICS

Group	2020	2019	2018	2017
Number of employees at 31 December	355	370	365	364
Average age of all employees	49	48	48	47
Percentage of female employees	60 %	60 %	59 %	60 %
Percentage of female managers	61 %	58 %	52 %	50 %
Percentage of women in management [1]	44 %	44 %	33 %	33 %
Percentage of women on the Board [1]	45 %	42 %	38 %	31 %
Parent Company				
Employee turnover	3.9 %	7.9 %	7.9 %	7.3 %
Percentage covered by collective bargaining agreements [2]	100 %	100 %	100 %	100 %
Age distribution employees [3]				
– 20–39 years, (W/M)	34/28	36/28	–	–
– 40–49 years, (W/M)	48/36	49/36	–	–
– 50– years, (W/M)	111/73	115/76	–	–
Percentage of female employees	59 %	59 %	58 %	58 %
Percentage of female managers	61 %	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. Parts of the operations needed to recruit staff during the year. This was mainly conducted externally, partly because new services or functions required new competencies. Alecta conducts annual salary surveys to identify and correct unwarranted differences in salary.

Alecta reports employees divided into gender and age. In the Parent Company as a whole, the organisation is gender equal, but varies at departmental level. 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 and produced results in terms of gender and age.

Hours of training (GRI 404-1)

Parent Company	2020	2019	2018	2017	TARGET
Hours of training, average per employee [1]	32	42	22	26	–
– average, women	35	53	27	–	–
– average, men	29	26	14	–	–
Employees with skills development plan	81 %	– [2]	76 %	88 %	100 %

[1] Reported broken down into women and men from 2018. No target set for indicator.
[2] Reporting for 2019 contained gaps and was not considered to meet the requirements of traceability.

All skills development is registered by employees themselves in the personnel administration system, and applies to internal development time 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. In 2020, we continued 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 and formal enrolments to internal training programmes. Before switching to remote working due to the pandemic, we held a number of training sessions in agile working at the office. During the remainder of the year, several digital training programmes were created for various areas, including information security as well as work environment and ergonomics. We provide information about training opportunities on the intranet and through Kompassen, our support tool for training and development.

Alecta's goal is that all employees will have a skills development plan that includes skills development needs and planned training programmes. We identified gaps in reporting, and plan for clear action in 2021 to 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.

Performance and development (GRI 404-3)

Parent Company	2020	2019	2018	2017	TARGET
Employee performance reviews	81 %	– [1]	90 %	88 %	100 %

[1] Reporting for 2019 contained gaps and was not considered to meet the requirements of traceability.

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 in a clear process. 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. In 2021, a concentrated effort is planned to increase the proportion of documented reviews.

Sick leave

Parent Company	2020	2019	2018	2017
Sick leave [1]	3.3 %	4.5 %	3.4 %	3.7 %
– women	3.9 %	4.8 %	–	–
– men	2.6 %	4.0 %	–	–

[1] Reported broken down into women and men from 2019.

During the period of remote working in 2020, Alecta's employees stated that the shorter commute has resulted in less stress in everyday life, though working from home also has its strains. Alecta encouraged physical activity and also recognised the risk to both physical and mental health. We offered a number of opportunities in order to support employees through preventive measures. For example, employees were given an opportunity to take part in lectures given by a health strategist about behaviour change and how to start a healthy diet and lifestyle, medical yoga, health examinations and information about support in high-risk consumption of, for example, alcohol.

The result for the year demonstrated a decrease in sick leave. In addition to preventive measures, the result must also be viewed in light of sick leave in 2019. In 2019, Alecta had a number – admittedly a small number – of individuals on long-term sick leave which had a distinct impact on the result. This is in part due to the fact that Alecta is a relatively small organisation and has chosen to report short and long-term sick leave together. 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 covers the 2020 financial year and has been prepared according to guidelines from the Global Reporting Initiative (GRI), GRI Standards and the Core option. The sustainability report is presented on pages 11–31 and is Alecta's statutory sustainability report. It forms part of Alecta's annual and sustainability report, which is published annually in March. The preceding annual and sustainability report was published on March 27, 2020.

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. It is apparent in the reporting of employee details whether these relate to the Parent Company or whether they constitute Group data that includes the WTC subsidiary. The description of Alecta's direct environmental impact and suppliers refers to the Parent Company. The presentation of information connected with corporate governance is reported in accordance with the split financial year to reflect the nomination committee's work cycle and AGM season. Other exceptions or boundaries are indicated in the report. Alecta manages collectively agreed occupational pension schemes in Sweden. Alecta's asset management activities comprise investments in equity, fixed income and real assets. 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, but an unbundling process began during the year to form a wholly-owned subsidiary that manages the Swedish property portfolio.

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.

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

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Auditor's Combined Assurance Report on the Sustainability Report and statement regarding the Statutory Sustainability Report for Alecta Pensionsförsäkring, ömsesidigt

This is the translation of the auditor's report in Swedish.
To Alecta pensionsförsäkring, ömsesidigt, corp id 502014-6865

Introduction

We have been engaged by the Board of Alecta pensionsförsäkring, ömsesidigt to undertake a limited assurance engagement of the Sustainability Report for Alecta pensionsförsäkring, ömsesidigt for the year 2020. The scope of the Sustainability Report has been defined on pages 30–31. The Statutory Sustainability Report is defined on page 2.

Responsibilities of the Board and Executive Management

The Board of Directors and Executive Management are responsible for the preparation of the Sustainability Report including the Statutory Sustainability Report in accordance with applicable criteria and the Annual Accounts Act respectively. The criteria are defined on page 30 in the Sustainability Report and are part of the Sustainability Reporting Guidelines published by GRI (The Global Reporting Initiative) that are applicable to the Sustainability Report, as well as the accounting and calculation principles that the Company has developed. This responsibility includes the internal control relevant to the preparation of a Sustainability Report that is free from material misstatements, whether due to fraud or error.

Responsibilities of the auditor

Our responsibility is to express a conclusion on the Sustainability Report based on our limited assurance procedures and to express an opinion regarding the Statutory Sustainability Report. Our engagement is limited to historical information presented in this document and does therefore not include future oriented information.

We have conducted our engagement in accordance with ISAE 3000 Assurance engagements other than audits or reviews of historical financial information. A limited assurance engagement consists of making inquiries, primarily of persons responsible for the preparation of the Sustainability Report, and applying analytical and other limited assurance procedures. Our examination regarding the Statutory Sustainability Report has been conducted in accordance with FAR's accounting standard RevR 12 The auditor's opinion regarding the statutory sustainability report. A limited assurance engagement and an examination according to RevR 12 are different from and substantially less in scope than reasonable assurance conducted in accordance with IAASB's Standards on Auditing and other generally accepted auditing standards in Sweden.

The firm applies ISQC 1 (International Standard on Quality Control) and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements. We are independent of Alecta pensionsförsäkring, ömsesidigt in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

The procedures performed in a limited review and an examination according to RevR 12 do not enable us to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. The conclusion based on limited assurance procedures and an examination according to RevR 12 does not provide the same level of assurance as a conclusion based on reasonable assurance.

Our procedures are based on the criteria defined by the Board of Directors and the Executive Management as described above. We consider these criteria suitable for the preparation of the Sustainability Report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion below.

Conclusions

Based on the limited assurance procedures we have performed, nothing has come to our attention that causes us to believe that the Sustainability Report is not prepared, in all material respects, in accordance with the criteria defined by the Board of Directors and Executive Management.

A Statutory Sustainability Report has been prepared.

Stockholm den 23 mars 2021
Ernst & Young AB

Jesper Nilsson
Auktoriserad revisor

Outi Alestalo
Specialistmedlem i FAR

Corporate Governance Report 2020

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

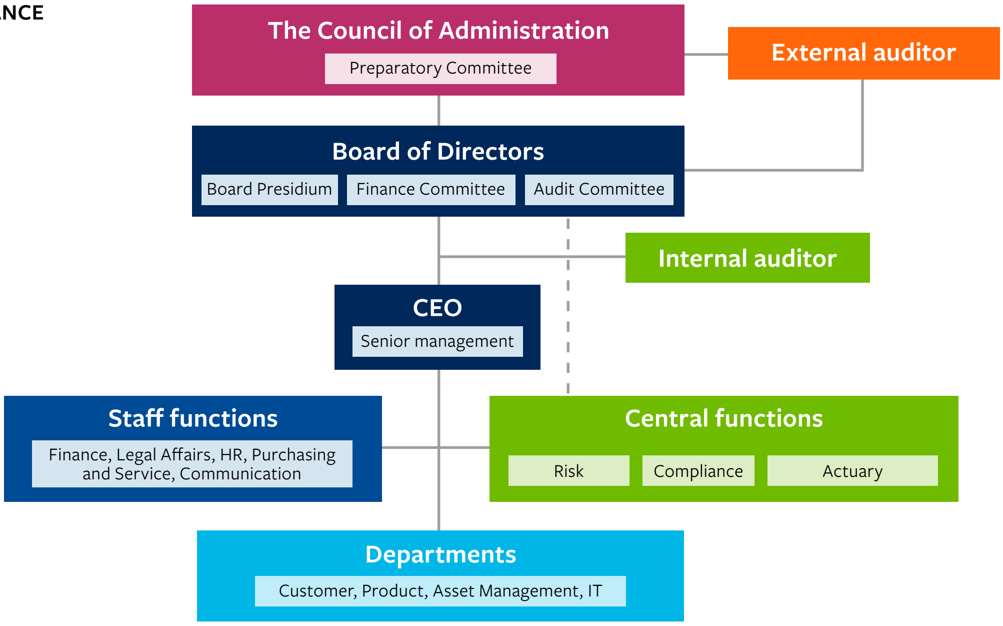
Alecta is a mutual life insurance company that is owned by the employers that have concluded retirement pension agreements with Alecta and by the people insured by Alecta.

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: Evelina Carborn

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

a) 19 members and four deputy members are appointed by the Confederation of Swedish Enterprise and

b) 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 and external 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.

Since the meeting of the Council of Administration held in April 2020, 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 2020 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 2020 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.

At the annual meeting of the Council of Administration, two lay auditors with two personal deputies were elected for a term until the close of the next annual meeting of the Council of Administration, as in previous years. In parallel, the Council of Administration adopted new Articles of Association, according to which the lay auditors were abolished, which came into force on 23 July 2020 when the Articles of Association were registered by the Swedish Companies Registration Office. Thus, the duties of the lay auditors elected by the 2020 annual meeting of the Council of Administration were also terminated – Niklas Hjert (with Kati Almqvist as personal deputy) and Lars Jansson (with Lisbeth Gustafsson as personal deputy). Accordingly, no review report from the lay auditors was prepared for the 2020 financial year. For information regarding the fees paid to the lay auditors, see Note 48 on page 105.

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.

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 2020, the Board Presidium held five 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 asset 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 2020, 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 2020, the Committee held five meetings, all of which were scheduled.

The work of the Board of Directors in 2020

In 2020, the Committee held eight meetings, of which seven scheduled and one extraordinary. Once annually, the Board usually meets up in a Board seminar for a couple of days to discuss matters of strategic importance to Alecta. Due to the coronavirus pandemic, this year's seminar was cancelled. Instead, an extraordinary Board meeting was held to discuss strategic issues.

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

- acceleration of Alecta 2023 strategic work,
- Alecta's collaboration in Avtalat, the information company set up by the parties to the collective agreement,

- refunds and premium pricing,
- preparation for a possible conversion to a mutual occupational pension company, and
- 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 51 and in Note 3 Risks and risk management on page 71.

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 two of the Audit Committee's meetings in 2020, 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 2020 audit and on the evaluation of the work of Senior management.

Guidelines for remuneration of Senior management

In March 2020, 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 9 June 2020:

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 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 2020, refer to Note 48 on page 101.

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 Alvengrip, Mölle

Kenneth Bengtsson, Stockholm, Chairman [1)]

Mattias Dahl, Stockholm

Eva Dunér, Gothenburg

Catharina Elmsäter-Svärd, Enhörna

Jonas Hagelqvist, Stockholm (2020–2021, previously deputy member)

Nils Åke Hallström, Nälden

Karin Johansson, Stockholm

Ulf Larsson, Sundsvall

Staffan Lindquist, Helsingborg

Martin Lindqvist, Stockholm

Anna Nordin, Saltsjö-Boo (2020–2021)

Jan Moström, Luleå

Ola Månsson, Alunda [2)]

Charlott Richardson, Sollentuna (2020–2021, previously deputy member)

Thord Sandahl, Värnamo

Henrik van Rijswijk, Stockholm

Ulrik Wehtje, Malmö [1)]

Klas Wåhlberg, Västerås [2)]

Deputy Members

Ingvar Backle, Täby (2020–2021)

Stefan Koskinen, Stockholm (2020–2021)

Jonas Siljhammar, Jönköping (2020–2021)

Pontus Sjöstrand, Danderyd (2020–2021)

[1)] Member of the Preparatory Committee

[2)] Deputy member of the Preparatory Committee

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

Members

Elisabeth Arbin (Sveriges Ingenjörer), Uppsala

Christina Balder (Unionen), Trollhättan (2020–2021)

Camilla Brown (PTK), Täby

Stefan Carlsson (Unionen), Norrköping

Per-Erik Djärf (Unionen), Vadstena (2020–2021)

Thomas Eriksson (Ledarna), Örebro

Mikael Hansson (Unionen), Billdal (2020–2021, previously deputy member)

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

Peter Larsson (Sveriges Ingenjörer), Enskede [1)]

Hans Lindau (Unionen), Sandared

Andreas Miller (Ledarna), Uppsala [2)]

Maria Nassikas (Unionen), Österskär (2020–2021)

Leif Nicklagård (Unionen), Sundbyberg

Kristina Rådkvist (PTK), Enköping

Therese Sysimetsä (Unionen), Stockholm

Marina Åman (Unionen), Strängnäs [2)]

Deputy Members

Nils-Harald Forssell (Unionen), Olofstorp, also a representative of Alecta's retirees

Stefan Jansson (Sveriges Ingenjörer), Stockholm

Sara Kullgren (Ledarna), Stockholm

Kenneth Lund (Unionen), Uddevalla (2020–2021)

Auditors

Ernst & Young AB,
Lead Audit Engagement Partner
Jesper Nilsson

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), Securitas AB, Telia Company AB, Royal Swedish Academy of Engineering Sciences and the Board of Trustees of the Centre for Business and Policy Studies (SNS).

Other assignments: –

Other: –

Attendance Board Meetings: 8/8

Committee attendance: 11/11

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 (CEO, member of the Board of Directors and member of the Executive Board)

Attendance Board Meetings: 8/8

Committee attendance: 5/5

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: 8/8

Committee attendance: 5/5

Hanna Bisell

Position: Member

Born: 1969

Elected: 2016

Committee: Audit Committee (Chairman)

Other board assignments: Medlemsförsäkring AB (Chairman)

Other assignments: –

Other: –

Attendance Board Meetings: 8/8

Committee attendance: 5/5

Marcus Dahlsten

Position: Member

Born: 1974

Elected: 2020

Committee: Audit Committee

Other board assignments: Finfa AB

Other assignments: CEO and/or member of the nine unions that are part of Transportföretagen

Other: CEO of Transportföretagen AB and Transportföretagen Service AB

Attendance Board Meetings: 6/6 [1)]

Committee attendance: 4/4 [1)]

Markus Granlund

Position: Member

Born: 1975

Elected: 2019

Committee: Audit Committee

Other board assignments: Several of Semcon's subsidiaries and Börssällskapet i Göteborg

Other assignments: Swedish Exhibition & Congress Centre Group and the Royal Swedish Academy of Engineering Sciences

Other: CEO Semcon AB

Attendance Board Meetings: 8/8

Committee attendance: 4/5

Ann Grevelius

Position: Member

Born: 1966

Elected: 2020

Committee: Finance Committee

Other board assignments: Optise AB (Chairman), Carneo AB, Hallvarsson & Halvarsson Group AB, Slättö Förvaltning AB, PregLife AB, Stenvalvet AB and TR European Growth Trust

Other assignments: Chairman of the Investment Committee of the Swedish Foundation for Strategic Research and member of Nasdaq Stockholm Listing Committee

Other: –

Attendance Board Meetings: 6/6 [1)]

Committee attendance: 4/4 [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, Compliance and the EQT business area)

Attendance Board Meetings: 8/8

Committee attendance: 6/6

Helena Hedlund

Position: Member

Born: 1963

Elected: 2019

Committee: Audit Committee

Other board assignments: –

Other assignments: –

Other: PTK, accountable for negotiation, agreement and terms and conditions

Attendance Board Meetings: 7/8

Committee attendance: 4/5

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: 8/8

Committee attendance: 6/6

Richard Malmborg

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: 7/8

Committee attendance: 5/5

Birgitta Pernkrans

Position: Employee representative FTF

Born: 1969

Elected: 2015

Committee: –

Other board assignments: –

Other assignments: –

Other: –

Attendance Board Meetings: 8/8

Committee attendance: –

Mikael Persson

Position: Employee representative SACO

Born: 1962

Elected: 2008

Committee: –

Other board assignments: –

Other assignments: –

Other: –

Attendance Board Meetings: 8/8

Committee attendance: –

[1)] Member of Board and Committee from 9 June, coopted from 2 May.

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 Gruppförsäkring.

Other board assignments: minPension, Fund Advisory Board at the Legal, Financial and Administrative Services Agency

Martin Hedensiö

Position: Head of Communication

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.

William McKechnie

Position: General Counsel [1]

Born: 1978

Employed since: 2021

Education: Law graduate from Trinity College, Dublin

Previous experience: General Counsel, Senior Vice President of If, lawyer Mannheimer Swartling

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.

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.

[1] William McKechnie took up his new position as General Counsel in the first quarter of 2021 when he replaced Charlotte Rydin, who was General Counsel from May 2019 until December 2020

Administration Report

The Board of Directors and Chief Executive Officer of Alecta pensionsförsäkring, ömsesidigt hereby present their Annual and sustainability report for 2020, the company's one hundred and fourth 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 2020, 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 2020, the average number of employees in the Alecta Group was 358 (366), or 350 on a full-time equivalent basis (356).

At year-end 2020, the total number of employees in the Group was 355 (370), of whom 331 worked in the Parent Company (343). The share of female employees was 60 per cent (60) and the average age of employees was 49 years (48).

Information on the average number of employees, salaries and benefits is provided in Note 48 on pages 101–105. 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 37.7 billion (93.3). Comments on Alecta's result and financial position are presented in the following.

Premiums written

Premiums written in 2020 totalled SEK 62.7 billion (52.8), see Note 4 on page 73. Premiums written can be divided into invoiced premiums and guaranteed refunds.

Invoiced premiums were SEK 53.8 billion (41.1). The increase in invoiced premiums compared with the preceding year was chiefly due to increased single premiums in the form of PRI redemption.

Guaranteed refunds amounted to SEK 8.9 billion (11.7) 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 decrease in guaranteed refunds is largely due the upward adjustment of paid-up values by 1.45 per cent (2.32) that was implemented in January based on the change in the consumer price index between September 2018 and September 2019.

Return on capital

Financial markets

In 2020, we witnessed major movements in the financial markets in the wake of the spread of coronavirus and its shocking effects on global economies. Nevertheless, by the end of the year the Swedish stock market had risen by almost 13 per cent.

The year began on a positive note with the signing of a partial trade agreement between the USA and China and economic data that indicated a steady improvement in Europe, the USA and China. In February, the stock market reached new record levels and the turnaround came when information reached the market that Italy had also been hit by the uncontrolled spread of coronavirus, which had a radical impact on the market's risk appetite. As a result, stock markets plunged and the first quarter turned out to be the worst quarter for global shares since 2008.

Central banks and governments around the world responded quickly with massive monetary and fiscal stimulus packages on an unprecedented scale, aimed at saving jobs, easing the loss of earnings for households and companies and mitigating the stress on the financial markets. Combined with other support measures, this resulted in considerable stabilisation of the financial markets in the remainder of the year. The measures also reduced risk premiums in financial markets and kept market rates low, which benefited risk assets.

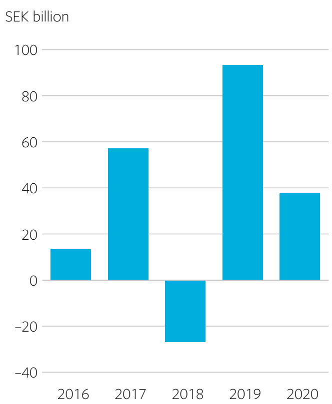
As countries begin to reopen their economies in the summer, the macroeconomic statistics were also better than expected, which spread optimism and hope of a swift economic recovery. Intensive research efforts during the year to develop a COVID-19 vaccine also resulted in a finished vaccine in the fourth quarter. In combination with the massive stimulus packages, this led to a remarkable global stock market surge from 23 March until the end of the year, and for example the US Nasdaq Composite Index noted an increase of a full 88 per cent in local currency for the period.

During the year, market rates and credit spreads fell sharply due to support measures and control mechanisms from central banks, which included substantial asset purchases. The Swedish krona strengthened substantially against all major currencies during the year.

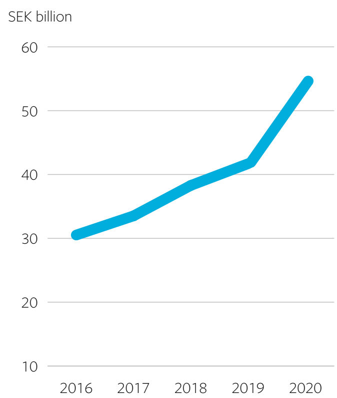
Return

The total return on Alecta's investments in 2020 was 5.0 per cent (14.8). The return was largely attributable to the upturn in the

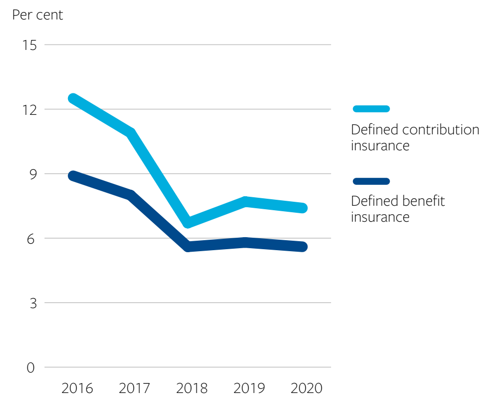
NET PROFIT/LOSS FOR THE YEAR



INVOICED PREMIUMS



TOTAL RETURN, FIVE-YEAR AVERAGE



stock market, but also generally falling interest rates also made a positive contribution. Alecta's average annual return over the past five years is 5.8 per cent (6.0).

The return on shares for the year was 10.9 per cent (32.8), while the return on debt securities was 2.3 per cent (2.6) and 0.2 per cent (7.6) on alternative investments. At year-end, real estate accounted for 85 per cent of the alternative investments and the remaining share primarily comprised alternative credits.

The return on Alecta's defined contribution savings product, Alecta Optimal Pension, was 6.6 per cent (20.3). Over the past five years, Alecta Optimal Pension has generated an average annual return of 7.4 per cent (7.7).

The return on Alecta's defined benefit insurance product was 4.7 per cent (14.1). The average annual return over the past five years is 5.6 per cent (5.8). In the income statement, return on capital for the Group, including unrealised value changes, was SEK 50.0 billion (125.0).

At year-end 2020, the market value of Alecta's total investment assets amounted to SEK 1,039.2 billion (962.7). Of this, the Alecta Optimal Pension's default portfolio accounted for SEK 156.3 billion (131.1).

Changes in the portfolio

At year-end, the proportion of shares of the portfolio was 40.5 per cent (42.7). The proportion of shares varied during the year as a result of market events but also due to upward and downward weighting of the portion of shares during the year. The country allocation remained largely unchanged compared with the previous year.

At year-end, the real estate portion of the portfolio was 12.0 per cent (10.4). The increase is primarily attributable to net investments in real estate, alternative credits and infrastructure investments. The composition of the portfolio is presented on page 44.

Total return table for investments, total	Market value 31 Dec 2020		Market value 31 Dec 2019		Total return, per cent	
	SEK million	%	SEK million	%	2020	Average 2016–2020
Shares	420,446	40.5	410,861	42.7	10.9	10.6
Debt securities	494,255	47.6	451,424	46.9	2.3	1.8
Alternative investments [1]	124,545	12.0	100,392	10.4	0.2	7.1
Total investments	**1,039,246**	**100.0**	**962,678**	**100.0**	**5.0**	**5.8**

Total returns for each year and asset class for the period 2016–2020, which are included in the average total return, are presented in the five-year summary on page 53.

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 2020		Market value 31 Dec 2019		Total return, per cent	
	SEK million	%	SEK million	%	2020	Average 2016–2020
Shares	94,541	60.5	79,278	60.5	10.9	10.6
Debt securities	42,819	27.4	37,976	29.0	2.4	1.9
Alternative investments [1]	18,910	12.1	13,812	10.5	0.2	7.1
Total investments	**156,271**	**100.0**	**131,066**	**100.0**	**6.6**	**7.4**

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 168.0 billion (140.5).

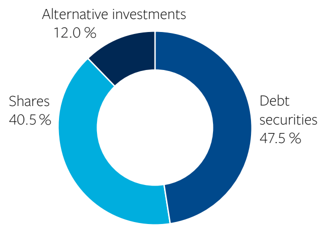
Total return table for investments, defined benefit insurance	Market value 31 Dec 2020		Market value 31 Dec 2019		Total return, per cent	
	SEK million	%	SEK million	%	2020	Average 2016–2020
Shares	320,803	36.8	327,492	39.8	10.9	10.6
Debt securities	446,210	51.2	409,112	49.8	2.2	1.8
Alternative investments [1]	104,213	12.0	85,587	10.4	0.2	7.1
Total investments	**871,227**	**100.0**	**822,191**	**100.0**	**4.7**	**5.6**

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.

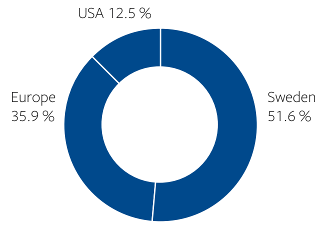
[1] Alternative investments includes real estate, infrastructure investments and alternative credits that are subject to higher market risk than traditional debt securities.

Alecta's portfolio composition, 31 December 2020

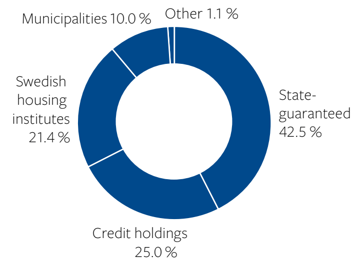
TOTAL INVESTMENT PORTFOLIO



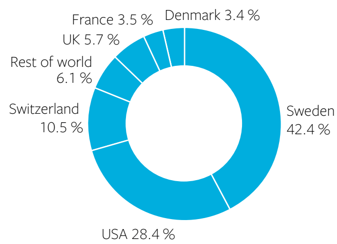
DEBT SECURITIES, geographic distribution



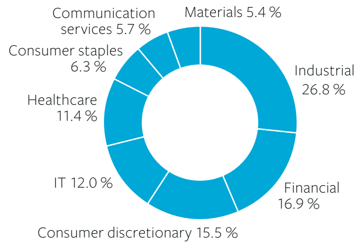
DEBT SECURITIES, type of issuer



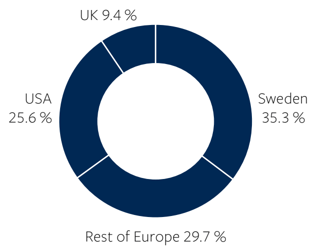
SHARES, geographic distribution



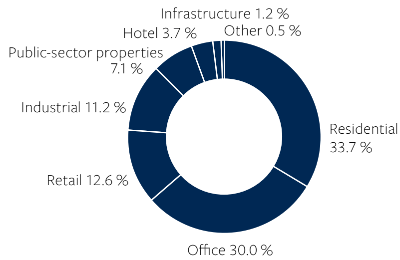
SHARES, sector



ALTERNATIVE INVESTMENTS, geographic distribution



PROPERTY AND INFRASTRUCTURE, category



Alecta's five largest shareholdings, 31 December 2020

Stock	Sector	Market value, SEK million
Investor AB (publ)	Financial	23,307
Microsoft Corp	IT	19,707
Atlas Copco AB (publ)	Industrial	19,489
AB Volvo (publ)	Industrial	15,428
Alphabet Inc	Communication services	14,898

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.

Claims incurred

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

In 2020, insurance claims paid, which mainly comprise benefits incurred in retirement pensions, disability and life insurance, increased to SEK 22.1 billion (21.8). 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 2020 totalled SEK 153 million (143). See also Note 8 on page 74.

The change in the provision for claims outstanding was SEK –0.7 billion (–3.6).

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 622.0 billion at 31 December 2020. This is an increase of SEK 51.3 billion (57.5) for 2020, which was due to the following reasons:

- Premiums and payment resulted in an increase in technical provisions of SEK 40.8 billion (31.2), of which SEK 4.7 billion (7.2) refers to guaranteed refunds in the form of earned pension entitlements.
- The difference between underlying premiums and assumptions in the calculation of technical provisions reduced the provisions by SEK 15.4 billion (14.7) for savings insurance.
- The results from disability and waiver of premium insurance reduced the provisions by SEK 3.4 billion (6.8).
- Due to lower market rates in 2020, the yield curve used in the measurement declined, which increased provisions by SEK 17.1 billion (28.5). The average cash flow-weighted rate declined from 1.81 to 1.60 per cent in 2020.
- Cumulative return, after deduction for released tax and operating expenses, increased the technical provisions by SEK 14.1 billion (13.7).
- Other changes and results led to an overall decrease of SEK 2 billion in technical provisions.

For further information, see Notes 36 and 37 on pages 97 and 98.

Operating expenses

Operating expenses for the insurance business, which are termed operating expenses in the income statement, increased by SEK 34 million compared with the preceding year and amounted to SEK 625 million (591). The increase was due to such factors as higher training costs on account of the accelerated agile and digital transformation, increased costs for early retirement pension and increased costs for the selection centre Collectum.

Management expense ratio

The management expense ratio of 0.08 remained unchanged for the Group in total compared with full-year 2019. The key ratio for defined contribution insurance fell to 0.06 during the year (0.07) due to an increase in assets under management. The key ratio for defined benefit insurance remained unchanged at 0.08 compared with 2019.

Tax expense

In 2020, the yield tax, net of foreign tax credits, was SEK 383 million (292). Yield tax is payable on pension products and on family cover.

The income tax expense, which comprises current and deferred tax, was SEK 670 million (4,345). The deferred tax expense is net of income and expenses. In addition to Swedish income tax, the item also includes coupon tax and foreign income tax. In the Parent Company, 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 54–55. 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 (2006–2020), Alecta has distributed SEK 114 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 2020, the Board approved an upward adjustment of defined benefit pensions by 1.45 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 2018 and September 2019. The Board of Directors 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, the premium reduction was SEK 11 per insured and month.

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 2020, the collective funding ratio for the Group's defined benefit insurance products was 148 per cent (148). The collective funding capital was SEK 278.3 billion (263.3).

Alecta's solvency ratio at year-end 2020 was 167 per cent (169).

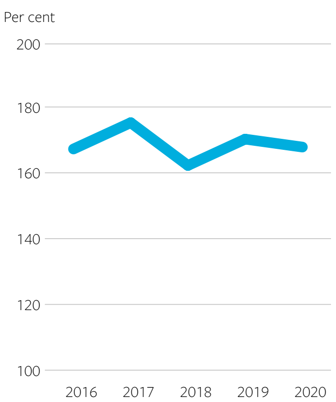
DEVELOPMENT IN 2020	SOLVENCY RATIO	COLLECTIVE FUNDING RATIO, defined benefit insurance
Opening balance	168.9 %	147.9 %
Return	7.4 %	6.3 %
Cumulative return, TP	–4.1 %	–3.5 %
Changed discount rate	–4.9 %	–4.1 %
Premiums	–1.1 %	–0.8 %
Guaranteed pension paid	2.2 %	1.5 %
Pension supplement paid	–0.5 %	–0.1 %
Adjustment of paid-up values	–1.4 %	–0.4 %
Premium reductions	–1.1 %	–1.0 %
Changed TP assumptions	0.0 %	0.0 %
Disability result	0.9 %	0.5 %
Other	0.9 %	1.4 %
Closing balance	167.2 %	147.7 %

Proposed appropriation of profits

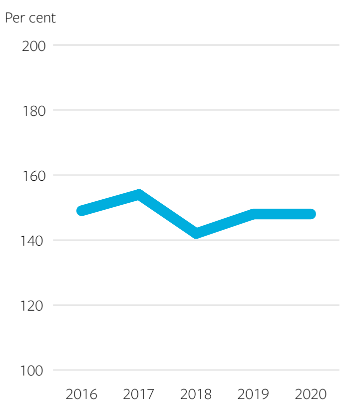
The Board of Directors and Chief Executive Officer propose to the Council of Administration that the Parent Company's profit for 2020 of SEK 37,554,723,968 be transferred to the surplus fund.

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 45.

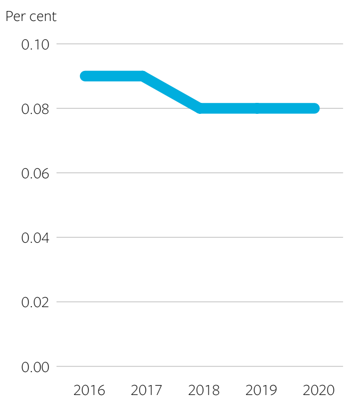
SOLVENCY RATIO



COLLECTIVE FUNDING RATIO, defined benefit insurance



MANAGEMENT EXPENSE RATIO, total



Significant events

Raised premiums for defined benefit pensions

At the beginning of 2020, Alecta's Board of Directors decided to raise the premiums for defined benefit pensions from 1 March 2020. The increase was in response to increased longevity and falling market rates in the past year. For the ITP 2 Retirement pension paid on an ongoing basis, the premium was raised by an average of 16 per cent, of which the interest adjustment accounted for 9 percentage points and changed longevity for 7 percentage points. The premium rate was changed to 0.8 per cent from the previous 1.25 per cent. The premium level for existing insurance benefits in Alecta was unaffected by the decision. In parallel, minor adjustments were made to the premiums for the redemption of pension commitments and for ITP 2 Family pension.

Alecta Fastigheter AB

In 2019, Alecta's Board of Directors decided to unbundle the Swedish property business and, in March 2020, transferred the shares in the property-owning holding companies from Alecta pensionsförsäkring, ömsesidigt to the newly formed wholly owned subsidiary Alecta Fastigheter AB. The company will own, manage and develop properties in Sweden. The goal is to grow in the coming years through acquisitions and development and to create a more sustainable and customer-oriented business.

Avtalat and effects for Alecta

The Confederation of Swedish Enterprise, LO and PTK have established a new company under the Avtalat brand, which was previously called Informationsbolaget. Its assignment is to develop and optimise communication about collectively agreed insurance and pensions, for employees and employers, covered by ITP and SAF-LO. Alecta is working together with the companies owned by the parties to establish Avtalat. The aim of Avtalat is that more corporate and private customers should feel safe and trust collective agreements and collectively agreed insurance and make informed and sound choices. The company began operating on 1 January 2021 but work to build-out the digital and physical customer interface will continue until 2024.

For Alecta, Avtalat means certain work duties, mainly in the Customer department but also in the Product and Communication departments, will be taken over by Avtalat.

Realising the benefits of efficiency enhancements

During the year, Alecta offered early retirement pension to all employees between the ages of 62 and 64 on 31 December 2020. The offer is one of several measures aimed at reducing Alecta's cost level by realising efficiency gains and addressing the reduced human resources requirements resulting from the new agile, team-based working method and the fact that some tasks are being transferred to Avtalat.

Alecta invests EUR 620 million in infrastructure funds

As part of Alecta's goal to increase investments in real assets, several major investments were made in international infrastructure during the year. The investments, which total EUR 620 million, have been made in three different funds, two of which focus on the global market and one on the European.

Alecta invests SEK 4.25 billion in Swedish Government's first green government bond

Alecta invested SEK 4.25 billion in a green bond issued by the Swedish Government under the Swedish National Debt Office's programme for Euro Medium Term Notes (EMTN). The proceeds will be linked to expenditures that contribute to achieving Sweden's environmental and climate goals.

Renewed contract as default option in the FTP plan

Alecta has, in competition with other pension companies, secured a renewed contract as the default option for the FTP 1 and FTPK defined contribution retirement pensions in the insurance industry's occupational pension plan, FTP. The agreement is valid for four years from 2021 and the product offered is Alecta Optimal Pension.

Decision on refunds and premiums for 2021

Alecta's Board of Directors has decided to increase defined benefit pensions by 0.39 per cent, matching the inflation rate over the past year. The decision covers pensions in payment as well as earned pension entitlements. Fewer cases of illness in combination with Alecta's strong financial position also meant the Board of Directors decided to retain premium reductions of 65 per cent for disability and premium waiver insurance. The premium for occupational group life insurance TGL is left unchanged at SEK 26 per month and employee.

Impact of the COVID-19 pandemic

The shutdown of large parts of the world's economies in the first quarter resulted in the loss of million of jobs, widespread concern in financial markets and a dramatic fall on stock markets worldwide. This bottomed out at the end of March and at the end of the first quarter Alecta's share assets had declined in value since the start of the year by almost 17 per cent and debt securities had fallen 0.4 per cent. During the same period, Alecta's total assets had decreased by almost 8 per cent.

Massive public stimulus from central banks and governments, a gradual reduction in spread of the disease and the reopening of economies led to a remarkable recovery in financial markets during the second and third quarters. After the summer, several stock markets again reported positive returns for the year. The second wave of the virus spread in the autumn in Europe and the USA resulting in greater volatility in financial markets, albeit to a much lesser degree than in the spring. The markets instead relied on the positive results of phase 3 trials demonstrated by a number of pharmaceutical companies that were aiming for vaccine approval before the end of the year. Forecasts from central banks for continued low interest rates for some time to come also pleased investors and new record highs were reported on several stock markets worldwide in the latter part of the autumn, including in the USA and Sweden. At the end of the year, Alecta's shareholdings had risen by almost 11 per cent for the full-year.

The real estate market was severely hit by the pandemic, though there are substantial differences between sectors. The logistics sector was more resilient than the hotel, retail and office sectors. Geographic differences also exist and the Swedish real estate market has fared better than the rest of the world. The negative impact on Alecta's property portfolio was limited and return for the year was –0.9 per cent.

As a whole, the performance of the market during the year, primarily in the form of rising stock markets and falling interest rates, led to favourable performance for Alecta's total investments. At the end of the year, the market value of total investments was SEK 1,039 billion and total return was 5.0 per cent. Alecta's financial position has also recovered well during the year and remains at a healthy level. At the end of the year, the risk margin according to the "traffic light model" was SEK 252 billion, compared with SEK 230 billion at the beginning of the year.

A direct effect of COVID-19 is that mortality in Alecta's insurance portfolio was significantly higher than what is normal in the spring and in November and December. The increase in mortality we saw periodically during the year influences the outcome for the year, which is shown in the table below. It is clear that the oldest have been worst affected by the pandemic. Among those aged 90 and older, the increase in mortality in the portfolio was 8 per cent for men and 5 per cent for women compared with 2015–2019. Other age groups also demonstrate a clear increase in mortality for men, though not for women.

Since the dominating insurance risk in Alecta is the risk that the insureds live longer than assumed, the increase in mortality has resulted in the technical provisions declining by approximately SEK 0.3 billion. At the same time, the decrease in interest rates for the year has resulted in the technical provisions increasing by approximately SEK 17.1 billion. Provisions were therefore impacted significantly more by the market trend rather than the increase in mortality.

Increase in mortality rate in Alecta's insurance portfolio in 2020 compared with 2015–2019

	18–64 years	65–79 years	80–89 years	over 90 years
Men	3 %	4 %	4 %	8 %
Women	–11 %	0 %	–3 %	5 %

Organisational changes

William McKechnie was recruited as Alecta's General Counsel and Head of Legal Affairs and will take up his new position in the first quarter of 2021. William, whose previous role was at If, replaces Charlotte Rydin, who has been Alecta's General Counsel and Head of Legal Affairs since May 2019.

In September, Carina Silberg took up her new position as Head of Governance and Sustainability, a new group established in Alecta's investment management. Carina has been Head of Sustainability at Alecta since 2017.

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.

Such a conversion decision for Alecta 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 accordance with four notices from parliament, the government presented in January 2021 a bill with proposals to further improve the Occupational Pension Companies Act, with the amended Act scheduled to enter into force in May 2021.

In light of the above, Alecta's Council of Administration at the annual meeting of the Council of Administration in April 2021 will be asked to consider a proposal from the Board that Alecta should apply to the Swedish Financial Supervisory Authority for conversion from a mutual insurance company to a mutual occupational pension company as of 1 January 2022.

Significant events after the balance sheet date

No significant events have taken place after the balance sheet date.

Outlook

Financial markets

2020 was a very special year. The year started with strong optimism about economic activity but large portions of the global economy closed down in March–April due to the COVID-19 pandemic. The drop in production was in many countries almost 15 per cent, even if Sweden did better with a GDP drop of just under 10 per cent. Over the past decade, the financial markets have first experienced a financial crisis similar to that in the 1930s depression and has now experienced something similar to the Spanish flu that occurred in the 1920s.

Given these events, it would be easy to assume that the stock market would have fallen substantially. Certainly, the stock market's initial reaction was negative but as fiscal policy in particular became much more expansionary, stock market optimism quickly returned. As interest rates also fell, from historically low levels, the relative calculation between shares and bonds shifted even more in favour of shares. As soon as the spread of the virus slowed, the stock market rose sharply and the year ended positively in most markets. The stock market has now set a much brighter scenario for the years ahead with the normalisation of profits and production no later than 2022. Not even a second wave of infections during the autumn weakened the stock market significantly.

The low interest rates have been perpetuated by the central banks, which have expanded their bond-buying and pledged unchanged interest rates for several more years. Generous liquidity support has also been provided to banking systems around the world. The coordinated management of market interest rates by central banks means no interest rate in the world today can be regarded as market-determined. Since risk-free interest rates are a key variable in all financial valuation, all financial prices should today be regarded as more or less manipulated.

The Swedish krona strengthened significantly during the year, though from very low levels. Sweden's cautious shutdown of society and healthy public finances have probably played a part. These factors remain, which means the krona could have the potential for some further strengthening in the future.

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

Demand in the labour market, which already before the pandemic had begun weakening, fell sharply in 2020 and resulted in rising unemployment. Though the picture is fragmented. Many sectors that are built on physical meetings and mobility have been severely hit by the pandemic while other operations have been only marginally affected. Some have even been positively affected.

One profound change has been the sharp acceleration in digitalisation in 2020, which will be important for both future demand for expertise and for opportunities for remote working, as well as access to skills development. Certain parts of the business sector still have a skill shortage and the accelerating digitalisation is increasing pressure on transformation, imposing requirements on skill renewal and a flexible labour market.

This flexibility will also need to include the elderly. We can already see a trend where an increasing number of elderly people are active in working life and often combine pension income with labour income. This development is expected to continue, as the trend of greater labour-market participation among people in their 60s has been increasing since the mid 1990s. A rising number of people aged 65 have a connection with the labour market.

This is a positive development. Politicians, labour-market parties and the education system must find ways to help the elderly who want to continue working, either in the same field as previously or in new ways.

The expectations on greater flexibility also apply to the pension system. We assume that tax legislation will be amended in the near future to allow those who have begun to receive payments from their occupational pension to pause payments to allow them to work without suffering from unwelcome tax effects. Individual employers and labour-market parties may also need to deal with requests to continue paying pension provisions even after the agreed end date.

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 pensions in relation to the state pension, especially among private-sector employees. In 2021, discussions continued in the parliamentary Pension Group about changes to the pension system, aimed at reinforcing the state pension and increasing the "respect gap" between those who have worked a whole lifetime on low wages and those who have not worked at all. Eventually, proposals such as raising the real provisions from today's 17.21 per cent to 18.5 per cent may strengthen the state pension, but on the other hand payments to occupational pensions also increase through trade association agreements on flexible and part-time pensions. Unless the ceiling of 7.5 income base amounts is raised, occupational pensions will continue to grow in importance relative to the state pension.

The entire funded occupational pension system is in a start-up phase, with premium payments to ITP showing the fastest growth due to the transition from ITP 2 to ITP 1. More capital is being accumulated at pension companies, which is creating greater interest in capital transfers. The right to transfer capital is subject to policy evaluations, including retroactive right to transfer capital for older insurance contracts, and there may be more initiatives in the future. As long as occupational pension capital is transferred at the initiative of customers, the volumes will remain manageable, but should transfer volumes be very large then this could affect the earnings potential of some companies when they are obliged to keep a substantial portion of capital in liquid assets.

Since the end of tax-subsidised private pension savings, the industry is searching for business opportunities, in addition to campaigning for more private savings, for example by asserting the inadequacy of the pension system. Salary exchange is one business opportunity aggressively marketed to employers and employees. However, salary exchange is heavily dependent on the employers' right to deduct and the cut-off value in income tax. Government Offices are aware of the market's interest in salary exchange and may be preparing measures that could reduce incentives for salary exchange. Widespread salary exchange could lead to marginally lower premiums to ITP 1 if the ITP 1 premium that disappears through salary exchange is instead channelled into savings outside Collectum's procured offering.

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 economies of scale and spread shared expenses across all products enables us to add value for our customers. Alecta's product areas are:

Pension insurance

- Defined benefit pensions (primarily ITP)
- Defined contribution pensions (mainly ITP but also in other collective bargaining areas)

Risk insurance

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

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

In addition to allocating income and expenses equitably among its various products, Alecta also seeks to ensure that risks are borne in an equitable manner. Alecta's monitoring of solvency and risk 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 Alecta's defined contribution pension product that was introduced in connection 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 0.06 per cent (0.07) of the capital in 2020. Investment management expense is additional and in 2020, amounted to approximately 0.02 per cent (0.02) of managed 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 pension products. At year-end 2020, Alecta Optimal Pension had a solvency ratio of 224 per cent (227), compared with 167 per cent (169) for Alecta as a whole.

Risk management and risk organisation

To protect the interests of our customers and other stakeholders, we need to ensure that we maintain strict control of risks and of how risks are managed. Insurance risks need to be managed in a way which ensures that Alecta is able to meet its insurance commitments. The financial risks taken must generate the highest possible return without jeopardising Alecta's commitments to the insureds. Other risks, such as compliance, sustainability and information security risks, need to be managed in a way that does not 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 calculations, 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 responsibility continuously to adapt actuarial guidelines and the basis of actuarial calculations by submitting proposals for changes.

Financial risks

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

Other risks

All managers and employees are responsible for ensuring good internal control in their respective areas of 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 71–72.

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.
- IGC function – internal governance and controls – supports operations by coordinating and developing processes and procedures in internal control.
- 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 is not annually reviewed by the company's auditor. A corporate governance report prepared in accordance with the Code is available on pages 33–39.

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 10–31. For the auditor's report on the review of the sustainability report and opinion on the statutory sustainability report, refer to page 32.

Five-year summary

GROUP, SEK MILLION	2020	2019	2018	2017	2016
Profit/loss					
Premiums written	62,749	52,776	48,184	38,514	33,557
Invoiced premiums	*53,823*	*41,081*	*37,674*	*32,895*	*29,919*
Guaranteed refunds	*8,926*	*11,695*	*10,510*	*5,619*	*3,638*
Claims incurred	–21,424	–18,148	–21,238	–20,776	–21,907
Net return on capital	50,033	125,031	–18,043	53,000	37,529
Profit/loss before tax	38,332	97,651	–26,118	57,863	12,320
Net profit/loss for the year	37,662	93,306	–26,839	57,255	13,428
Financial position					
Assets under management [1]	1,039,949	964,029	828,572	834,416	774,059
– of which defined contribution insurance	*168,047*	*141,132*	*103,045*	*92,637*	*73,617*
Technical provisions	621,962	570,634	513,149	478,814	466,273
Collective funding capital	278,344	263,282	210,613	255,779	226,484
Capital base [2]	410,551	385,722	308,585	349,663	302,376
Required solvency margin [2]	25,923	23,887	21,536	20,097	19,231
Key performance indicators					
Total return for the Group, per cent [3]	5.0	14.8	–2.2	6.7	5.2
– of which shares	*10.9*	*32.8*	*–6.9*	*12.6*	*7.2*
– of which debt securities	*2.3*	*2.6*	*0.3*	*1*	*3.1*
– of which alternative investments	*0.2*	*7.6*	*6.6*	*12.1*	*9.2*
Total return, defined contribution insurance, per cent [4]	6.6	20.3	–3.5	9.1	5.8
Total return, defined benefit insurance, per cent [4]	4.7	14.1	–2.0	6.5	5.1
Direct return for the Group, per cent	1.6	2.1	2.2	2.4	2.6
Management expense ratio [5]	0.08	0.08	0.08	0.09	0.09
Management expense ratio, defined contribution insurance [5]	0.06	0.07	0.09	0.09	0.11
Management expense ratio, defined benefit insurance [5]	0.08	0.08	0.08	0.09	0.09
Investment management expense ratio [6]	0.02	0.02	0.02	0.02	0.02
Collective funding ratio, defined contribution insurance, per cent [7]	100	100	100	100	100
Collective funding ratio, defined benefit insurance, per cent	148	148	142	154	149
Solvency ratio, per cent	167	169	161	174	166

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. Total return for defined contribution insurance refers to the portfolio that constitutes Alecta's default option, which has a 60 per cent share component.
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 2019:23) 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 37.7 billion (93.3).

ALTERNATIVE INCOME STATEMENT (SEK MILLION)	2020	2019
Administration result	39	54
Risk result	5,155	1,134
Financial result	33,338	96,392
Tax result	–870	–4,274
Net profit for the year	**37,662**	**93,306**

Administration result

The administration result was SEK 39 million (54) 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)	2020	2019
Income	863	841
of which released operating expenses	*817*	*788*
of which other income	*46*	*53*
Expenses	–824	–787
Total administration result	**39**	**54**

Risk result

The risk result was SEK 5.2 billion (1.1) 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. A detailed description of changes in 2020 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. In addition to measured options, other changes also occur, primarily on defined benefit insurance products, that are included in the item Other. In 2019, new assumptions were introduced for mortality and morbidity, which largely explain the differences in risk results between the years.

RISK RESULT (SEK MILLION)	2020	2019
Annual mortality result	216	–6,905
Annual morbidity result	3,384	6,787
Insurance options	443	502
Changes in methods and assumptions used in calculating TPs	–	1,460
Other	1,112	–710
Total risk result	**5,155**	**1,134**

Financial result

The financial result was SEK 33.3 billion (96.4). The financial result is largely dependent on the performance of financial markets, and normally accounts for most of the net profit for the year. A 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. Refer to the Technical provisions section in the Administration Report.

FINANCIAL RESULT (SEK MILLION)	2020	2019
Result, return on capital	50,008	125,008
of which investment management expenses	*–216*	*–194*
Released operating expenses for investment management	68	62
Cumulative return on TPs	–15,515	–15,241
Other profit sources	15,875	15,100
Changes in TPs as a result of changed market interest rates	–17,098	–28,537
Total financial result	**33,338**	**96,392**

Tax result

The tax result amounted to SEK –0.9 billion (–4.3). 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)	2020	2019
Result, yield tax	–200	71
Income tax	–670	–4,345
Total tax result	**–870**	**–4,274**

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Group

SEK MILLION	NOTE	2020	2019
Premiums written	4	62,749	52,776
Invoiced premiums		*53,823*	*41,081*
Guaranteed refunds		*8,926*	*11,695*
Net return on capital		50,033	125,031
Return on capital, income	*5*	*21,601*	*28,628*
Unrealised gains on investment assets	*6*	*34,255*	*97,672*
Capital return, expenses	*9*	*–3,952*	*–1,119*
Unrealised losses on investment assets	*10*	*–1,871*	*–150*
Claims incurred		–21,424	–18,148
Claims paid	*7*	*–22,090*	*–21,764*
Change in provision for claims outstanding		*666*	*3,616*
Change in other technical provisions		–51,994	–61,101
Provision for life insurance		*–51,994*	*–61,101*
Operating expenses	8	–625	–591
Depreciation of owner-occupied properties	15	–24	–24
Yield tax	11	–383	–292
Total operating profit/loss		**38,332**	**97,651**
Profit/loss before tax		**38,332**	**97,651**
Income tax	12	–670	–4,345
NET PROFIT/LOSS FOR THE YEAR		**37,662**	**93,306**

Statement of Comprehensive Income

Group

SEK MILLION	2020	2019
Net profit/loss for the year	**37,662**	**93,306**
Items that can subsequently be reclassified to profit or loss		
Foreign exchange difference that can subsequently be reclassified to profit or loss	–319	29
Other comprehensive income	–319	**29**
COMPREHENSIVE INCOME FOR THE YEAR	**37,343**	**93,335**

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

Balance Sheet

Group

SEK MILLION	NOTE	31 DEC 2020	31 DEC 2019
ASSETS			
Intangible assets	13	**181**	**207**
Property, plant and equipment	14	**19**	**24**
Deferred tax	12	**1,728**	**2,332**
Investment assets			
Land and buildings			
Investment properties	15	32,450	32,225
Owner-occupied properties	15	981	974
Investments in associated companies and joint ventures			
Shares and participations in associated companies and joint ventures	18, 19, 22, 23	42,914	36,357
Loans to associated companies and joint ventures	18, 19	357	334
Other financial investment assets			
Shares and participations	19, 22, 23, 24	487,344	454,757
Bonds and other debt securities	19, 22, 23, 25, 43, 44	457,191	416,620
Loans secured by real estate	19, 22, 26	3,796	4,483
Other loans	19, 22, 23, 27	6,588	6,444
Derivatives	19, 22, 28, 29	16,389	12,755
		1,048,010	**964,949**
Receivables			
Receivables related to direct insurance operations	19, 30	2,444	2,549
Current tax		1,260	1,073
Other receivables	19, 31	2,328	8,190
		6,032	**11,812**
Cash and bank balances	19, 44	**3,440**	**3,332**
Prepaid expenses and accrued income			
Accrued interest and rental income	19, 32	7,630	8,982
Other prepaid expenses and accrued income		69	86
		7,699	**9,068**
TOTAL ASSETS		1,067,109	991,724

Balance Sheet, *cont.*

Group

SEK MILLION	NOTE	31 DEC 2020	31 DEC 2019
EQUITY AND LIABILITIES			
EQUITY			
Translation reserve	33	–11	308
Discretionary participation features reserve	33	129,518	119,689
Special indexation funds	33	10,021	10,051
Retained earnings including net profit/loss for the year	33	278,459	263,347
Total equity		**417,987**	**393,395**
LIABILITIES			
Provision for life insurance	36	608,774	556,780
Claims outstanding	37	13,188	13,854
Pensions and similar commitments	38	–	0
Other provisions	39	9	15
Current tax		51	0
Deferred tax	12	1,648	1,659
Liabilities related to direct insurance operations	19, 40	784	765
Derivatives	19, 22, 28, 29	10,033	12,375
Other liabilities	19, 41	9,550	7,335
Other accrued expenses and deferred income	19, 42	5,085	5,546
Total liabilities		**649,122**	**598,329**
TOTAL EQUITY AND LIABILITIES		1,067,109	991,724

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 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**

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 2020	**308**	**119,689**	**10,051**	**263,347**	**393,395**
Net profit/loss for the year	–	–	–	37,662	37,662
Other comprehensive income	–319	–	–	–	–319
Comprehensive income for the year	**–319**	–	–	**37,662**	**37,343**
Allocated refunds	–	21,390	–	–21,390	–
Guaranteed refunds	–	–11,319	–	–647	–11,966
Collective risk premium [3]	–	–	–126	–	–126
Other changes [4]	–	–242	96	–513	–659
CLOSING EQUITY AT 31 DECEMBER 2020	**–11**	**129,518**	**10,021**	**278,459**	**417,987**

1) See Note 33.
2) Discretionary participation features refer to allocated refunds. See also Notes 33 and 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

Group

SEK MILLION	2020	2019
OPERATING ACTIVITIES		
Profit/loss for the year before tax	38,332	97,651
Interest received	6,696	2,629
Interest paid	–752	178
Dividends received	9,582	13,892
Adjustment for non-cash items [1]	–6,368	–77,933
Tax paid	–594	–1,491
Cash flow from operating activities before changes in assets and liabilities	**46,896**	**34,926**
Change in investment assets	–48,665	–31,011
Change in other operating assets	5,981	–7,977
Change in other operating liabilities	–274	7,661
Cash flow from operating activities	**3,938**	**3,599**
INVESTING ACTIVITIES		
Investments in property, plant and equipment	–1	–11
Cash flow from investing activities	**–1**	**–11**
FINANCING ACTIVITIES		
Pension supplements/Supplementary amounts	–3,040	–2,843
Payment of indexation funds	–126	–121
Other changes [2]	–660	–699
Cash flow from financing activities	**–3,826**	**–3,663**
Cash flow for the year	111	–75
Cash and cash equivalents at beginning of year	3,332	3,392
Exchange rate differences in cash and cash equivalents	–3	15
CASH AND CASH EQUIVALENTS AT END OF YEAR	3,440	3,332
[1]		
Depreciation/Amortisation/Impairment, Notes 9, 13, 14, 15	64	57
Yield tax, Note 11	383	291
Foreign exchange gains, Note 5	–	–436
Foreign exchange losses, Note 9	2,632	–
Capital gains, Note 5	–4,961	–8,931
Capital losses, Note 9	0	1
Unrealised gains, Note 6	–34,255	–97,672
Unrealised losses, Note 10	1,871	150
Interest income, Note 5	–5,345	–3,579
Interest expenses, Note 9	450	297
Dividends, Note 5	–9,584	–13,904
Adjustment of paid-up values, Note 4	–4,739	–7,223
Premium reductions, Note 4	–4,187	–4,472
Change in provision for life insurance, Note 36	51,994	61,101
Change in provision for claims outstanding, Note 37	–666	–3,616
Other	–25	3
Total adjustment for non-cash items	**–6,368**	**–77,933**

[2] Other changes primarily comprise distributed refunds in conjunction with the transfer of defined contribution insurance.

Income Statement

Parent Company

SEK MILLION	NOTE	2020	2019
TECHNICAL ACCOUNT, LIFE INSURANCE BUSINESS			
Premiums written	4	62,749	52,776
Invoiced premiums		*53,823*	*41,081*
Guaranteed refunds		*8,926*	*11,695*
Capital return, income	5	21,007	28,457
Unrealised gains on investment assets	6	33,879	97,376
Claims incurred		–21,424	–18,148
Claims paid	*7*	*–22,090*	*–21,764*
Change in provision for claims outstanding		*666*	*3,616*
Change in other technical provisions		–51,994	–61,101
Provision for life insurance		*–51,994*	*–61,101*
Operating expenses	8	–625	–591
Capital return, expenses	9	–3,748	–1,573
Unrealised losses on investment assets	10	–1,330	–150
Life insurance, total balance on the technical account		**38,514**	**97,046**
NON-TECHNICAL ACCOUNT			
Life insurance, balance on the technical account		38,514	97,046
Profit/loss before tax		**38,514**	**97,046**
Tax on profit/loss for the year	12	–959	–4,576
NET PROFIT/LOSS FOR THE YEAR		37,555	92,470

Statement of Comprehensive Income

Parent Company

SEK MILLION	2020	2019
Net profit/loss for the year	37,555	92,470
Other comprehensive income	–	–
COMPREHENSIVE INCOME FOR THE YEAR	37,555	92,470

Performance Analysis

Parent Company 2020

SEK MILLION	Total	DIRECT INSURANCE OF SWEDISH RISKS				
		Occupational pension insurance				Other life insurance
		Defined benefit insurance	Defined contribution traditional insurance	Occupational disability insurance	Waiver of premium	Group life and occupational group life insurance
LIFE INSURANCE, BALANCE ON THE TECHNICAL ACCOUNT						
Premiums written	62,749	37,293	18,864	2,923	3,422	247
Capital return, income	21,007	15,802	4,414	651	127	13
Unrealised gains on investment assets	33,879	25,484	7,119	1,050	205	21
Claims incurred	–21,424	–17,402	–940	–662	–2,252	–168
Claims paid	*–22,090*	*–17,401*	*–940*	*–1,283*	*–2,297*	*–169*
Change in provision for claims outstanding	*666*	*–1*	*–*	*621*	*45*	*1*
Changes in other technical provisions	–51,994	–38,924	–13,070	–	–	–
Provision for life insurance	*–51,994*	*–38,924*	*–13,070*	*–*	*–*	*–*
Operating expenses	–625	–341	–72	–131	–63	–18
Capital return, expenses	–3,748	–2,831	–776	–116	–23	–2
Unrealised losses on investment assets	–1,330	–1,000	–280	–41	–8	–1
Life insurance, total balance on the technical account	**38,514**	**18,081**	**15,259**	**3,674**	**1,408**	**92**
TECHNICAL PROVISIONS						
Provision for life insurance	608,774	533,601	75,173	–	–	–
Claims outstanding	13,188	23	–	8,461	4,677	27
Total technical provisions	**621,962**	**533,624**	**75,173**	**8,461**	**4,677**	**27**
Surplus fund	373,177	277,023	76,595	12,033	7,098	428
Total operating expenses, excluding property management expenses						
Operating expenses (administrative expenses in the insurance business)	–625	–341	–72	–131	–63	–18
Claims management expenses (included in Claims paid)	–153	–83	–23	–35	–7	–5
Investment management expenses (included in Capital return, expenses)	–216	–174	–34	–7	–1	0
Total operating expenses, excluding property management expenses	**–994**	**–598**	**–129**	**–173**	**–71**	**–23**

Balance Sheet

Parent Company

SEK MILLION	NOTE	31 DEC 2020	31 DEC 2019
ASSETS			
Intangible assets			
Intangible assets	13	181	207
		181	**207**
Investment assets			
Land and buildings	15	11,998	12,416
Investments in Group companies, associated companies and joint ventures			
Shares and participations in Group companies	16	6,758	5,673
Debt securities issued by, and loans to, Group companies	17, 19	11,666	10,923
Shares and participations in associated companies and joint ventures	18, 19, 22, 23	38,290	33,449
Loans to associated companies and joint ventures	18, 19	357	334
Other financial investment assets			
Shares and participations	19, 22, 23, 24	486,870	454,208
Bonds and other debt securities	19, 22, 23, 25, 44, 45	457,191	416,620
Loans secured by real estate	19, 22, 26	3,780	4,483
Other loans	19, 22, 23, 27	6,588	6,444
Derivatives	19, 22, 28, 29	16,389	12,755
		1,039,887	**957,305**
Receivables			
Receivables related to direct insurance operations	19, 30	2,444	2,549
Other receivables	19, 31	6,101	12,167
		8,545	**14,716**
Other assets			
Property, plant and equipment	14	11	15
Cash and bank balances	19, 44	3,324	3,280
		3,335	**3,295**
Prepaid expenses and accrued income			
Accrued interest and rental income	19, 32	7,630	8,990
Other prepaid expenses and accrued income		46	43
		7,676	**9,033**
TOTAL ASSETS		**1,059,624**	**984,556**

Balance Sheet, *cont.*

Parent Company

SEK MILLION	NOTE	31 DEC 2020	31 DEC 2019
EQUITY, PROVISIONS AND LIABILITIES			
Equity			
Surplus fund	34	373,177	293,459
Net profit/loss for the year		37,555	92,470
		410,732	**385,929**
Technical provisions			
Provision for life insurance	36	608,774	556,780
Claims outstanding	37	13,188	13,854
		621,962	**570,634**
Other provisions			
Pensions and similar commitments	38	–	0
Taxes		3	0
Other provisions	39	2	4
		5	**4**
Liabilities			
Liabilities related to direct insurance operations	19, 40	784	765
Derivatives	19, 22, 28, 29	10,033	12,375
Other liabilities	19, 41	11,260	9,610
		22,077	**22,750**
Accrued expenses and deferred income			
Other accrued expenses and deferred income	19, 42	4,848	5,239
		4,848	**5,239**
TOTAL EQUITY, PROVISIONS AND LIABILITIES		1,059,624	984,556

Statement of Changes in Equity

Parent Company

SEK MILLION	SURPLUS FUND [1]: Collective consolidation	SURPLUS FUND [1]: Discretionary participation features reserve [2]	Other reserves	Net profit/loss for the year	Total
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**
OPENING EQUITY AT 1 JANUARY 2020	**163,718**	**119,690**	**10,051**	**92,470**	**385,929**
Net profit/loss for the year	–	–	–	37,555	37,555
Other comprehensive income	–	–	–	–	–
Comprehensive income for the year	–	–	–	**37,555**	**37,555**
Appropriation of profits from previous years	92,470	–	–	–92,470	–
Allocated refunds	–21,390	21,390	–	–	–
Guaranteed refunds	–647	–11,319	–	–	–11,966
Collective risk premium [3]	–	–	–126	–	–126
Other changes [4]	–514	–242	96	–	–660
CLOSING EQUITY AT 31 DECEMBER 2020	**233,637**	**129,519**	**10,021**	**37,555**	**410,732**

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.

Notes

NOTE 1 Group and Parent Company accounting principles

This Annual and sustainability report for Alecta Pensionsförsäkring, ömsesidigt, Corporate Identity Number 502014-6865, with registered office in Stockholm, covers the financial year 2020. 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 18 March 2021 and will be presented to the Council of Administration for adoption on 22 April 2021.

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 2019:23) 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. Alecta has therefore chosen not to apply FFFS 2020:24 (Regulation amending FFFS 2019:23 published in October 2020) which offers unlisted insurance companies and occupational pension companies the opportunity to apply IFRS with certain limitations in the consolidated financial statements. Alecta is assessing whether a transition should be implemented to IFRS with certain limitation in the Group in 2021 or later.

Consolidated financial statements

The consolidated financial statements comprise the Parent Company, Alecta Pensionsförsäkring, ömsesidigt, and those subsidiaries in which the Parent Company directly or indirectly owns more than half of the voting rights for all shares and participations or otherwise has control. Control means that Alecta has the ability to govern the company, is exposed to or has the right to returns that may vary and is able to govern those activities of the company which affect the returns. Disclosures on shares and participations in Group companies are provided in Note 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, Alecta will define the acquisition as a business combination. Business combinations are accounted for in accordance with IFRS 3, which means, for example, that acquisition costs are expensed directly and that deferred tax is recognised as the difference between the market value of the acquired assets and their tax residual value.

For each acquisition, Alecta determines whether the acquisition should be classified as a business or an asset. As at 31 December 2020, all of Alecta's acquisitions have been classified as asset acquisitions.

Translation of foreign currency

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

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

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

Insurance contracts

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

Allocation of surplus and deficit funds

As regards Alecta Optimal Pension, which is a defined contribution product, 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

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

Alecta's risk capital. The size of the surplus or deficit depends on changes in the pension capital, which in turn reflects actual outcomes for returns, tax, mortality and operating expenses in the relevant defined contribution insurance collective. The Company allocates surpluses and deficits by calculating the refund rate on a monthly basis in arrears, which means that the collective funding ratio 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 surplus fund. The primary function of the surplus fund 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 surplus fund. 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 2020:

There are no new accounting standards from IASB, or changed accounting standards that affect Alecta's financial statements, applied from 1 January 2020.

New and changed IASB accounting standards to be applied from 1 January 2021 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 2023. 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 certain 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 2023 if it is approved by the EU.

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 Alecta to analyse the effects of adopting the standard. The assessment is that the adoption of IFRS 17 will have a major impact on Alecta's financial statements. As referred to above, Alecta is assessing in parallel whether a transition to IFRS with certain limitation should be implemented in the Group from 2021 or later. If such a transition is made, IFRS 17 does not need to be applied and will then have no affect on Alecta'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.

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

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

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

Pensions in the Alecta Group

All pension plans in the Group are accounted for as defined contribution plans. This means that contributions are recognised as an expense in the period in which the benefits are earned, which in most cases is the same as when the contribution is paid.

Cash flows

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

Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and that all conditions related to the grant will be fulfilled. If there are conditions linked to the grant that must be fulfilled before the Group becomes eligible to receive it, recognition of revenue is postponed until the conditions have been met. Government grants are recognised as other income and allocated over the same term as the costs compensated for by the grants.

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 2019:23) 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.

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 surplus fund 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.

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

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 areas where Alecta deems estimates and judgements have the biggest impact on earnings and/or on assets and liabilities are listed in the table below and presented in more detail in the notes indicated in the table references.

Significant estimates and judgements	Note	
Technical provisions [1]	3, 36, 37	Provision for life insurance, Provision for claims outstanding
Financial Instruments [2]	3, 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

1) Note 36 and 37 describe the valuation of technical provisions, current assumptions and changes introduced during the year. Note 3 describes the sensitivity of the assumptions.

2) The measurement of financial instruments is described in the accounting principles in the relevant note. Valuation techniques are described in Note 22 and 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 36 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 (22.8) 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 (0.7) 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 (1.5) 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 31 (30) 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 72. 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 2020, 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

	Exposure		Share of portfolio	
Asset class	2020	2019	2020	2019
Shares	420,446	410,861	40.4 %	42.7 %
Debt securities	494,255	451,424	47.6 %	46.9 %
Alternative investments [1]	124,545	100,392	12.0 %	10.4 %
Total	**1,039,246**	**962,678**	**100.0 %**	**100.0 %**

[1] Alternative investments includes properties, infrastructure investments and alternative credits that are subject to higher market risk than traditional debt securities.

The table shows Alecta's asset allocation based on the classification in the total return table, see page 43. A detailed breakdown by asset class is presented in the diagrams on page 44.

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 11.7 per cent (9.0) of the investments at year-end. Without currency hedging, 45.1 per cent (46.8) of Alecta's assets would have been exposed to exchange rate fluctuations.

Currency exposure after hedging

	Exposure		Share of investment portfolio	
	2020	2019	2020	2019
CHF	18,846	11,212	1.8 %	1.2 %
DKK	14,353	15,218	1.4 %	1.6 %
EUR	1,255	–32,234	0.1 %	–3.3 %
GBP	6,351	15,812	0.6 %	1.6 %
USD	78,315	74,561	7.5 %	7.7 %
Other currencies	2,772	2,301	0.3 %	0.2 %
Net exposure	**121,891**	**86,870**	**11.7 %**	**9.0 %**

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	
	2020	2019	2020	2019
Rating Aaa/AAA	195,976	169,958	43.1 %	37.4 %
Rating Aa/AA	123,494	142,197	27.2 %	31.3 %
Rating A/A	62,874	58,358	13.8 %	12.9 %
Rating Baa/BBB	28,233	31,632	6.2 %	7.0 %
Rating Ba/BB	7,726	7,187	1.7 %	1.6 %
Unrated	36,464	44,805	8.0 %	9.9 %
of which securities issued by state-owned issuers	*0*	*3,051*	*0.0 %*	*0.7 %*
Total	**454,767**	**454,138**	**100.0 %**	**100.0 %**

Liquidity risk

Liquidity risk is the risk of loss on financial instruments arising from the inability to immediately sell an instrument without 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 92 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 446.1 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. Swedish Financial Supervisory Authority measures solvency risk using its traffic light model. Alecta's risk capital meets the criteria for "green light" by a wide margin. In addition, Alecta performs its own stress tests on a daily basis. The tests identify significant financial risks and are based on slightly more adverse market scenarios than those prescribed in the traffic light model. The stress tests measure risk exposure, and in the event that a limit is reached, action is taken to safeguard Alecta's solvency.

Sensitivity analysis	Effect on			
	Solvency ratio (% points)		Net profit for the year	
Group	2020	2019	2020	2019
Interest rate decrease 1 % point	–0.5 %	–4.8 %	5,360	–9,808
Share price decrease 10 %	–6.8 %	–7.2 %	–42,045	–41,086
Share price decrease 10 % alternative investments	–2.0 %	–1.8 %	–12,455	–10,039
Exchange rate decrease 10 %	–2.0 %	–1.5 %	–12,196	–8,694

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 12.3 billion (27.3) and the value of its fixed income investments by SEK 17.7 million (18.1).

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 33.

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	2020	2019
Current premiums	38,253	38,303
Single premiums	15,671	2,875
Premium tax [1]	–101	–97
Invoiced premiums	**53,823**	**41,081**
Adjustment of paid-up values	4,739	7,223
Premium reduction	4,187	4,472
Guaranteed refunds	**8,926**	**11,695**
Total premiums written	**62,749**	**52,776**

[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	
	2020	2019	2020	2019
Rental income from land and buildings	1,688	1,759	523	563
Dividends received	9,584	13,904	9,644	14,738
of which Group companies	*–*	*–*	*191*	*1,045*
of which associated companies and joint ventures	*1,275*	*591*	*1,275*	*591*
Interest income, etc.	5,345	3,579	5,601	3,708
bonds and other debt securities	*5,086*	*3,229*	*5,086*	*3,229*
loans secured by real estate	*102*	*93*	*102*	*93*
other interest income	*157*	*257*	*157*	*252*
other interest expenses, Group companies	*–*	*–*	*256*	*134*
Reversal of impairment	–	–	269	113
shares in Group companies	*–*	*–*	*269*	*113*
Net foreign exchange gains	–	436	–	436
Net capital gains	4,961	8,931	4,961	8,899
land and buildings	*1*	*549*	*1*	*517*
shares and participations	*470*	*7,138*	*470*	*7,138*
bonds and other debt securities	*4,335*	*1,109*	*4,335*	*1,109*
other loans	*155*	*135*	*155*	*135*
Other income [1]	23	19	9	–
Total capital return, income	**21,601**	**28,628**	**21,007**	**28,457**

[1] The amount includes revenue pertaining to government grants of SEK 17.8 million (–) in the Group and SEK 8.5 million (–) in the Parent Company, primarily related to rental discounts as a result of the COVID-19 pandemic.

NOTE 6 Unrealised gains on investment assets

	Group		Parent Company	
	2020	2019	2020	2019
Land and buildings	–	893	–	480
Shares and participations	33,614	91,933	33,237	92,050
Bonds and other debt securities	641	4,846	642	4,846
Total unrealised gains on investment assets	**34,255**	**97,672**	**33,879**	**97,376**

NOTE 7 Claims paid

Group and Parent Company	2020	2019
Basic amount paid before indexation	–19,037	–18,418
Waiver of premium paid	–2,296	–2,653
Cancellations and repurchases [1]	–604	–550
Operating expenses for claims management	–153	–143
Total claims paid	**–22,090**	**–21,764**

[1] The item includes transferred capital of SEK 596 million (536).

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	
	2020	2019	2020	2019
Administrative expenses	–625	–591	–625	–591
Total operating expenses in the insurance business	**–625**	**–591**	**–625**	**–591**
Claims management [1]	–153	–143	–153	–143
Investment management [2]	–216	–195	–216	–195
Property management [3]	–94	–81	–46	–42
Total operating expenses	**–1,088**	**–1,010**	**–1,040**	**–971**
Specification of total operating expenses				
Personnel costs	–450	–435	–450	–435
Costs for premises	–19	–19	–21	–21
Amortisation/depreciation	–26	–26	–26	–26
IT costs	–252	–251	–252	–251
Property management costs	–94	–81	–46	–42
Selection centre costs	–171	–151	–171	–151
Other costs [4]	–118	–96	–116	–94
Administration fees	42	49	42	49
Total operating expenses	**–1,088**	**–1,010**	**–1,040**	**–971**

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. Alecta 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. Alecta does not capitalise its acquisition expenses, as the amount is insignificant.

Administrative expenses

Administrative expenses consist of operating expenses incurred by Alecta for the day-to-day administration of its insurance contracts as well as costs for central Group functions, such as Finance and Legal 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 Alecta's real estate has to a large extent been outsourced to external service providers.

NOTE 9 Capital return, expenses

	Group		Parent Company	
	2020	2019	2020	2019
Operating expenses for land and buildings	–594	–567	–249	–230
Investment management expenses [1]	–216	–195	–216	–195
Interest expenses, etc.	–450	–297	–448	–296
bonds and other debt securities	*–206*	*–223*	*–206*	*–223*
other interest expenses	*–244*	*–74*	*–242*	*–73*
Custodian expenses	–28	–30	–28	–30
Depreciation/amortisation and impairment	–8	–	–175	–821
shares in Group companies	*–8*	*–*	*–175*	*–821*
Net foreign exchange losses	–2,632	–	–2,632	–
Net capital losses	0	–1	–	–1
loans secured by real estate	*0*	*–1*	*–*	*–1*
Other	–24	–29	–	–
Total capital return, expenses	**–3,952**	**–1,119**	**–3,748**	**–1,573**

1) In addition to these expenses, approximately SEK 358 million (220) was paid to external managers of unlisted investments. These fees were recognised on a net basis for each holding offset against capital returns, revenue under Note 5 or against unrealised gains on investment assets under Note 6.

NOTE 10 Unrealised losses on investment assets

	Group		Parent Company	
	2020	2019	2020	2019
Land and buildings	–1,740	–	–1,199	–
Loans secured by real estate	–15	–	–15	–
Other loans	–116	–150	–116	–150
Total unrealised losses on investment assets	**–1,871**	**–150**	**–1,330**	**–150**

NOTE 11 Yield tax

Group and Parent Company	2020	2019
Yield tax [1]	–383	–291
Adjustment of tax attributable to previous years	–	–1
Total yield tax	**–383**	**–292**

[1] Yield tax		
Capital base [2]	927,542	793,411
Tax base [3]	4,638	3,967
Yield tax before tax credit [4]	–696	–595
Tax credit for paid coupon tax and income and property tax (foreign properties) in previous year	313	304
Yield tax after tax credits	**–383**	**–291**

Sensitivity analysis	Effect on the yield tax before tax credit	
Group	2020	2019
Capital base +/– 10 %	–/+ 70	–/+ 60
Allocation percentage +/– 1 % point	–/+ 7	–/+ 6
Average government borrowing rates +/– 1 % point	–/+ 1,391	–/+ 1,190

[2] The calculation of the capital base for yield tax is based on the value of all assets at the beginning of 2020 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 8,900 million (7,700) refers to such premiums. The capital base for yield tax, which includes Alecta's pension products and family cover, represents 96.07 per cent (95.63) 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 (0.50) was used for the calculation.

[4] Tax rate: 15 per cent (15).

Accounting principle

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

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

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	
	2020	2019	2020	2019
Current tax				
Tax on profit for the year in Sweden [1]	–57	–61	–	–
Foreign tax on directly and indirectly owned properties	–23	–172	–23	–172
Adjustment of tax attributable to previous years	426	–	426	–
Coupon tax	–424	–766	–424	–766
Total current tax	**–78**	**–999**	**–21**	**–938**
Deferred tax				
Change in deferred tax assets/liabilities	–592	–3,346	–555	–3,346
Total deferred tax	**–592**	**–3,346**	**–555**	**–3,346**
Income tax (Group)	**–670**	**–4,345**	**–576**	**–4,284**
Yield tax				
Yield tax [2]			–383	–291
Adjustment of tax attributable to previous years			–	–1
Total yield tax			**–383**	**–292**
Tax on profit for the year (Parent Company)			**–959**	**–4,576**

[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	
Reconciliation of theoretical tax expense and reported tax	2020	2019	2020	2019
Profit before yield tax and income tax according to income statement	38,715	97,943	38,513	97,046
Less: Profit/loss from operations subject to yield tax, including consolidation adjustments	–33,207	–85,209	–33,342	–85,637
Profit from operations subject to income tax	**5,508**	**12,734**	**5,171**	**11,409**
Tax at applicable tax rate, 21.4 %	**–1,179**	**–2,725**	**–1,107**	**–2,441**
Difference in tax rate [1]	1	7	–	–
Effect of changed tax rate	8	–	8	–
Non-deductible expenses	–10	–20	–2	–8
Non-taxable income	84	60	5	27
Taxable income not included in profit	–1	–2	–1	–2
Loss carry-forwards	–	27	–	–
Guaranteed premium reduction	885	940	885	940
Effect of initial recognition of properties	–61	187	–	–
Tax attributable to previous years [2]	–392	–2,743	–392	–2,768
Creditable foreign tax [3]	441	861	475	906
Foreign income tax	–22	–171	–23	–172
Coupon tax	–424	–766	–424	–766
Reported income tax	**–670**	**–4,345**	**–576**	**–4,284**
Effective tax	**–12 %**	**–34 %**	**–11 %**	**–38 %**

[1] Refers to the USA.

[2] Of which SEK 82 million (2,449) pertains to the impairment of a deferred tax asset for foreign tax and SEK 313 million (304) to the utilisation of a previously recognised tax asset for foreign tax against yield tax.

[3] 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			
	2020		2019		2020		2019	
	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	–	–1,530	–	–1,504	–	–36	–	–48
Land and buildings outside of Sweden	–	–117	–	–168	–	–	–	–
Other financial investment assets	–	–1,599	–	–1,668	–	–1,599	–	–1,668
Accelerated depreciation	–	–37	–	–44	–	–	–	–
Loss carry-forwards [1]	88	–	339	–	82	–	324	–
Creditable foreign tax [2]	3,275	–	3,718	–	3,163	–	3,556	–
Deferred tax assets and liabilities	**3,363**	**–3,283**	**4,057**	**–3,384**	**3,245**	**–1,635**	**3,880**	**–1,716**
Netting of assets and liabilities	–1,635	1,635	–1,725	1,725	–1,635	1,635	–1,716	1,716
Net deferred tax assets and liabilities	**1,728**	**–1,648**	**2,332**	**–1,659**	**1,610**	**0**	**2,164**	**0**
of which expected to be settled after more than 12 months, amount before netting	*2,990*	*–3,283*	*3,736*	*–3,383*	*2,875*	*–1,635*	*3,560*	*–1,716*

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.

	Group		Parent Company	
Changes in net deferred tax assets and liabilities	**2020**	**2019**	**2020**	**2019**
Opening balance	673	4,050	2,164	5,510
Recognised in profit or loss for the year	–592	–3,346	–555	–3,346
Foreign exchange differences	0	0	–	–
Change through business combinations/sale	0	–31	–	–
Closing balance	**81**	**673**	**1,609**	**2,164**

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	
	2020	2019	2020	2019
Cost				
Opening balance, cost	683	683	683	683
Closing balance, cost	**683**	**683**	**683**	**683**
Accumulated amortisation and impairment				
Opening balance, amortisation	–362	–336	–362	–336
Amortisation for the year	–26	–26	–26	–26
Closing balance, amortisation	**–388**	**–362**	**–388**	**–362**
Opening balance, impairment	–114	–114	–114	–114
Closing balance, impairment	**–114**	**–114**	**–114**	**–114**
Carrying amount, intangible assets	**181**	**207**	**181**	**207**

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, for the insurance system that supports the defined contribution plan the period is ten years and for the insurance system's other, peripheral functions, the period is five years. 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	
	2020	2019	2020	2019
Cost				
Opening balance, cost	77	66	40	35
Purchases during the year	1	11	1	5
Closing balance, cost	**78**	**77**	**41**	**40**
Accumulated depreciation				
Opening balance, depreciation	–53	–46	–25	–21
Depreciation for the year	–6	–7	–5	–4
Closing balance, depreciation	**–59**	**–53**	**–30**	**–25**
Carrying amount, property, plant and equipment	**19**	**24**	**11**	**15**

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	2020	2019
Opening balance	**32,225**	**30,901**
Lease liability attributable to operating leases at the transition date to IFRS 16 [1]	–	29
Adjusted opening balance	**32,225**	**30,930**
New builds, extensions and conversions	1,354	1,166
Acquisitions	460	2,259
Sales	–	–3,571
Change in value	–1,581	1,439
Change in value, right-of-use asset, land	–8	2
Closing balance	**32,450**	**32,225**

Parent Company [2]	2020	2019
Opening balance	12,416	12,203
New builds, extensions and conversions	780	706
Sales	–	–1,410
Change in value	–1,198	917
Closing balance	**11,998**	**12,416**

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	2020	2019
Total	7,805	7,025

	Group		Parent Company	
Fair value by sector	2020	2019	2020	2019
Office	22,885	23,024	8,053	7,177
Residential	18	18	–	–
Retail	6,730	7,338	3,137	4,379
Other	2,817	1,845	808	860
Total	**32,450**	**32,225**	**11,998**	**12,416**

	Group	
Lettable floor area by sector, sq.m	2020	2019
Office	512,082	545,329
Residential	640	640
Retail	254,378	219,817
Other	52,052	30,396
Total	**819,152**	**796,182**

	Group	
Future rental income by maturity	2020	2019
Within one year	1,541	1,552
Later than one year but within five years	3,912	3,612
Later than five years	2,885	2,518
Total	**8,338**	**7,682**

Owner-occupied properties

Group	2020	2019
Cost		
Opening balance	1,179	1,114
Purchases during the year	29	62
Right-of-use asset, land	2	3
Closing balance	**1,210**	**1,179**
Accumulated depreciation		
Opening balance	–205	–181
Depreciation for the year	–24	–24
Closing balance	**–229**	**–205**
Carrying amount, owner-occupied properties	**981**	**974**

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 789 million (3,516) of the total carrying amount of SEK 32,450 million (32,225) 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	2020	2019
Market rent per square metre	SEK 2,594	SEK 2,612
Long-term vacancy rate	5.60 %	5.55 %
Required rate of return, initial	3.80 %	4.03 %
Required rate of return, exit	4.59 %	4.45 %

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	2020	2019
Market rent	+/– 10 %	+/– 4,232	+/– 3,250
Property costs	+/– SEK 50/sq.m	–/+ 800	–/+ 748
Long-term vacancy rate	+/– 2 %	–/+ 819	–/+ 740
Required rate of return, exit	+/– 0.25 %	+/– 2,021	+/– 1,891

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 2020	Carrying amount 2019
Alecta AB	556597-9266	Stockholm	1,000	100 %	0	0
Alecta BRF Komplementär AB	559187-3210	Stockholm	500	100 %	0	0
Alecta Fastigheter AB [2)]	559103-4086	Stockholm	500	100 %	1,180	0
Alecta Bredden Holding AB	556922-4198	Stockholm	1,000,000	100 %	–	548
Alecta Bredden Holding 2 AB	556918-4806	Stockholm	50,000	100 %	–	–
– Bredden 1 Fastighets AB	556684-3784	Stockholm	100,000	100 %	–	–
Alecta Köpcentrum AB	556943-7071	Stockholm	500	100 %	–	10
Alfab Mimer 7 AB [3)]	559122-1477	Stockholm	500	100 %	–	–
Alfab Nacka 4 AB [3)]	559006-0892	Stockholm	1,000	100 %	–	–
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	1000	100 %	–	–
Alecta Retail Holding AB	556660-2594	Stockholm	1,000	100 %	–	124
Alfab Järfälla 1 AB	556664-7599	Stockholm	1,000	100 %	–	–
Alfab Jönköping 1 AB	556692-9385	Stockholm	1,000	100 %	–	–
Alfab Jönköping 4 AB	556188-6127	Stockholm	1,000	100 %	–	–
Alfab Jönköping 5 AB	556658-9783	Stockholm	1,000	100 %	–	–
Alfab Valutan 13 AB	556708-2713	Stockholm	100,000	100 %	–	–
Fastighetsaktiebolaget Åkersberga Österåker Runö	556785-6389	Stockholm	1,000	100 %	–	–
Fyrfast AB	556604-5513	Stockholm	1,000	100 %	–	–
Kabelverket Holding AB	556587-1075	Stockholm	1,000	100 %	–	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 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 Tjänstepensioner AB	556713-7160	Stockholm	1,000	100 %	0	0
Alfab Indirekt Holding AB	556931-5459	Stockholm	50,000	100 %	319	319
Fastighetsbolaget Augustendal KB	916635-9084	Stockholm	–	99.9 %	1,007	795
Fastighetsbolaget Båthamnen KB	916626-5711	Stockholm	–	99.9 %	54	52
Fastighetsbolaget Ellensvik KB	916625-6991	Stockholm	–	99.9 %	220	207
Fastighetsbolaget Grönkulla KB [3)]	969782-1115	Stockholm	–	99.9 %	0	–
Fastighetsbolaget Gustafshög KB	916625-6983	Stockholm	–	99.9 %	4	4
Fastighetsbolaget Klaraberg KB	916625-6975	Stockholm	–	99.9 %	487	465
Fastighetsbolaget Mässan KB	916626-5653	Stockholm	–	99.9 %	95	97
Fastighetsbolaget Oljekällaren KB	916626-5638	Stockholm	–	99.9 %	133	177
Fastighetsbolaget Philipin KB	916626-5679	Stockholm	–	99.9 %	355	336
Fastighetsbolaget Saluhallen KB	916626-5695	Stockholm	–	99.9 %	48	50
Kontorshotellet Nacka Strand KB	969646-7225	Stockholm	–	99.9 %	–2	0
Morgonen 1 i Lund KB	969784-9975	Stockholm	–	99.9 %	10	12
Naraden Göteborg 1 KB	969697-7892	Stockholm	–	99.9 %	322	320
SoliFast Finansiering KB	969787-1292	Stockholm	–	99.9 %	0	–
2 Kilo i Halmstad KB	969784-9967	Stockholm	–	99.9 %	42	43
Total, Sweden					**4,274**	**4,059**

1) As all shares are unlisted, market values are not indicated. Carrying amounts are not indicated for subsidiaries of sub-groups.
2) The company acquired shares in the property-owning holding companies from Alecta pensionsförsäkring, ömsesidigt as on 31 March 2020.
3) The company was acquired in 2020.

NOTE 16 Shares and participations in Group companies [1], *cont.*

Foreign companies, USA, Parent Company	Corporate Identity Number	Registered office	Number of shares	Share of equity	Carrying amount 2020	Carrying amount 2019
Alecta Real Estate USA, LLC	–	Delaware	–	100 %	838	854
Alecta Real Estate Investment, LLC	–	Delaware	–	100 %	–	–
Alecta Value Add Investments, LLC	–	Delaware	–	100 %	–	–
Boylston Street Investors, LLC	–	Delaware	–	100 %	–	–
SRP Valley, LLC	–	Delaware	–	100 %	–	–
PMAK MOB ALECTA REIT FEEDER, LLC	–	Delaware	–	100 %	1,646	760
Total, USA					**2,484**	**1,614**
Total shares and participations in Group companies					**6,758**	**5,673**

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

Parent Company	Carrying amount 2020	Carrying amount 2019
Cost		
Opening balance, cost	15,695	14,216
Purchases during the year	6	548
Shareholder contributions during the year	2,117	841
Divestments for the year	–1,179	–12
Share of profit for the year	47	102
Closing balance, cost	**16,686**	**15,695**
Accumulated impairment		
Opening balance, impairment	–10,022	–9,314
Impairment for the year	–175	–821
Reversal of impairment	269	113
Closing balance, impairment	**–9,928**	**–10,022**
Total shares and participations in Group companies	**6,758**	**5,673**

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 2020	Carrying amount 2019
Cost		
Opening balance, cost	10,923	9,066
Change for the year	743	1,857
Total debt securities issued by, and loans to, Group companies	**11,666**	**10,923**

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 2020 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 %	8	–	–
Ancore Fastigheter AB	Sweden	556817-8858	50.00 %	1,567	–	–
Convea AB	Sweden	556912-4505	50.00 %	51	–	–
Global Business Gate JV AB	Sweden	559109-9030	50.00 %	0	–	–
Global Business Gate JV KB	Sweden	969781-4847	49.50 %	87	–	–
Kongahälla Holding AB	Sweden	559126-1903	50.00 %	407	–	–
Midstar Hotels AB	Sweden	559007-7979	49.70 %	2,134	–	–
SoliFast Holding AB JV	Sweden	559149-7770	20.00 %	20	–	–
Sollentuna Stinsen JV AB	Sweden	559085-9954	50.00 %	21	357	23
Stadsrum Fastigheter AB	Sweden	559028-9624	49.40 %	2,313	–	–
Swedish Airport Infrastructure Holding AB	Sweden	559012-5182	50.00 %	0	–	–
Swedish Airport Infrastructure Holding KB	Sweden	969775-2609	49.90 %	1,752	–	–
Parent Company – Associated companies						
Heimstaden Bostad AB – Pref B	Sweden	556864-0873	52.95 %	22,583	–	–
Heimstaden Bostad AB – Ordinary share	Sweden	556864-0873	32.67 %	6,949	–	–
Bain Capital Credit CLO Management Ltd	Jersey	–	24.35 %	398	–	–
Total, Parent Company				**38,290**	**357**	**23**
Group company – joint ventures						
Långeberga Logistik AB	Sweden	556928-2840	50.00 %	312	–	–
ARE-LEI Venture, LLC	USA	–	95.00 %	381	–	–
Boylston Street Associates LLC	USA	–	95.00 %	4	–	–
KACORE JV, LLC	USA	–	39.10 %	2,138	–	–
PMAK MOB JV REOC, LLC	USA	–	48.13 %	1,789	–	–
Total, Group				**42,914**	**357**	**23**

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
Bredden 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	–	–
Sollentuna Stinsen JV AB	Sweden	559085-9954	50.00 %	51	334	23
Stadsrum Fastigheter AB	Sweden	559028-9624	49.00 %	1,141	–	–
Swedish Airport Infrastructure Holding AB	Sweden	559012-5182	50.00 %	0	–	–
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 Management Ltd	Jersey	–	24.35 %	221	–	–
Total, Parent Company				**33,449**	**334**	**43**
Group company – joint ventures						
Långeberga Logistik AB	Sweden	556928-2840	50.00 %	478	–	–
ARE-LEI Venture, LLC	USA	–	95.00 %	436	–	–
Boylston Street Associates LLC	USA	–	95.00 %	5	–	–
PMAK MOB JV REOC, LLC [3]	USA	–	48.00 %	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.

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 2018–2022 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 2020 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
Shares and participations in associated companies and joint ventures	42,914	–	–	42,914	42,914
Loans to associated companies and joint ventures	–	–	357	357	357
Shares and participations	487,344	–	–	487,344	487,344
Bonds and other debt securities	457,191	–	–	457,191	457,191
Loans secured by real estate	1,634	–	2,162	3,796	3,796
Other loans	6,588	–	–	6,588	6,588
Derivatives	–	16,389	–	16,389	16,389
Receivables related to direct insurance operations	–	–	2,444	2,444	2,444
Other receivables	–	–	2,304	2,304	2,304
Cash and bank balances	–	–	3,440	3,440	3,440
Accrued interest and rental income	–	–	7,630	7,630	7,630
Total	**995,671**	**16,389**	**18,337**	**1,030,397**	**1,030,397**
Financial liabilities					
Liabilities related to direct insurance operations	–	–	10	10	10
Derivatives	–	10,033	–	10,033	10,033
Other liabilities	–	–	9,483	9,483	9,483
Other accrued expenses	–	–	4,635	4,635	4,635
Total	**–**	**10,033**	**14,128**	**24,161**	**24,161**

Group, 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
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	–	–	4,948	4,948	4,948
Total	**–**	**12,375**	**12,144**	**24,519**	**24,519**

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

Parent Company, 31 Dec 2020 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	–	–	11,666	11,666	11,666
Shares and participations in associated companies and joint ventures	38,290	–	–	38,290	38,290
Loans to associated companies and joint ventures	–	–	357	357	357
Shares and participations	486,870	–	–	486,870	486,870
Bonds and other debt securities	457,191	–	–	457,191	457,191
Loans secured by real estate	1,618	–	2,162	3,780	3,780
Other loans	6,588	–	–	6,588	6,588
Derivatives	–	16,389	–	16,389	16,389
Receivables related to direct insurance operations	–	–	2,444	2,444	2,444
Other receivables	–	–	3,234	3,234	3,234
Cash and bank balances	–	–	3,324	3,324	3,324
Accrued interest and rental income	–	–	7,630	7,630	7,630
Total	**990,557**	**16,389**	**30,817**	**1,037,763**	**1,037,763**
Financial liabilities					
Liabilities related to direct insurance operations	–	–	10	10	10
Derivatives	–	10,033	–	10,033	10,033
Other liabilities	–	–	11,213	11,213	11,213
Other accrued expenses	–	–	4,634	4,634	4,634
Total	**–**	**10,033**	**15,857**	**25,890**	**25,890**

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	–	–	4,944	4,944	4,944
Total	**–**	**12,375**	**14,507**	**26,882**	**26,882**

NOTE 20 Net profit by class of financial assets and liabilities

	Group		Parent Company	
	2020	2019	2020	2019
Financial assets at fair value through profit or loss				
shares and participations	25,056	121,026	24,702	120,976
debt securities	1,072	18,622	1,072	18,622
loans secured by real estate	25	63	25	63
other loans	–194	227	–194	227
Financial assets and liabilities held for trade				
derivatives	25,137	–16,599	25,137	–16,599
Loans and receivables	38	147	439	280
Other liabilities	–14	–21	–14	–21
Total net profit [1]	**51,120**	**123,465**	**51,167**	**123,548**
Land and buildings, net	–629	1,745	–786	741
Investment management and custodian expenses	–245	–224	–245	–225
Other, net	–213	45	–328	46
Total return on capital as reported in income statement	**50,033**	**125,031**	**49,808**	**124,110**

[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 2020**	< 3 months	3 months < 1 year	1–5 years	>5 years	Total
Non-liquidated securities transactions	–6	–	–	–	–6
Liability for cash collateral received for derivatives	–9,246	–	–	–	–9,246
Derivatives gross – outflow	–362,895	–14,157	–16,332	–30,051	–423,435
Derivatives gross – inflow	373,245	14,721	16,175	25,009	429,150
Other liabilities	–241	–	–	–	–241
Other accrued expenses	–4,635	–	–	–	–4,635
Total cash flow	**–3,778**	**564**	**–157**	**–5,042**	**–8,413**

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	–4,948	–	–	–	–4,948
Total cash flow	**–4,780**	**–261**	**–1,106**	**–7,906**	**–14,053**

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, Alecta has the right to inspect the price provider's valuation data to assure the quality of the provided price information.

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

Level 3: Measurement based on unobservable inputs

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

The impact of the COVID-19 pandemic has added an additional dimension of uncertainty in the market value of assets in Level 3 as changes in the financial markets have shifted sharply during the year and between sectors and geographies. For example, the real estate market was severely hit by the pandemic, though some sectors here also fared better, such as the logistics sector, while hotel and retail had a more difficult time.

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 external price providers, 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 2020 or 2019.

Principle for reclassification between Level 2 and Level 3

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

In 2020, ten debt securities were transferred from Level 2 to Level 3, though no financial instruments were transferred from Level 3 to Level 2. In the corresponding period of 2019, no financial instruments were transferred from Level 2 to Level 3 while three debt securities were transferred 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.

No transfers were made from Level 1 to Level 3, or from Level 3 to Level 1, in either 2020 or 2019.

Sensitivity analysis for Level 3 financial instruments

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

Alecta's assets in Level 3 mainly comprise financial instruments with real estate and debt securities as underlying asset and, to a lesser degree, unlisted shares and venture capital investments. As we do not normally have the means to inspect the unobservable inputs used by external price providers, fund managers, counterparts or real estate companies in their fair value measurements of these financial instruments, any sensitivity analysis is subject to a degree of uncertainty. This uncertainty increased moreover as a result of the impact of the COVID-19 pandemic. 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. Even after taking into account the impact of the COVID-19 pandemic, at an aggregated level these value-influencing factors remain the most important to assess in a sensitivity analysis of assets in Level 3.

Sensitivity analysis

Group (SEK million)	Fair value	Value-influencing factor	Effect on fair value
Real estate-related holdings	68,483	Return requirement increase of 0.5 percentage points	–8,560
Interest-related holdings	45,261	Interest-rate increase of 1 percentage point	–2,501
Equity-related holdings	8,537	Share price decrease of 10 per cent	–854
Total Level 3	**122,281**		**–11,915**

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

	Fair values of financial instruments, 31 Dec 2020			
Group	Measurement using prices quoted in an active market Level 1	Measurement based on observable inputs Level 2	Measurement based on unobservable inputs Level 3	Carrying amount 31 Dec 2020
Assets				
Shares and participations	446,069	–	41,275	487,344
Shares and participations in associated companies and joint ventures	–	–	42,914	42,914
Bonds and other debt securities	242,268	185,053	29,870	457,191
Loans secured by real estate	–	–	1,634	1,634
Other loans	–	–	6,588	6,588
Derivatives	–	16,389	–	16,389
Total assets	**688,337**	**201,442**	**122,281**	**1,012,060**
Liabilities				
Derivatives	–	10,033	–	10,033
Total liabilities	**–**	**10,033**	**–**	**10,033**
Parent Company				
Assets				
Shares and participations	446,069	–	40,801	486,870
Shares and participations in associated companies and joint ventures	–	–	38,290	38,290
Bonds and other debt securities	242,268	185,053	29,870	457,191
Loans secured by real estate	–	–	1,618	1,618
Other loans	–	–	6,588	6,588
Derivatives	–	16,389	–	16,389
Total assets	**688,337**	**201,442**	**117,167**	**1,006,946**
Liabilities				
Derivatives	–	10,033	–	10,033
Total liabilities	**–**	**10,033**	**–**	**10,033**

	Fair values of financial instruments, 31 Dec 2019			
Group	Measurement using prices quoted in an active market Level 1	Measurement based on observable inputs Level 2	Measurement based on unobservable inputs Level 3	Carrying amount 31 Dec 2019
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	–	–	1,914	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.

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

	Fair value at year-end 2020					
Group	Shares and participations	Shares and participations in associated companies and joint ventures	Bonds and other debt securities	Loans secured by real estate	Other loans	Total
Opening balance 2020	33,017	36,357	12,530	1,914	6,444	90,262
Purchased	16,084	7,488	9,479	17	2,420	35,488
Sales	–2,654	–9	–789	–283	–2,027	–5,762
Gains and losses	–5,172	–922	–2,459	–14	–249	–8,816
Realised gains/losses, sold entire holding	–	–	–	–	–	–
Realised gains/losses, sold portion of holding	*10*	–	*20*	*1*	*143*	*174*
Unrealised gains/losses	*–1,288*	*–252*	*124*	*–15*	*–116*	*–1,547*
Unrealised foreign exchange gains/losses	*–3,894*	*–670*	*–2,603*	–	*–276*	*–7,443*
Transferred to Level 3	–	–	11,109	–	–	11,109
Closing balance 2020	**41,275**	**42,914**	**29,870**	**1,634**	**6,588**	**122,281**
Total unrealised gains and losses recognised in the income statement for financial instruments held at the end of the period	–5,172	–922	–2,459	–14	–248	–8,815
Gains and losses recognised as return on capital during the period	–5,172	–922	–2,459	–14	–249	–8,816

Parent Company	Shares and participations	Shares and participations in associated companies and joint ventures	Bonds and other debt securities	Loans secured by real estate	Other loans	Total
Opening balance 2020	32,468	33,449	12,530	1,914	6,444	86,805
Purchased	16,082	5,145	9,479	–	2,420	33,126
Sales	–2,654	–9	–789	–282	–2,027	–5,761
Gains and losses	–5,095	–295	–2,459	–14	–249	–8,112
Realised gains/losses, sold entire holding	–	–	–	–	–	–
Realised gains/losses, sold portion of holding	*10*	–	*20*	*1*	*143*	*174*
Unrealised gains/losses	*–1,255*	*–221*	*124*	*–15*	*–116*	*–1,483*
Unrealised foreign exchange gains/losses	*–3,850*	*–74*	*–2,603*	–	*–276*	*–6,803*
Transferred to Level 3	–	–	11,109	–	–	11,109
Closing balance 2020	**40,801**	**38,290**	**29,870**	**1,618**	**6,588**	**117,167**
Total unrealised gains and losses recognised in the income statement for financial instruments held at the end of the period	–5,095	–295	–2,459	–14	–248	–8,111
Gains and losses recognised as return on capital during the period	–5,095	–295	–2,459	–14	–249	–8,112

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

NOTE 23 Disclosures on financial instruments measured at fair value based on Level 3 [1], *cont.*

	Fair value at year-end 2019					
Group	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	Total
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
Sales	–2,939	–2,035	–	–10	–726	–5,710
Gains and losses	2,158	2,146	167	38	47	4,556
Realised gains/losses, sold entire holding	*129*	*1,201*	–	–	*184*	*1,514*
Realised gains/losses, sold portion of holding	*40*	*70*	–	–	–	*110*
Unrealised gains/losses	*1,359*	*981*	*123*	*38*	*–150*	*2,351*
Unrealised foreign exchange gains/losses	*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
Sales	–2,939	–1,713	–	–10	–726	–5,388
Gains and losses	2,120	2,302	167	38	47	4,674
Realised gains/losses, sold entire holding	*129*	*1,201*	–	–	*184*	*1,514*
Realised gains/losses, sold portion of holding	*40*	–	–	–	–	*40*
Unrealised gains/losses	*1,334*	*1,107*	*123*	*38*	*–150*	*2,452*
Unrealised foreign exchange gains/losses	*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 24 Shares and participations

	2020		2019	
Group	Fair value	Cost	Fair value	Cost
Swedish listed shares	193,890	106,752	175,467	103,011
Swedish unlisted shares	3,311	2,281	3,180	2,269
Foreign listed shares	252,179	151,859	246,273	165,984
Foreign unlisted shares	37,964	34,990	29,837	25,457
Total	**487,344**	**295,882**	**454,757**	**296,721**
Parent Company				
Swedish listed shares	193,890	106,752	175,467	103,011
Swedish unlisted shares	3,311	2,281	3,180	2,269
Foreign listed shares	252,179	151,859	246,273	165,984
Foreign unlisted shares	37,490	34,665	29,288	25,089
Total	**486,870**	**295,557**	**454,208**	**296,353**

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

	2020		2019	
Group and Parent Company	Fair value	Amortised cost	Fair value	Amortised cost
Swedish government	38,425	35,767	36,696	32,808
Swedish mortgage bonds	96,802	96,411	77,486	77,168
Other Swedish issuers	88,939	87,755	69,661	68,756
Foreign governments	115,012	103,475	159,038	148,220
Other foreign issuers	118,013	115,366	73,739	72,299
Total	**457,191**	**438,774**	**416,620**	**399,251**

The items Swedish government and Foreign governments also include state-guaranteed holdings.

Group and Parent Company	2020	2019
Fixed-rate term		
0–1 years	167,518	130,473
>1–5 years	139,072	128,205
>5–10 years	95,193	100,514
>10 years	55,408	57,428
Total	**457,191**	**416,620**

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

	2020		2019	
Group	Fair value	Cost	Fair value	Cost
Swedish loans secured by real estate	2,125	2,101	2,409	2,371
Foreign loans secured by real estate	1,671	1,671	2,074	2,074
Total	3,796	3,772	4,483	4,445
Parent Company				
Swedish loans secured by real estate	2,109	2,085	2,409	2,371
Foreign loans secured by real estate	1,671	1,671	2,074	2,074
Total	3,780	3,756	4,483	4,445

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 2018–2022 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 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.

NOTE 27 Other loans

	2020		2019	
Group and Parent Company	Fair value	Cost	Fair value	Cost
Other loans, Swedish	3,507	3,512	3,516	3,521
Other loans, foreign	3,081	2,814	2,928	2,545
Total	6,588	6,326	6,444	6,066

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

	2020			2019		
		Fair value			Fair value	
Group and Parent Company	Nominal value	Assets	Liabilities	Nominal value	Assets	Liabilities
Equity-related instruments	–30,735	–	–	–11,720	–	–
Futures	*–30,735*	*–*	*–*	*–11,720*	*–*	*–*
Fixed-income instruments	156,100	4,022	6,800	180,175	3,885	8,495
Swaps	*154,721*	*4,022*	*6,800*	*164,109*	*3,885*	*8,495*
Futures	*1,379*	*–*	*–*	*16,066*	*–*	*–*
Currency-related instruments	318,499	12,367	3,233	328,109	8,870	3,880
Futures/swaps	*318,499*	*12,367*	*3,233*	*328,109*	*8,870*	*3,880*
Total	443,864	16,389	10,033	496,564	12,755	12,375

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 31 Dec 2020	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]
Assets					
Derivatives [4]	21,335	–12,672	–6	–9,246	0
Securities lending [1]	24,752	–	–25,501	–	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]	14,752	–12,672	–3,483	–555	0

Group and Parent Company 31 Dec 2019	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]
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

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 4,946 million (3,185) and accrued interest expenses of SEK 4,719 million (3,179).

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 21,335 million and derivatives with a negative value of SEK 14,752 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 million in debt securities in the form of French government bonds and SEK 9,246 million in cash in cases where the sum of all derivatives is positive. Similarly, Alecta has pledged SEK 3,483 million in debt securities in the form of Swedish mortgage bonds, and French and German government bonds, and SEK 555 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	2020	2019
Receivables from policy holders	2,444	2,549
Total	2,444	2,549

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 31 Other receivables

Group	2020	2019
Payment receivables from sale of investment assets	1,262	1,492
Approved dividend	74	78
Value-added tax	24	40
Receivable, PRI Pensionsgaranti	197	201
Collateral pledged for derivatives [1]	555	6,170
Other	216	209
Total	2,328	8,190

Parent Company	2020	2019
Payment receivables from sale of investment assets	1,262	1,492
Swedish tax	15	68
Foreign tax	1,243	1,020
Deferred tax [2]	1,609	2,164
Approved dividend	74	78
Value-added tax	–	0
Receivable from subsidiary	1,023	892
Receivable, PRI Pensionsgaranti	197	201
Collateral pledged for derivatives [1]	555	6,170
Other	123	82
Total	6,101	12,167

1) See also Note 29.
2) See also Note 12.

Accounting principle

Other receivables are recognised at amortised cost.

NOTE 32 Accrued interest and rental income

	Group		Parent Company	
	2020	2019	2020	2019
Accrued interest income	7,630	8,982	7,630	8,990
Total	7,630	8,982	7,630	8,990

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 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 2019	**279**	**94,720**	**10,162**	**210,262**	**315,423**
Net profit/loss for the year	–	–	–	93,306	93,306
Allocated refunds					
Defined benefit plan	–	*12,915*	–	*–12,915*	–
Defined contribution plan	–	*24,908*	–	*–24,908*	–
Guaranteed refunds					
Pension supplements, defined benefit plan	–	*–2,676*	–	–	*–2,676*
Supplementary amounts, defined contribution plan	–	*–167*	–	–	*–167*
Adjustment of paid-up values, defined benefit plan	–	*–5,560*	–	*–1,663*	*–7,223*
Premium reduction	–	*–4,472*	–	–	*–4,472*
Collective risk premium [3]	–	–	–122	–	–122
Other changes					
Fees	–	–	*21*	*–21*	–
Interest	–	*236*	*–10*	*–225*	*1*
Effect of changes in market interest rates	–	*661*	–	*–661*	–
Effect of changes in assumptions	–	*–40*	–	*40*	–
Exchange rate fluctuations for the period	*29*	–	–	–	*29*
Other [4]	–	–836	–	132	–704
Closing balance 2019	**308**	**119,689**	**10,051**	**263,347**	**393,395**
Opening balance 2020	**308**	**119,689**	**10,051**	**263,347**	**393,395**
Net profit/loss for the year	–	–	–	*37,662*	*37,662*
Allocated refunds					
Defined benefit plan	–	*5,945*	–	*–5,945*	–
Defined contribution plan	–	*15,445*	–	*–15,445*	–
Guaranteed refunds					
Pension supplements, defined benefit plan	–	*–2,799*	–	–	*–2,799*
Supplementary amounts, defined contribution plan	–	*–241*	–	–	*–241*
Adjustment of paid-up values, defined benefit plan	–	*–4,092*	–	*–647*	*–4,739*
Premium reduction	–	*–4,187*	–	–	*–4,187*
Collective risk premium [3]	–	–	*–126*	–	*–126*
Other changes					
Fees	–	–	*98*	*–98*	–
Interest	–	*197*	*–2*	*–195*	–
Effect of changes in market interest rates	–	*418*	–	*–418*	–
Exchange rate fluctuations for the period	*–319*	–	–	–	*–319*
Other [4]	–	*–857*	–	*198*	*–659*
Closing balance 2020	*–11*	**129,518**	**10,021**	**278,459**	**417,987**

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 129,518 million (119,689) 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 surplus fund. 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 consolidation	Discretionary participation features reserve: Allocated refunds to insureds and policyholders [1]	Other reserves: Special indexation funds [2]	Total
Opening balance 2019	**231,546**	**94,720**	**10,161**	**336,427**
Appropriation of profits from previous years	–27,609	–	–	–27,609
Allocated refunds				
Defined benefit plan	*–12,915*	*12,915*	–	–
Defined contribution plan	*–24,908*	*24,908*	–	–
Guaranteed refunds				
Pension supplements, defined benefit plan	–	*–2,676*	–	*–2,676*
Supplementary amounts, defined contribution plan	–	*–167*	–	*–167*
Adjustment of paid-up values, defined benefit plan	*–1,663*	*–5,560*	–	*–7,223*
Premium reduction	–	*–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**
Opening balance 2020	**163,718**	**119,690**	**10,051**	**293,459**
Appropriation of profits from previous years	92,470	–	–	92,470
Allocated refunds				
Defined benefit plan	*–5,945*	*5,945*	–	–
Defined contribution plan	*–15,445*	*15,445*	–	–
Guaranteed refunds				
Pension supplements, defined benefit plan	–	–2,799	–	–2,799
Supplementary amounts, defined contribution plan	–	–241	–	–241
Adjustment of paid-up values, defined benefit plan	–647	–4,092	–	–4,739
Premium reduction	–	–4,187	–	–4,187
Fees	–98	–	98	–
Interest	–195	197	–2	–
Collective risk premium [3]	–	–	–126	–126
Effect of changes in market interest rates	–418	418	–	–
Other changes [4]	198	–858	–	–660
Closing balance 2020	**233,638**	**129,518**	**10,021**	**373,177**

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 129,518 million (119,690) 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

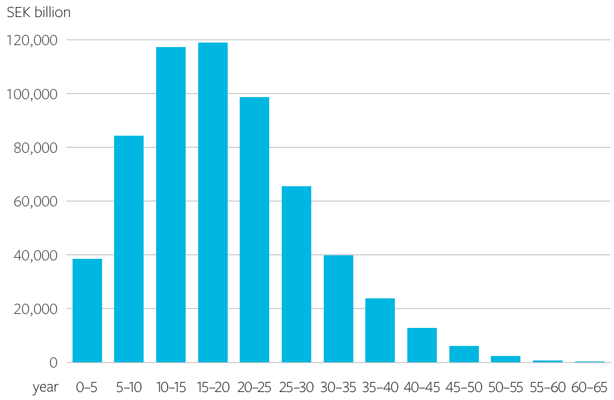
The Board of Directors and Chief Executive Officer propose to the Council of Administration that the Parent Company's profit for 2020 of SEK 37,554,723,968 be transferred to the surplus fund. The Board and CEO propose that the Council of Administration approve the resolution of the Board regarding refunds as set forth in the section Distribution of surplus in the Administration Report on page 45.

See also Proposed appropriation of profits in Administration Report on page 46.

NOTE 36 Provision for life insurance

Group and Parent Company	2020	2019
Opening balance	**556,780**	**495,679**
Change for the year	50,464	42,538
Premiums	*56,404*	*45,993*
Payments	*–18,399*	*–17,631*
Cumulative returns	*15,467*	*15,104*
Released operating expenses	*–629*	*–581*
Yield tax	*–565*	*–667*
Mortality result	*–216*	*234*
Other changes	*–1,598*	*86*
Change in interest rate assumption	16,962	28,089
Difference between premium and TP assumptions	–15,432	–14,737
Change in reduction factors	–	–1,460
Changed assumption for mortality	–	6,671
Closing balance	**608,774**	**556,780**

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



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 life insurance provision is described in the adjacent accounting principles and information on current assumptions and changes introduced during the year are described below. The sensitivity of the assumptions used as a basis for provisions is described in Note 3.

The following assumptions have been applied in calculating the provision for life insurance at 31 December 2020:

- Interest rate assumption: The average rate of interest was 1.60 per cent (1.81) at 31 December 2020. The method of determining this rate is described in Note 3.
- Family pension assumption: Gender-dependent assumptions on family composition are applied.
- Operating expenses assumption: Future operating expenses are considered to comprise the present value of future expected expenses including cost increases due to inflation. Operating expenses are also recognised in connection with premium payments.
- Deduction for yield tax: Future yield tax is considered to comprise the present value of the yield tax that Alecta is expected to pay on assets representing the present value of guaranteed commitments. The load for yield tax is 0.54 per cent, corresponding to 15 per cent of the discount rate with a maturity of 15 years.

Interest rate sensitivity

- For longer terms, 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 0.1 percentage points and the provision for life insurance would increase by SEK 11.5 billion (27.0).

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	2020	2019
Opening balance	13,854	17,470
Change for the year	–802	–75
Provision for new claims	*4,735*	*6,415*
Discontinuation income	*–2,719*	*–3,242*
Payments	*–2,861*	*–3,285*
Cumulative returns	*48*	*137*
Released operating expenses	*–50*	*–54*
Other changes	*45*	*–46*
Change in interest rate assumption	136	448
Changed assumption for morbidity	–	–3,776
Changed assumption for unknown claims	–	–213
Closing balance	13,188	13,854

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 provisions for claims outstanding is described in the adjacent accounting principles and information on current assumptions and changes introduced during the year are described below. The sensitivity of the assumptions used as a basis for provisions is described in Note 3.

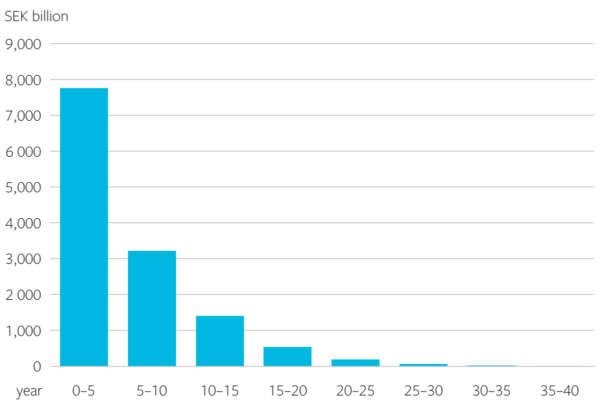
The following assumptions have been used in calculating, as at 31 December 2020, the provision for claims outstanding in respect of disability pension and waiver of premium, which comprise the dominant portion of the provision:
- Interest rate assumption: The rate of interest was 0.33 per cent (0.52) at 31 December 2020. The method of determining this rate is described in Note 3.
- 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.

Provision for new claims decreased 26 per cent compared with 2019.

Discontinuation income decreased 15 per cent in 2020. However, due to the new discontinuation assumptions from 31 December 2019, a lower discontinuation gain was expected that the outcome of SEK 2.7 billion (3.2).

Interest rate sensitivity
- If market rates fall by 1 percentage point, the provision increases by SEK 35 million (200).

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	
	2020	2019	2020	2019
Provision for pensions	–	0	–	0
Total	–	0	–	0

The provision for pensions is 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. The provision was redeemed in full in 2020.

Accounting principle

All pension plans in the Group are recognised as defined contribution plans. The FTP Agreement previously provided 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 was exercised, Alecta paid a single premium to cover the additional retirement benefits. An unfunded provision equal to 100 per cent of the expected premium was made for employees who had notified Alecta that they intend to exercise this option. For other employees who had the opportunity to retire early, an unfunded provision was 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 would exercise the option.

NOTE 39 Other provisions

	Group		Parent Company	
	2020	2019	2020	2019
Indexation of pensions for former employees	1	1	1	1
Provision for real estate	8	14	1	3
Total	**9**	**15**	**2**	**4**

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	2020	2019
Liabilities to policy holders	10	9
Preliminary tax, pensions	764	746
Other	10	10
Total	**784**	**765**

Accounting principle

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

NOTE 41 Other liabilities

Group	2020	2019
Payment liability on purchase of investment assets	6	71
Collateral received for derivatives [1]	9,246	6,764
Accounts payable	134	274
Property tax	63	123
Value-added tax	3	25
Lease liability [2]	28	34
Other	70	44
Total	**9,550**	**7,335**

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	2020	2019
Liabilities to subsidiaries	1,804	2,441
Payment liability on purchase of investment assets	6	71
Collateral received for derivatives [1]	9,246	6,764
Accounts payable	114	258
Property tax	47	49
Value-added tax	–	6
Other	43	21
Total	**11,260**	**9,610**

1) See also Note 28.
2) See also Notes 15 and 50.

NOTE 42 Other accrued expenses and deferred income

	Group		Parent Company	
	2020	2019	2020	2019
Accrued interest expense	4,613	4,914	4,613	4,914
Accrued property costs	57	115	38	82
Accrued personnel costs	98	82	96	80
Prepaid rental income	295	401	80	133
Other	22	34	21	30
Total	**5,085**	**5,546**	**4,848**	**5,239**

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	2020	2019
Assets registered on behalf of policy holders	1,015,539	944,870
in addition to required pledge	*338,627*	*342,279*
	1,015,539	**944,870**
Land and buildings	24,343	24,202
Shares and participations in associated companies and joint ventures	38,290	33,449
Loans to associated companies and joint ventures	357	334
Shares and participations	486,870	454,208
Bonds and other debt securities	445,384	418,060
Loans secured by real estate	3,800	4,506
Other loans	6,589	6,446
Derivatives	6,582	384
Cash and bank balances	3,324	3,281
Total	**1,015,539**	**944,870**

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	2020	2019
Collateral pledged to clearing houses for derivatives trading		
Bonds and other debt securities	5,201	3,013
Cash and bank balances	506	432
Collateral pledged for derivatives trading in accordance with CSA contracts		
Bonds and other debt securities	2,015	489
Cash and bank balances	111	6,143
Total	**7,833**	**10,077**

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	2020	2019
Loaned debt securities	24,752	24,351
Collateral received for loaned securities	25,501	24,856

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 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	2020	2019
Remaining balance to be invested in investment assets	34,613	30,016
Guarantee commitments	0	631
Total	**34,613**	**30,647**
Parent Company		
Remaining balance to be invested in investment assets	34,515	29,831
Liabilities in limited partnerships	64	87
Total	**34,579**	**29,918**

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 into certain unlisted 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	2020	2019
Market value according to total return table [1]	**1,039,246**	**962,678**
Assets not classified as investments	3,651	4,294
Items from the liabilities side of the balance sheet which have been deducted in the total return table	24,408	24,848
Valuation differences	–196	–96
Total assets according to balance sheet	**1,067,109**	**991,724**

[1] See page 43.
[2] Notes 5, 6, 9 and 10 in the income statement.

Group	2020	2019
Total return according to total return table	**49,845**	**122,942**
Items from the income statement (Notes 5, 6, 9, 10) which are not included in the total return table	–649	–447
Foreign exchange effects in foreign subsidiaries, recognised in equity in the financial statements	695	–3
Tax included in the total return table, classified as tax in the income statement	176	2,510
Other	–34	29
Net return on capital according to income statement [2]	**50,033**	**125,031**

NOTE 48 Average number of employees, salaries and remuneration

	2020			2019		
Average number of employees [1]	Number of employees	Of whom women	Of whom men	Number of employees	Of whom women	Of whom men
Parent Company						
Sweden	334	194	140	341	201	140
Total, Parent Company	**334**	**194**	**140**	**341**	**201**	**140**
Subsidiaries						
Sweden	24	19	5	25	19	6
Total, subsidiaries	**24**	**19**	**5**	**25**	**19**	**6**
Total, Group	**358**	**213**	**145**	**366**	**220**	**146**

	2020		2019	
Gender distribution in senior positions	Women	Men	Women	Men
Parent Company				
Board of Directors	5	6	5	7
CEO	–	1	–	1
Other senior executives	4	4	4	4
Total, Parent Company	**9**	**11**	**9**	**12**
Subsidiaries				
Board of Directors	2	8	1	8
Total, subsidiaries	**2**	**8**	**1**	**8**
Total, Group	**11**	**19**	**10**	**20**

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

	2020				2019			
kSEK	Salaries, fees and other remuneration	Social security contributions [3]	Pension costs [3]	Total	Salaries, fees and other remuneration	Social security contributions	Pension costs	Total
Parent Company								
CEO and senior executives [4]	24,103	9,385	7,468	40,956	24,305	11,654	7,661	43,620
Board of Directors [5]	3,023	950	–	3,973	3,152	862	–	4,014
Other employees	248,290	83,811	63,690	395,791	243,258	78,724	46,774	368,756
Total, Parent Company	**275,416**	**94,146**	**71,158**	**440,720**	**270,715**	**91,240**	**54,435**	**416,390**
Subsidiaries								
Other employees	10,234	2,902	924	14,060	10,911	3,637	940	15,488
Total, subsidiaries	**10,234**	**2,902**	**924**	**14,060**	**10,911**	**3,637**	**940**	**15,488**
Total, Group	**285,650**	**97,048**	**72,082**	**454,780**	**281,626**	**94,877**	**55,375**	**431,878**

[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] The increase in pension costs and social security contributions in the Parent Company compared with the preceding year consists mainly of early retirement pension.
[4] Consists of senior management for 2020. For the current composition of senior management, see page 40.
[5] 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

	2020					
kSEK	Salaries, fees and other remuneration [1]	Variable remuneration [1,4]	Benefits [3]	Total remuneration	Social security contributions	Pension costs
Parent Company						
CEO						
Magnus Billing	6,202	–	99	6,301	2,540	2,308
Deputy CEO						
Katarina Thorslund	2,449	–	11	2,460	917	593
Hans Sterte	4,835	–	3	4,838	2,001	1,984
Other senior executives						
Senior executives [2]	10,479	–	25	10,504	3,927	2,583
Total, CEO and senior executives	**23,965**	**–**	**138**	**24,103**	**9,385**	**7,468**
Chairman of the Board						
Ingrid Bonde	796	–	–	796	250	–
Other members of the Board						
Hanna Bisell	227	–	–	227	71	–
Marcus Dahlsten	99	–	–	99	31	–
Markus Granlund	198	–	–	198	62	–
Ann Grevelius	99	–	–	99	31	–
Petra Hedengran	198	–	–	198	62	–
Helena Hedlund	198	–	–	198	62	–
Jan-Olof Jacke	233	–	–	233	74	–
Magnus von Koch	198	–	–	198	62	–
Martin Linder	233	–	–	233	74	–
Richard Malmborg	198	–	–	198	62	–
Members of the Board that have left						
Cecilia Fahlberg Pihlgren	*99*	–	–	*99*	*31*	–
Kaj Thorén [5]	149	–	–	149	47	–
Anders Weihe	99	–	–	99	31	–
Total, Board	**3,024**	**–**	**–**	**3,024**	**950**	**–**
Total, Parent Company	**26,989**	**–**	**138**	**27,127**	**10,335**	**7,468**

1) Salaries, fees, other remuneration and variable remuneration shown as total salaries, fees and other remuneration charged to expense in the financial year 2020.
2) Other senior executives refer to six positions (six), which together with the CEO and the Deputy CEO comprised Alecta's senior management team.
For the composition of senior management, see page 40. 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 2019:23) will be published on alecta.se in April 2021.
5) Of which kSEK 50 pertains to fees for Nomination Committee work in one of the Alecta's holdings.

NOTE 48 Average number of employees, salaries and remuneration, *cont.*

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

	2019					
kSEK	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
Other 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 Malmborg	195	–	–	195	61	–
Kaj Thorén [6]	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 Alecta's senior management team in 2019. 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) will be published on alecta.se in April 2020.
5) Assumed chairmanship at the Council of Administration's meeting on 11 April 2019.
6) Of which kSEK 100 pertains to fees for Nomination Committee work in two of the Alecta's holdings.

NOTE 48 Average number of employees, salaries and remuneration, *cont.*

Remuneration to Directors, CEO and other senior executives

The Chairman and other members of the Board of Directors receive Directors' fees in accordance with resolutions adopted by the Council of Administration. The remuneration determined by the Council of Administration relates to the period until the next regular meeting of the Council of Administration. The remuneration paid to the CEO and senior executives in 2020 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. Remuneration of senior executives is determined by the CEO and approved by the Board.

Other senior executives refer to eight individuals who together with the CEO have constituted Alecta's management team. For the current composition of senior management, see page 40.

In accordance with the Swedish Financial Supervisory Authority's General Regulations and General Guidelines on Annual Reports of Insurance Undertakings (FFFS 2019:23), supplementary disclosures on remuneration will be presented on Alecta's website, alecta.se, in April 2021.

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 Alecta have had the option of exchanging a part of their salary for occupational pension premiums. Salary exchange is cost-neutral for Alecta. This option is available to all employees of Alecta Pensionsförsäkring, ömsesidigt.

Incentive schemes

In 2020, 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. There was also 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 was contingent on achievement of the three long-term targets linked to the business plan for 2020, with a maximum payout of kSEK 12 (12) per employee in the form of increased occupational pension premiums. In 2020, one of the targets (two) were fully achieved and two of the targets were 50 per cent achieved. The total outcome per employee was kSEK 8 (8), representing a cost for Alecta of approximately SEK 3 million (3), including social security contributions.

The Board has resolved to discontinue the Investment Management incentive scheme for employees of the Equity and Interest Management Department at the end of 2020. The scheme had an evaluation period of three years and the Board of Directors has defined caps for payouts as well as the targets against which performance will be measured. Key factors that determined the outcome for variable remuneration were total return on investment assets, return in relation to Alecta's competitors and return from active management in the asset classes shares and debt instruments. The outcome for each individual also depended on the extent to which individually defined targets have been achieved. For 2020, a provision of SEK 6.0 million, excluding social security contributions, has been made for variable remuneration. For 2019, the vested variable remuneration was SEK 4.5 million excluding social security contributions.

In the incentive scheme for subsidiaries engaged in restaurant and conference activities, there was no outcome for variable remuneration for 2020. For 2019, the outcome for variable remuneration was SEK 0.2 million excluding social security contributions.

Pension plans

All employees of Alecta Pensionsförsäkring, ömsesidigt, who are based in Sweden are covered by an occupational pension plan, FTP 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. Alecta accounts for the whole FTP plan as a defined contribution plan, as the criteria for recognising the defined benefit components of the plan in accordance with the main rule in IAS 19 are not met. This means that the expense is recognised when the benefits are earned. The total insurance premium for defined benefit retirement and family pensions in FTP 2 was SEK 20.5 million in 2020 and is expected to reach SEK 16.6 million in 2021. The premium represents approximately 0.05 per cent of the total premiums for defined benefit retirement and family pensions paid to Alecta by the client companies. Premiums are calculated on a per insured basis and for each type of benefit by applying Alecta's assumptions on interest rates, operating expenses and yield tax.

Alecta's collective funding ratio for defined benefit plans at the end of the year was 148 per cent (148). The collective funding ratio is defined as the market value of Alecta's assets as a percentage of its commitments to policy holders calculated using Alecta's actuarial assumptions, which are not consistent with IAS 19. According to Alecta's funding policy for defined benefit insurance products, the specific normal range for the collective funding ratio is 125–175 per cent.

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

NOTE 48 Average number of employees, salaries and remuneration, *cont.*

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 2020, fees amounted to kSEK 39 (122).

NOTE 49 Disclosure of auditors' fees

	Group		Parent Company	
	2020	2019	2020	2019
EY				
Statutory audit	3.9	3.7	3.9	3.7
Audit activities not included in statutory audit	0.3	0.3	0.3	0.3
Tax advisory services	2.4	0.9	1.4	–
Other services	–	–	–	–
Total, EY	**6.6**	**4.9**	**5.6**	**4.0**

NOTE 50 Leases

Group	2020	2019
Balance Sheet		
Land and buildings, right-of-use	28	34
Other liabilities, lease liability	–28	–34
Income Statement		
Interest expense, leases	1	1

Site and land leaseholds are not amortised.

Accounting principle

IFRS 16 is applied for the Group and right-of-use and lease liability are recognised in the balance sheet. 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. Site and land leasehold payments have been recognised as interest expense since 1 January 2019.

NOTE 50 Leases, *cont.*

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.

Parent Company	2020	2019
Expiration		
Within one year	3.1	3.7
Later than one year but within five years	6.5	7.4
Later than five years	–	–
Total	**9.6**	**11.1**
Total lease payments during period	**3.5**	**3.6**
of which minimum lease payments	*3.5*	*3.6*

Rental contracts outside Sweden were sublet until September 2020, when the contract expired and the lease income was SEK 2.3 million (3.0) in 2020.

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.

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:

- 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-subsidiary transactions refer to loans or shareholder contributions provided in connection with investments made by the subsidiaries. Subsidiary-to-Alecta transactions refer mainly to loan repayments and interest payments as well as dividends. Shares and participations in Group companies are presented in Note 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 2020.

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 2020.

No portfolios were transferred in 2020 nor in 2019.

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, share holder contributions, dividends and interest payments, and are shown in the table below.

In 2020, the Group sold no subsidiaries to joint ventures. In 2019, the Group sold subsidiaries to joint ventures where the transactions amounted to SEK 1,662 million.

In 2020, the Group invested SEK 5,145 million (8,829) in associated companies. As in previous years, 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

	Payments received		Payments made	
Related parties	2020	2019	2020	2019
Group company				
Interest income	256	133	–	–
Share of profit	47	111	–	–
Management fee	10	8	–	–
Dividends	144	934	–	–
Shareholder contributions provided	–	–	2,117	841
Associated companies and joint ventures				
Interest income	–	43	–	–
Dividends	1,138	591	–	–
Total	**1,595**	**1,820**	**2,117**	**841**

Information on the Parent Company's, Alecta Pensionsförsäkring, ömsesidigt, outstanding claims and liabilities to related parties at 31 December

	Receivables		Liabilities	
Related parties	2020	2019	2020	2019
Group company				
Non-current receivables	11,650	10,923	–	–
Receivables from/liabilities to Group companies	–	–	682	1,550
Accrued interest expense	–	–	–	0
Associated companies and joint ventures				
Loans receivable	–	334	–	–
Total	**11,650**	**11,257**	**682**	**1,550**

NOTE 52 Significant events after the balance sheet date

No significant events have taken place after the balance sheet date.

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 Group and nothing of material significance has been omitted which could affect the view of the Company and Group created by the annual accounts and consolidated financial statements. Our assurance also applies to the statutory sustainability report.

Stockholm, 18 March 2021

Ingrid Bonde
Chairman

Jan-Olof Jacke
First Vice Chairman

Martin Linder
Second Vice Chairman

Hanna Bisell
Member

Marcus Dahlsten
Member

Markus Granlund
Member

Ann Grevelius
Member

Petra Hedengran
Member

Helena Hedlund
Member

Richard Malmborg
Member

Magnus von Koch
Member

Birgitta Pernkrans
Employee representative

Mikael Persson
Employee representative

Magnus Billing
CEO

Our audit report was submitted on 23 March 2021.

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 2020. The annual accounts and consolidated accounts of the company are included on pages 41–107 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 2020 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 2020 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 judgment, 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 2020, the Group had provisions for life insurance of SEK 609 billion, equivalent to 94 % of total liabilities. In the Parent Company, provisions for life insurance were SEK 609 billion, accounting for 94 % 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 the disclosures made in the financial statements in respect of life insurance.

Auditor’s report, *cont.*

Valuation of investment assets

Description

At 31 December 2020, the Group had investment assets of SEK 1 048 billion, accounting for 98 % of total assets. Investment assets in the Parent Company were SEK 1 040 billion, accounting for 98 % of the Parent Company’s total assets. Of the investment assets, SEK 1 044 billion is measured at fair value in the Group and SEK 1 019 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 2020, there were investment assets of SEK 688 billion which are measured at fair value at Level 1, SEK 201 billion measured at Level 2 and SEK 122 billion measured at Level 3. For the Parent Company, there were investment assets of SEK 688 billion which are measured at fair value at Level 1, SEK 201 billion measured at Level 2 and SEK 117 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 analysed. We have also assessed the disclosures made in the financial statements in respect of investment assets.

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 1–40 and 112–113. The Board of Directors and the Managing Director 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 Managing Director

The Board of Directors and the Managing Director 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 Managing Director 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 Managing Director 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 Managing Director 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 misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reason-

Auditor's report, *cont.*

ably 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 judgment 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 Managing Director.

- Conclude on the appropriateness of the Board of Directors' and the Managing Director'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, actions taken to eliminate threats or related safeguards applied.

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 Managing Director of Alecta pensionsförsäkring, ömsesidigt for the year 2020 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 statutory administration report and that the members of the Board of Directors and the Managing Director 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 Managing Director

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.

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 Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill

Auditor's report, *cont.*

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 Managing Director 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 judgment 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 103 99 Stockholm, was appointed auditor of Alecta Pensionsförsäkring, ömsesidigt by the Council of Administration on the 9 June 2020 and has been the company's auditor since the 10 April 2014.

Stockholm 23 March 2021
Ernst & Young AB

Jesper Nilsson
Authorised Public Accountant

Glossary

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

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 administrated by Collectum.

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.

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

Default option
In a defined contribution plan where the employee does not make an active choice of insurance company, the employee automatically becomes a customer of the insurance company that has been designated as the default option company 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.

Insurance contracts
A contract between the insurance provider and policy holder that contains a significant insurance risk.

Insured
The person covered by the insurance contract.

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 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.

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

Special indexation funds
Funds allocated to guarantee the indexation of pensions or for other pension-promoting purposes. These funds only become available to Alecta subject to a decision by the Confederation of Swedish Enterprise and the Council for Negotiation and Cooperation (PTK). Special indexation funds are therefore not included in collective funding capital.

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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