

# **Presentation Notes for the Aflac 2019 Financial Analysts Briefing**



**September 25, 2019**

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## FORWARD-LOOKING INFORMATION

*The Private Securities Litigation Reform Act of 1995 provides a “safe harbor” to encourage companies to provide prospective information, so long as those informational statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those included in the forward-looking statements. The company desires to take advantage of these provisions. This document contains cautionary statements identifying important factors that could cause actual results to differ materially from those projected herein, and in any other statements made by company officials in communications with the financial community and contained in documents filed with the Securities and Exchange Commission (SEC). Forward-looking statements are not based on historical information and relate to future operations, strategies, financial results or other developments. Furthermore, forward-looking information is subject to numerous assumptions, risks and uncertainties. In particular, statements containing words such as “expect,” “anticipate,” “believe,” “goal,” “objective,” “may,” “should,” “estimate,” “intends,” “projects,” “will,” “assumes,” “potential,” “target,” “outlook” or similar words as well as specific projections of future results, generally qualify as forward-looking. Aflac undertakes no obligation to update such forward-looking statements.*

*The company cautions readers that the following factors, in addition to other factors mentioned from time to time, could cause actual results to differ materially from those contemplated by the forward-looking statements:*

- *difficult conditions in global capital markets and the economy*
- *exposure to significant interest rate risk*
- *concentration of business in Japan*
- *foreign currency fluctuations in the yen/dollar exchange rate*
- *limited availability of acceptable yen-denominated investments*
- *U.S. tax audit risk related to conversion of the Japan branch to a subsidiary*
- *deviations in actual experience from pricing and reserving assumptions*
- *ability to continue to develop and implement improvements in information technology systems*
- *competitive environment and ability to anticipate and respond to market trends*
- *ability to protect the Aflac brand and the Company's reputation*
- *ability to attract and retain qualified sales associates, brokers, employees, and distribution partners*
- *interruption in telecommunication, information technology and other operational systems, or a failure to maintain the security, confidentiality or privacy of sensitive data residing on such systems*
- *failure to comply with restrictions on patient privacy and information security*
- *extensive regulation and changes in law or regulation by governmental authorities*
- *tax rates applicable to the Company may change*
- *defaults and credit downgrades of investments*
- *decline in creditworthiness of other financial institutions*
- *significant valuation judgments in determination of amount of impairments taken on the Company's investments*
- *subsidiaries' ability to pay dividends to the Parent Company*
- *decreases in the Company's financial strength or debt ratings*
- *inherent limitations to risk management policies and procedures*
- *concentration of the Company's investments in any particular single-issuer or sector*
- *differing judgments applied to investment valuations*
- *ability to effectively manage key executive succession*
- *catastrophic events including, but not necessarily limited to, epidemics, pandemics, tornadoes, hurricanes, earthquakes, tsunamis, war or other military action, terrorism or other acts of violence, and damage incidental to such events*
- *changes in accounting standards*
- *increased expenses and reduced profitability resulting from changes in assumptions for pension and other postretirement benefit plans*
- *level and outcome of litigation*
- *allegations or determinations of worker misclassification in the United States*



## **Strategic Overview of Aflac Incorporated**

**Dan Amos**

Chairman and Chief Executive Officer,  
Aflac and Aflac Incorporated

## The Need for Aflac's Products

**Rising health care costs in both the U.S. and Japan,  
continue to drive greater out-of-pocket expenses**

## Financial Focus

- Strong and stable pretax margins
- Robust capital position
- High-quality, diversified investments
- Leading return on capital paired with an extremely low cost of capital

Address the challenge of top-line growth

## Generating Growth With a Measured Approach

### Defending the Core

Product Development – Distribution Productivity – Digitizing Platforms

### Expanding the Core

Tactical Development

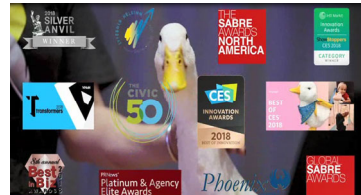
### Evolving the Core

Innovating – Venturing – Incubating

Leverage core with a measured approach



## My Special Aflac Duck



Aflac®

## Overview of Aflac Japan

### Masatoshi Koide

President and Representative Director,  
Aflac Life Insurance Japan Ltd.

## Roadmap

- I. Japan Insurance Market: Third Sector
- II. Aflac Japan's Competitive Advantages
- III. Aflac Japan's Vision and Strategy for Growth

## Market Catalysts

Third sector market dynamics support further expansion, including:

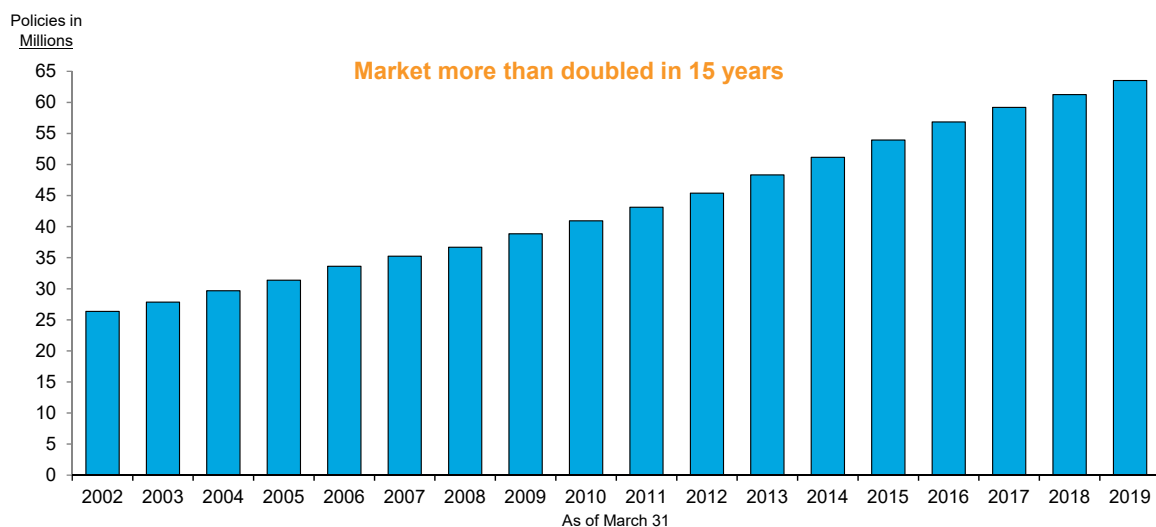
Aging Population and Low Birthrate

Projected Social Security Benefits

Changing Consumer Needs

## Opportunities for the Growing Third Sector

(Cancer & Medical, FSA Basis, Stand-alone, Life Industry Only)

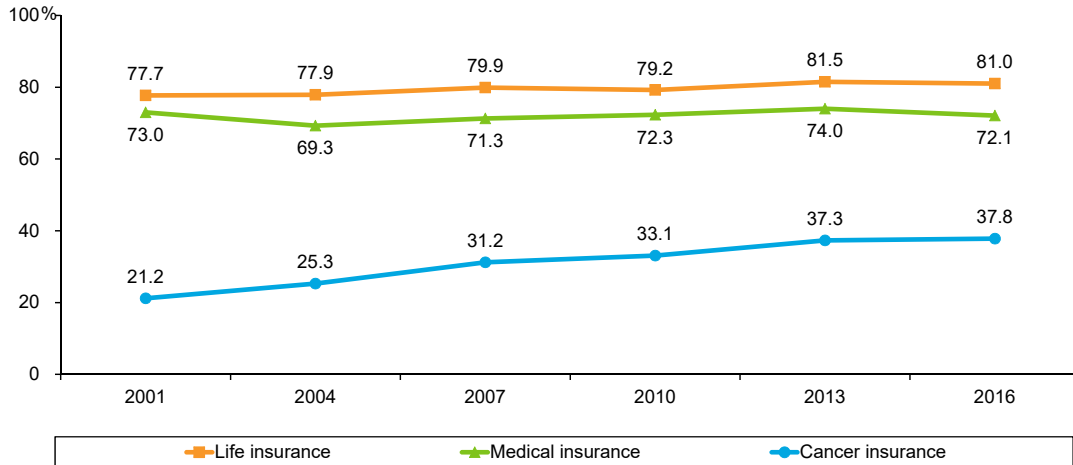


Source: Life Insurance Association of Japan



## Cancer Insurance Market Penetration

(Product Penetration, Individual Basis, Three-year Interval Data)



Life insurance does not include annuity insurance or child endowment

Source: Japan Institute of Life Insurance

## Aflac Japan VISION 2024

Vision

Being the leading company  
“Creating Living in Your Own Way”

### Through VISION 2024 Aflac Japan will:

- Strengthen Aflac’s position as the leading company in the third sector
- Expand into new frontiers consistent with our core capabilities and values
- Cultivate an innovation-driven corporate culture

## Leveraging Our Strengths as a Market Leader

As the pioneer of cancer insurance in Japan with 44+ years of experience, Aflac has developed scale, efficiencies and deep expertise

Innovative  
Products

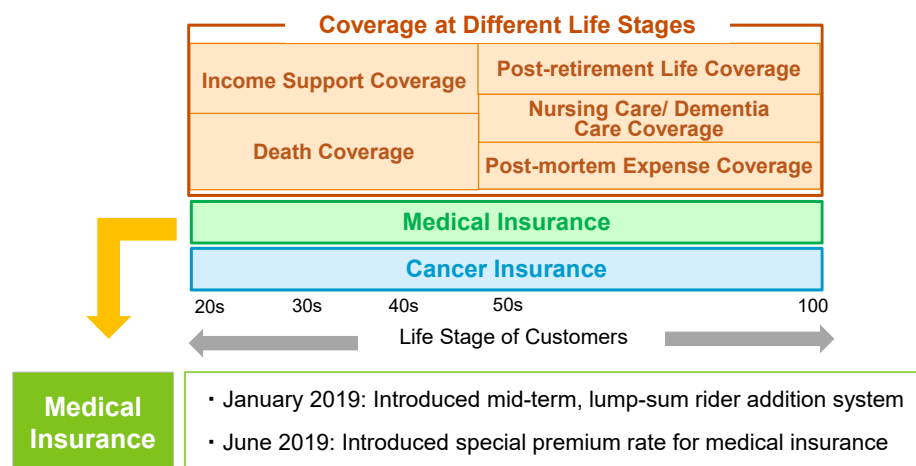
Broad  
Distribution

Trusted Brand

Aflac Japan is the leading company  
for cancer and medical insurance in Japan

## Competitive Advantage: Innovative Products

### Provide Latest Coverage Based on Customers' Different Life Stages



## Competitive Advantage: Broad Distribution

<b>Core Traditional Channel</b>		
<b>Agencies</b>	Affiliated Corporate	✓ 1,300+ agencies, including 200+ Aflac-exclusive agencies
	Independent Corporate	✓ 4,000+ agencies, including 1,000+ Aflac-exclusive agencies
	Individual	✓ 3,900+ agencies, including 3,500+ Aflac-exclusive agencies
<b>Strategic Partners Channel</b>	Japan Post	<ul style="list-style-type: none"> <li>• 20,000+ post offices nationwide selling Aflac cancer insurance</li> <li>• 76 branches of Japan Post Insurance Co., Ltd.</li> <li>• Announced strategic alliance with a capital relationship in December 2018</li> </ul>
	Dai-ichi Life	<ul style="list-style-type: none"> <li>• Nearly 40,000 Dai-ichi Life sales representatives offer Aflac cancer insurance</li> <li>• 19 years of consistent, robust sales results under Business Alliance</li> </ul>
	Daido Life	<ul style="list-style-type: none"> <li>• Selling cancer insurance products in SME association market</li> </ul>
	Banks	<ul style="list-style-type: none"> <li>• Aflac Japan represented at 360+ banks</li> </ul>

## Competitive Advantage: Trusted Brand

### **Aflac's brand recognition is over 91%**

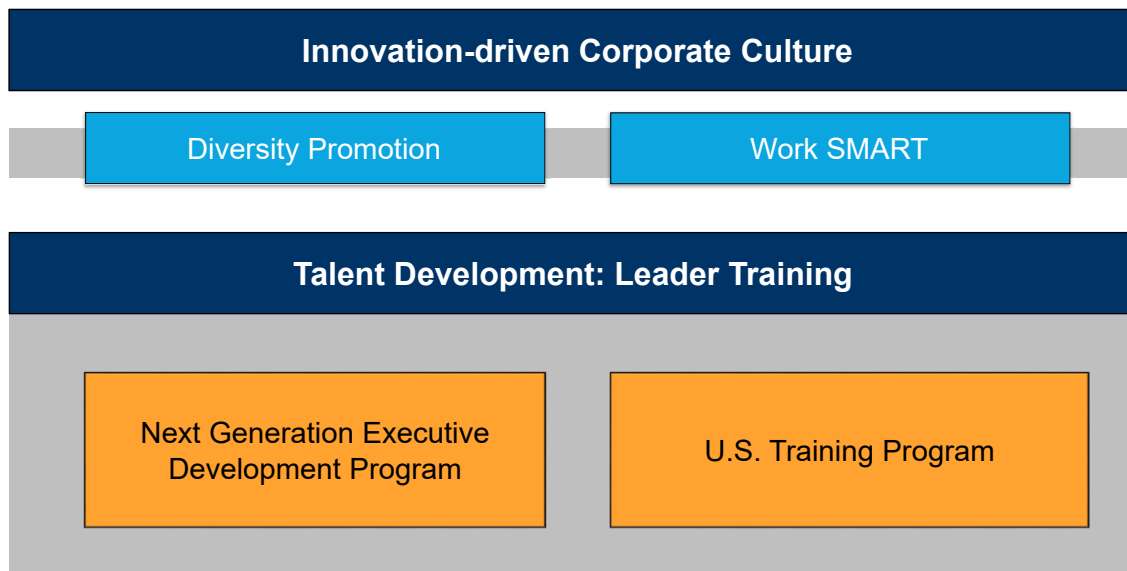
- Attractive to consumers and business partners
- Communicates high-quality products and services for "insurance for daily living"



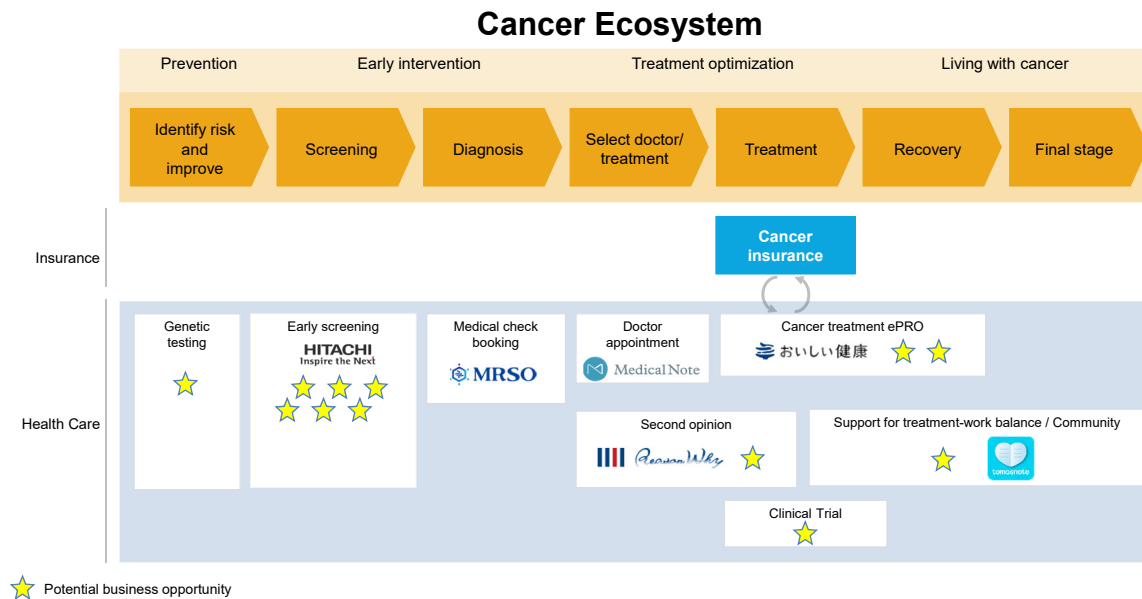
## Business Development Flexibility Following Conversion

Group structure	
Aflac Japan subsidiaries	<ul style="list-style-type: none"> <li>• Aflac Payment Services Co., Ltd.</li> <li>• Aflac Insurance Services Co., Ltd.</li> <li>• Aflac Heartful Services Co., Ltd.</li> <li>• Tsusan Co., Ltd.</li> </ul>
Governance – Business operations	
Implement Agile operations	<ul style="list-style-type: none"> <li>• Agile-style business processes introduced to provide customers with value in a flexible and speedy manner fitting for an age of rapid changes</li> </ul>
Capital management	
Hybrid bond issuance	<p>Post-conversion, Aflac Life Insurance Japan Ltd. has flexibility to raise funding:</p> <ul style="list-style-type: none"> <li>• April 2019: Yen-denominated perpetual subordinated corporate bonds</li> </ul>

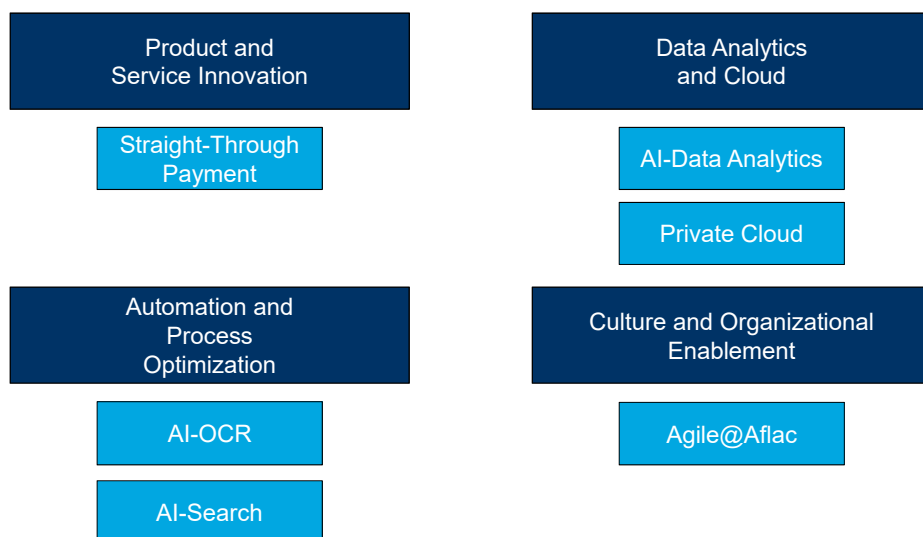
## Cultivate an Innovation-Driven Corporate Culture



# Innovation for a Cancer Ecosystem

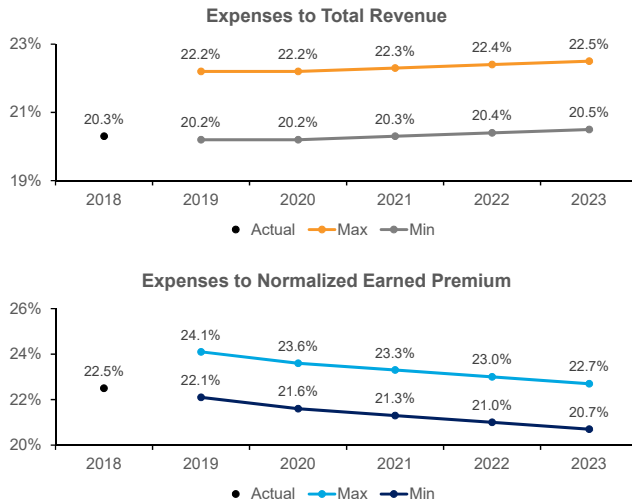


# Digital Innovation



## Aflac Japan Adjusted Expense Ratio Outlook

### Expense Ratio Outlook



### Adjusted Target

- Earned premium normalized for paid-up third and first sector policies
- Efficiencies focused on procurement, space utilization and administrative process improvement
- Annual efficiency economic benefit of ¥2 to ¥3 billion per year compared to 2018 ratio



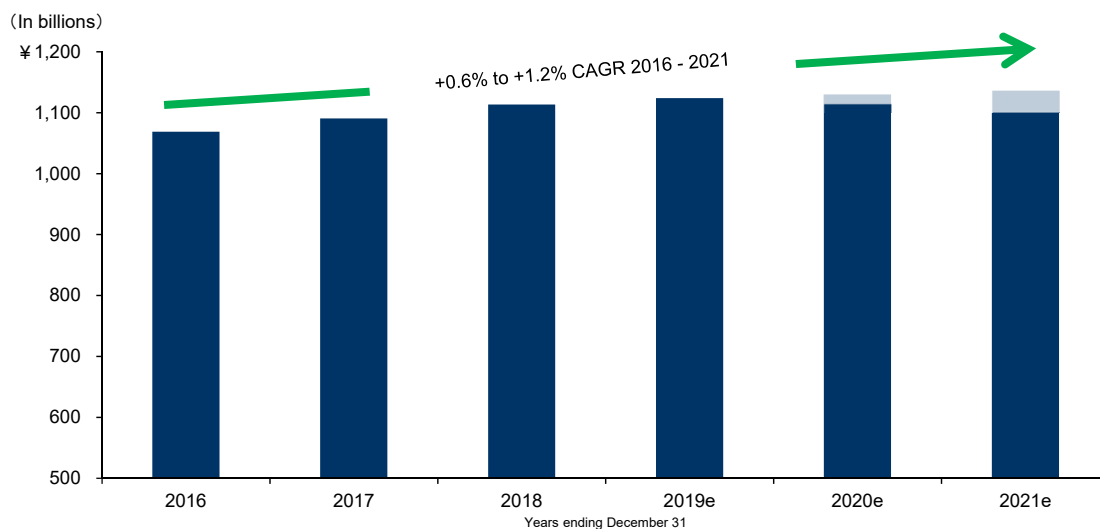
## Aflac Japan Growth Strategies

### Koji Ariyoshi

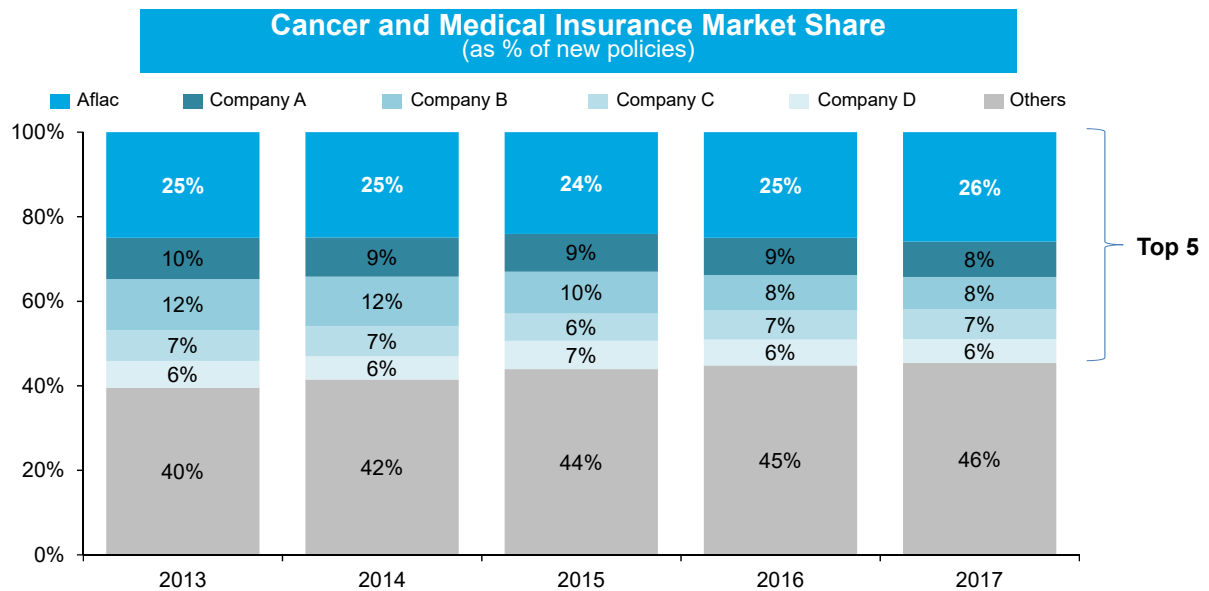
Director, Executive Vice President;  
Director of Sales and Marketing,  
Aflac Life Insurance Japan Ltd.

## Outlook for Earned Premium Growth:

All Third Sector and First Sector Protection – Includes the Impact of Paid-up Policies



## Competitive Cancer and Medical Insurance Market



## Growth Opportunities for Protection-type Products: Environment Surrounding Customers

### Growing need to prepare for longevity risk

#### Average Life Span of the Japanese People

	1970		2018	
Male	69.31	➡	81.25	+11.9 yrs
Female	74.66	➡	87.32	+12.7 yrs

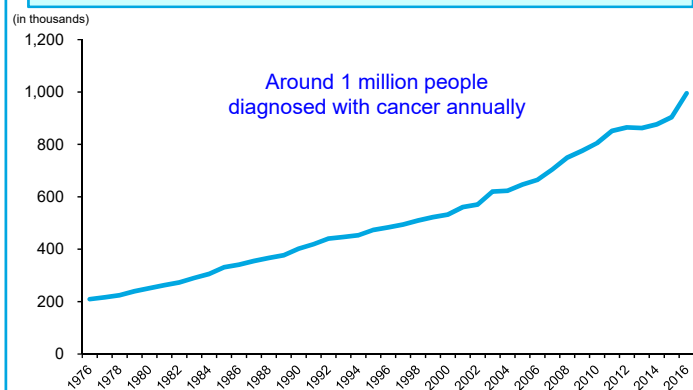
#### Average Life Expectancy of People Age 65

	1970		2018	
Male	12.50	➡	19.70	+7.2 yrs
Female	15.34	➡	24.50	+9.2 yrs

Source: Abridged life table by the Health, Labour and Welfare Ministry

### Increasing incidence of cancer and advances in medical technology drive the need for the latest coverage

#### Number of Cancer Patients



Source: Number of cancer patients in Japan by the Health, Labour and Welfare Ministry



## Aflac's Growth Opportunities Unrivaled by Competitors

**Market of over 21 million existing policies**



**Corporate group market built on employee benefits packages**



Approach to more than 30,000 groups

**Nationwide network of diverse sales channels**



9,000+ agencies



400+ walk-in shops

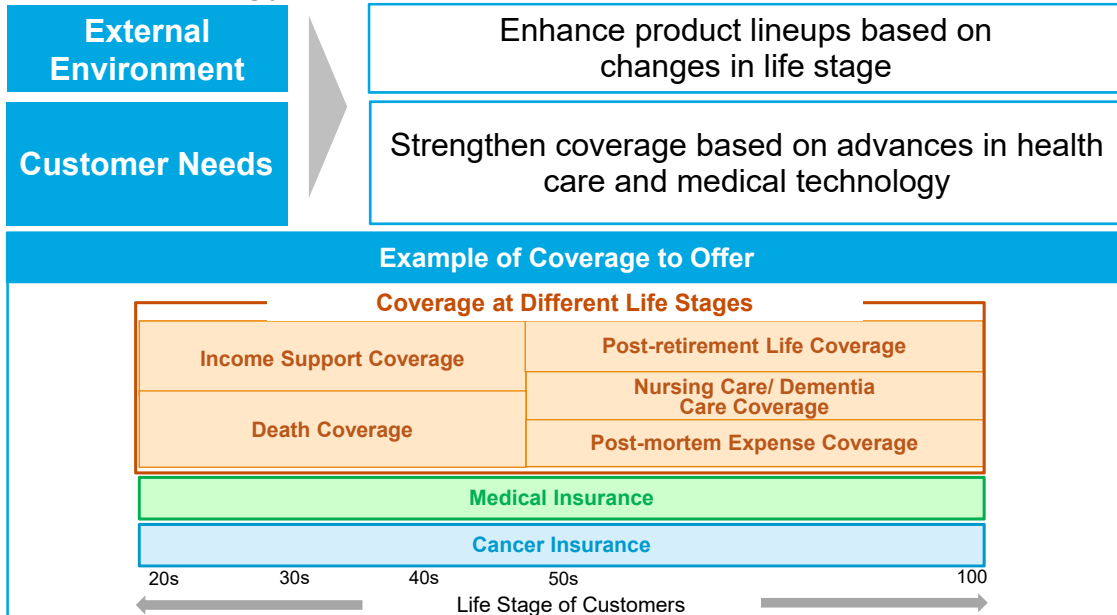


300+ banks



Strategic partners with 150,000+ sales agents

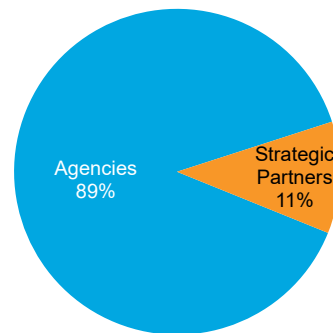
## Product Strategy



## Channel Strategy

Channel	Strategy
Agencies	<ul style="list-style-type: none"> <li>Better penetration of existing policyholders and corporate group markets</li> <li>Enhance support measures for strengthening management foundations and business frameworks</li> <li>Form an IT infrastructure for more efficient sales activities</li> </ul>
Japan Post	<ul style="list-style-type: none"> <li>Secure stable growth based on strategic alliance</li> </ul>
Dai-ichi Life	<ul style="list-style-type: none"> <li>Continue to maintain the long-standing, good relationship, provide training and other sales support to secure stable sales</li> </ul>
Daido Life	<ul style="list-style-type: none"> <li>Maintain good relationships by engaging the <i>Hojinkai</i> (Corporate Taxpayers Association) or SME market</li> </ul>
Financial Institutions	<ul style="list-style-type: none"> <li>Increase our shares by strengthening relationships, expanding the number of loaned employees and providing training programs</li> </ul>

¥904.6 Billion of Third Sector Annualized Premium In Force by Channel  
As of March 31, 2019



## Initiatives in the Agency Channel

Aflac's growth opportunities	Initiatives for sustainable growth
Market of over 21 million existing policies	<ul style="list-style-type: none"> <li>Agencies which have not thoroughly approached existing policyholders and agencies with more productive sales personnel will cooperate in developing a structure to approach existing policyholders</li> </ul>
Corporate group market built on employee benefits packages	<ul style="list-style-type: none"> <li>Provide products for corporate group members' benefits</li> <li>Simplify enrollment procedures through utilizing corporate intranet systems</li> </ul>
Increase of productivity in sales channels (agencies, walk-in shops)	<ul style="list-style-type: none"> <li>Enhance support measures that step into agency management for strengthening management foundations and business frameworks</li> <li>Increase the number of our productive walk-in shops</li> </ul>

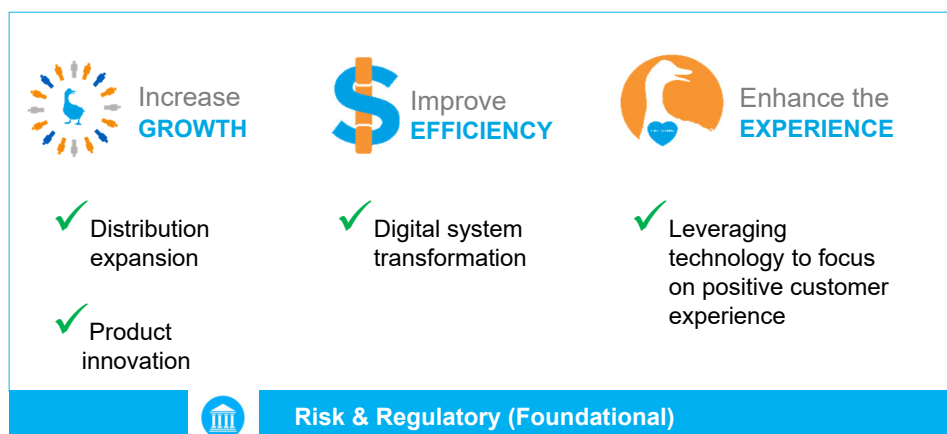


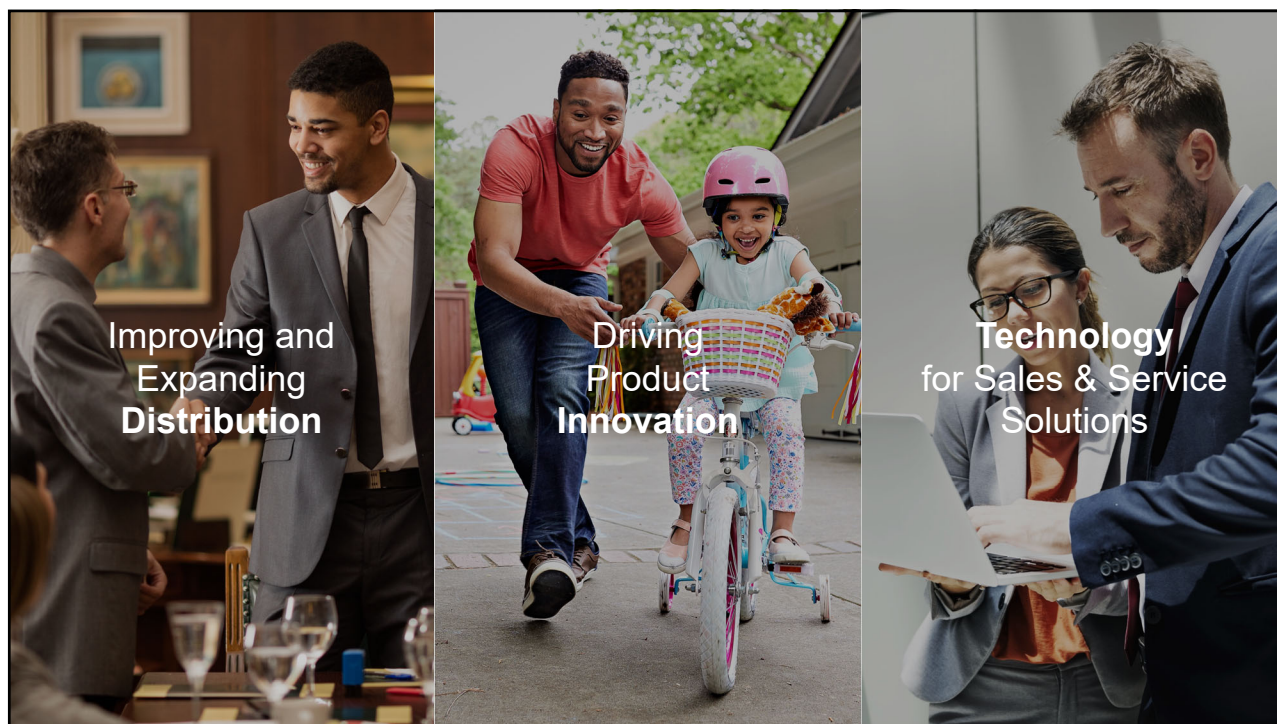
## Overview of Aflac U.S.

**Teresa L. White**  
President,  
Aflac U.S.

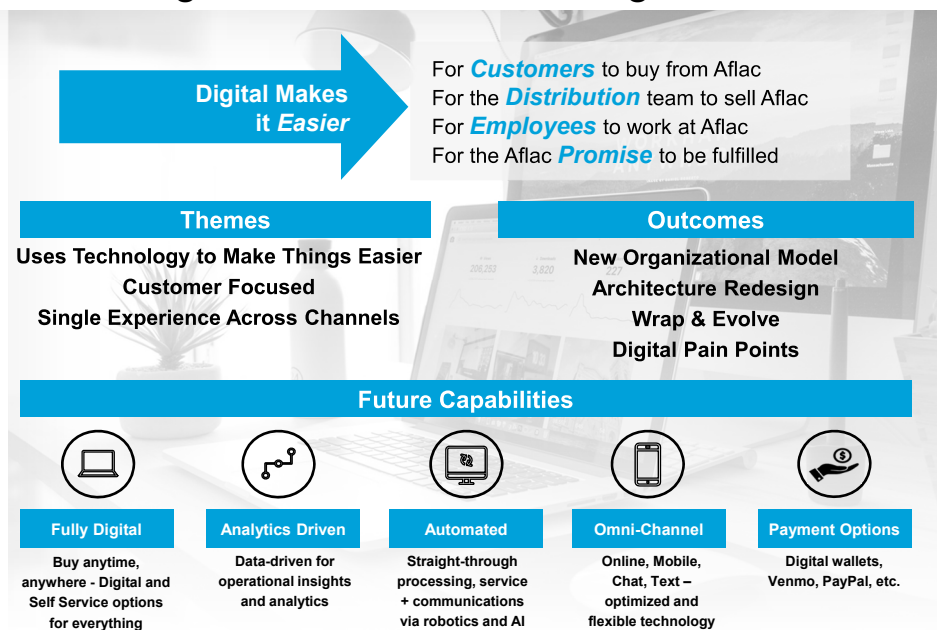


## We Continue to Execute Our Strategic Playbook Successfully





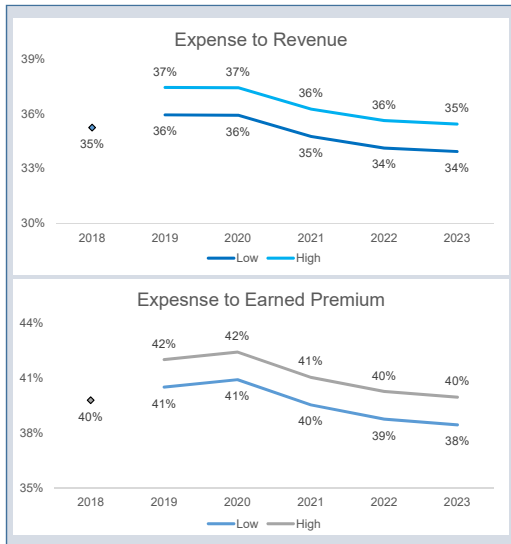
## Aflac U.S. Strategic Investments: One Digital Aflac





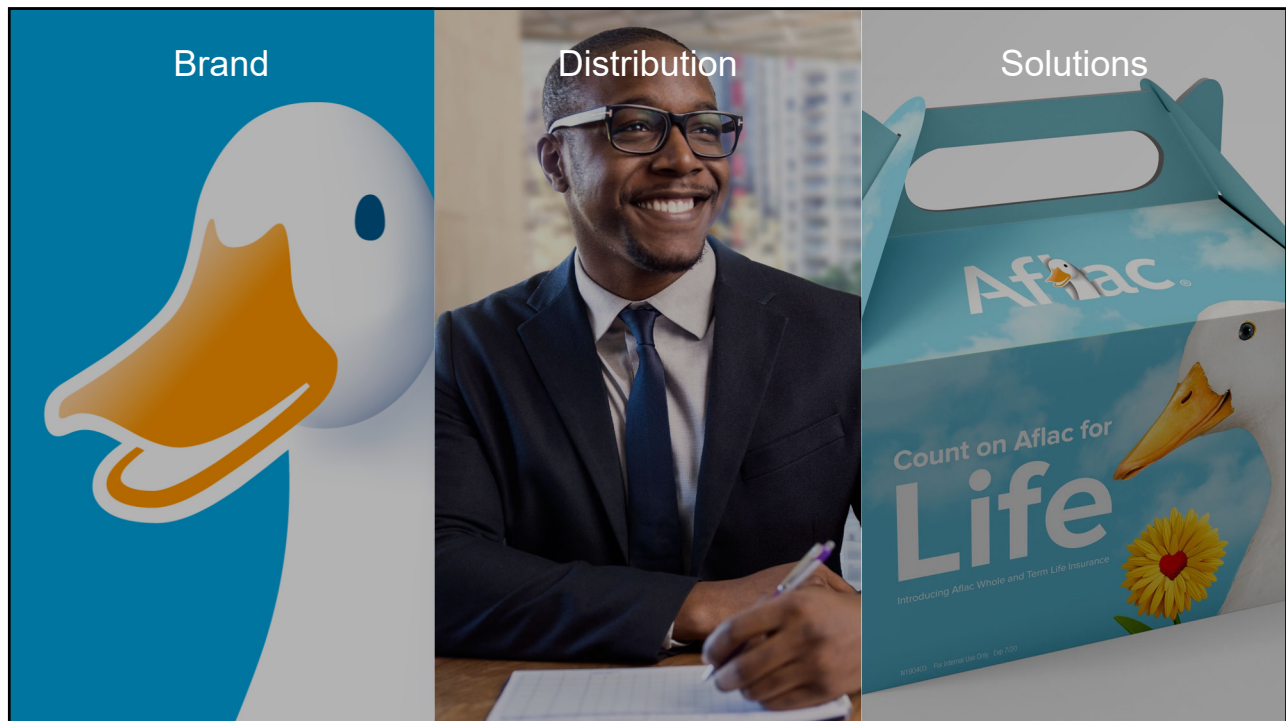
# Aflac U.S. Adjusted Expense Ratio Outlook

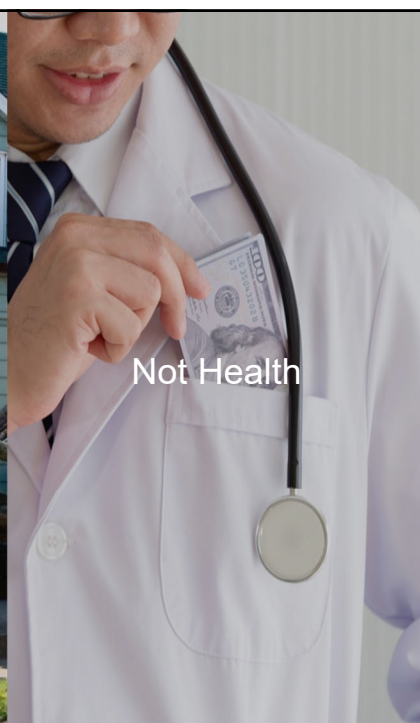
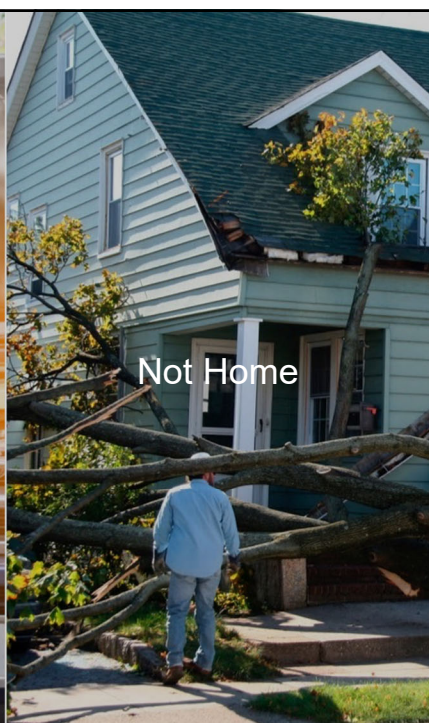
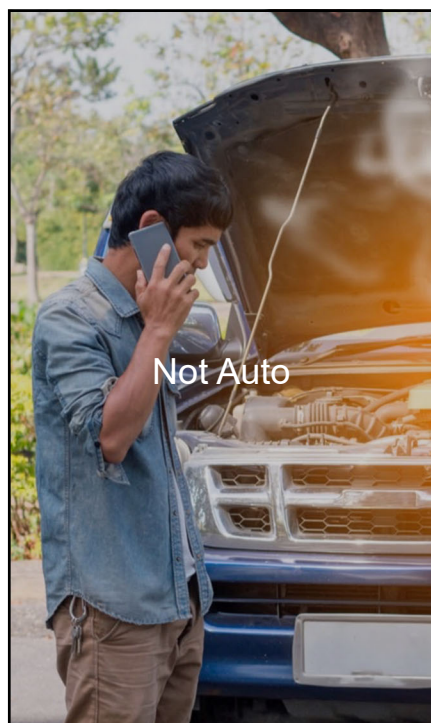
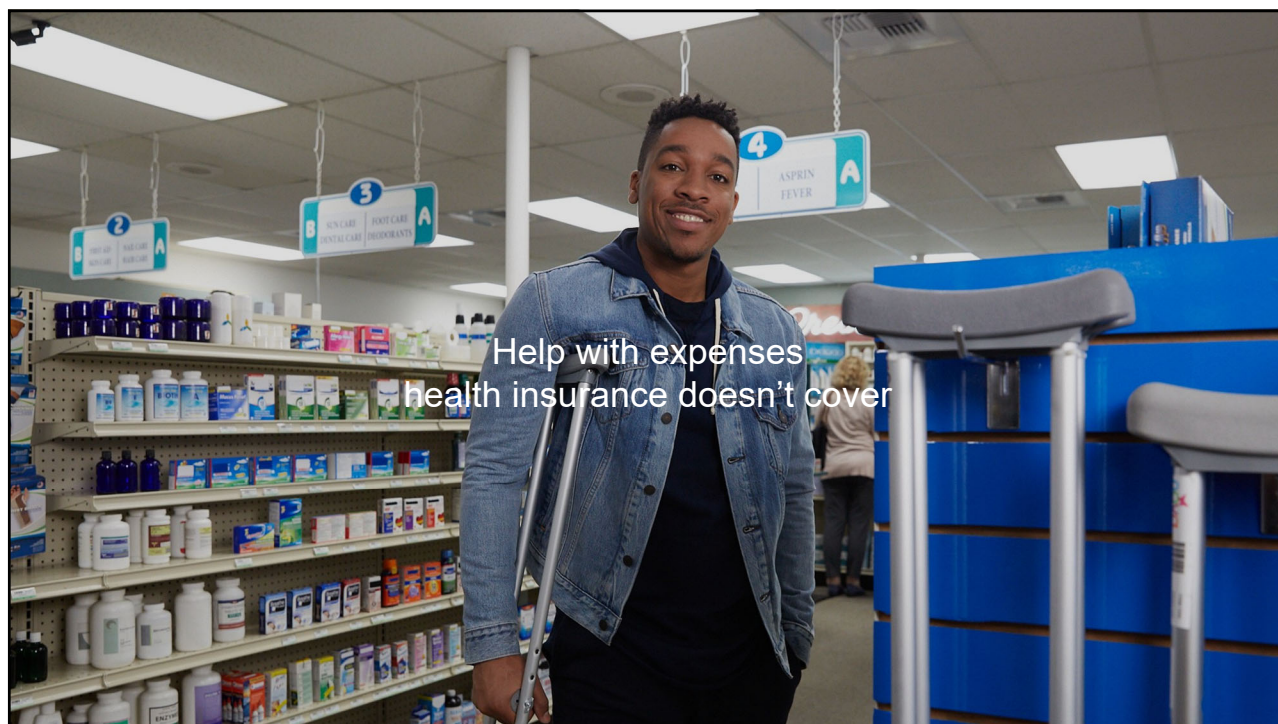
## Expense Ratio Outlook



## Adjusted Target

- Reflects investment in technology, One Digital Aflac and distribution
- Expect our expense ratio to peak in year 2020 in the range of 36 to 37% on a Revenue basis, and 41-42% on an Earned Premium basis
- Expect that our expense ratio will stabilize over time to the range of 34 to 35% on a Revenue basis, and 38 to 40% on an Earned Premium basis

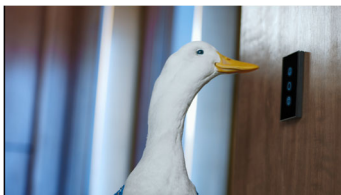
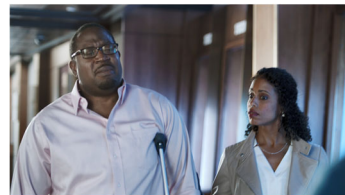
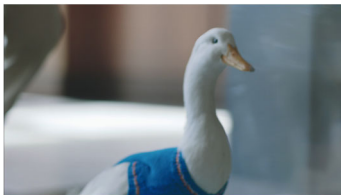








## The Campus Tour Commercial



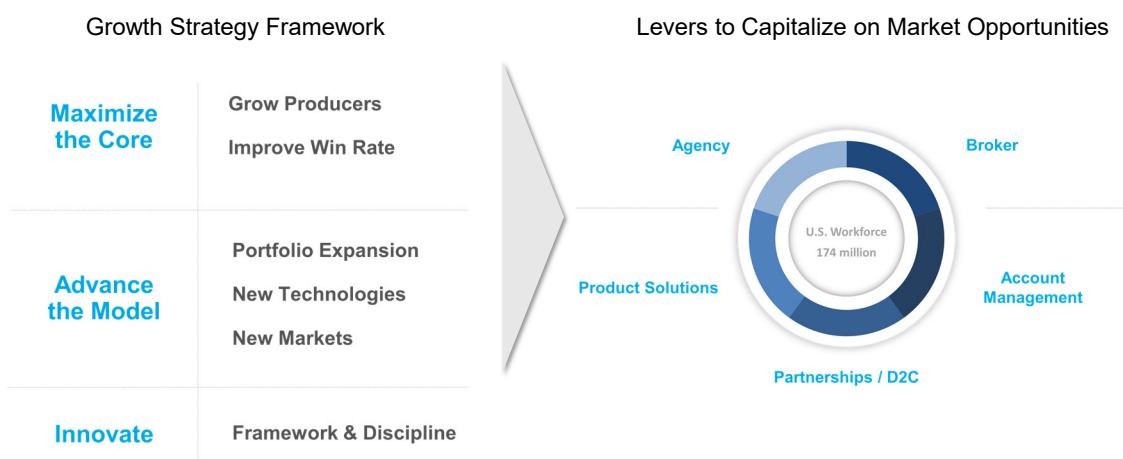


## The Comeback, Supplemented by Aflac...



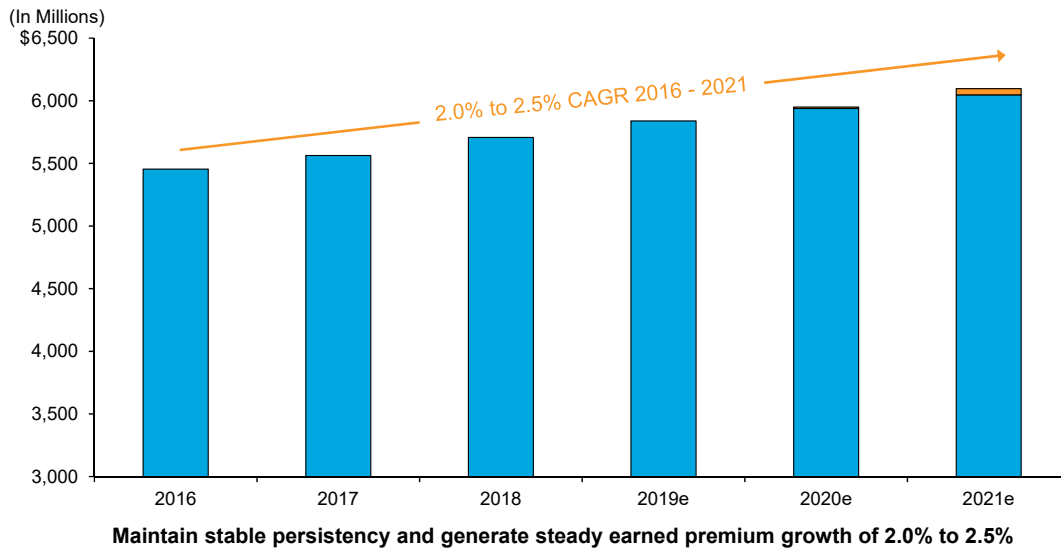
The Comeback is supplemented by Aflac, who helps you tackle the bills health insurance doesn't cover.

## Our Approach to Growth



## Outlook for Earned Premium<sup>1</sup> Growth

Focus on **Access, Participation** and **Retention**



<sup>1</sup>Earned premium calculated on net basis; i.e., after reinsurance.

## Aflac U.S. Growth Strategies

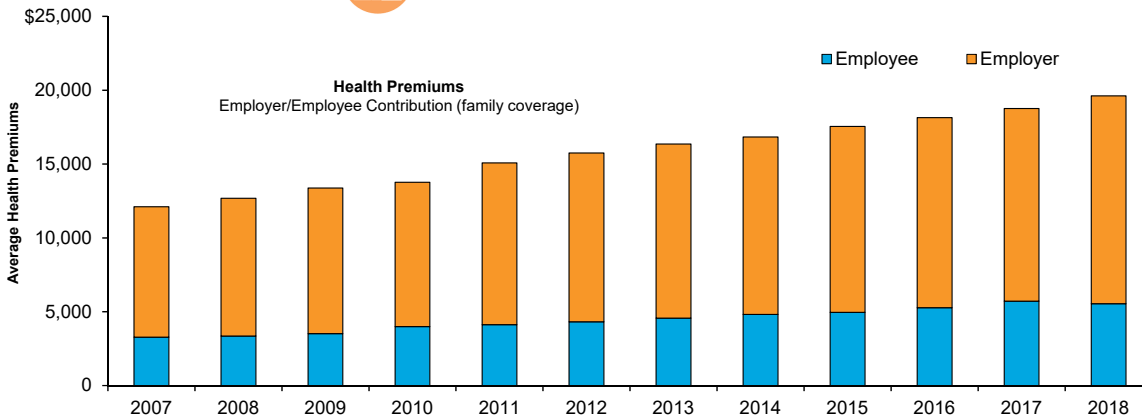
**Rich Williams**

Executive Vice President and  
Chief Distribution Officer

## Cost of Health Care Continues to Rise



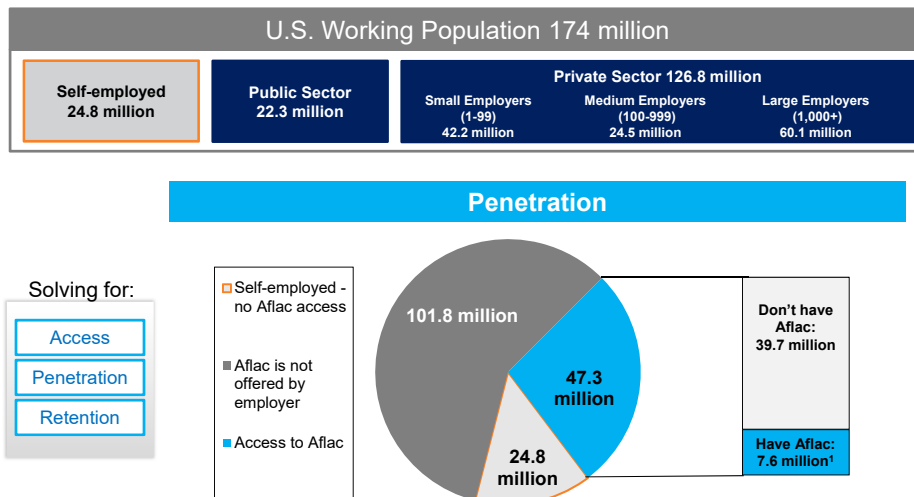
### Worksite Health Coverage



Average employee contribution for family coverage has increased 29% since 2012, while workers' wages increased only 14%.

Source: Kaiser Family Foundation Employer Health Benefits Survey, 2018; Kaiser/HRET Survey of Employer-Sponsored Health Benefits, 1999-2018

## Aflac's Significant U.S. Growth Opportunity



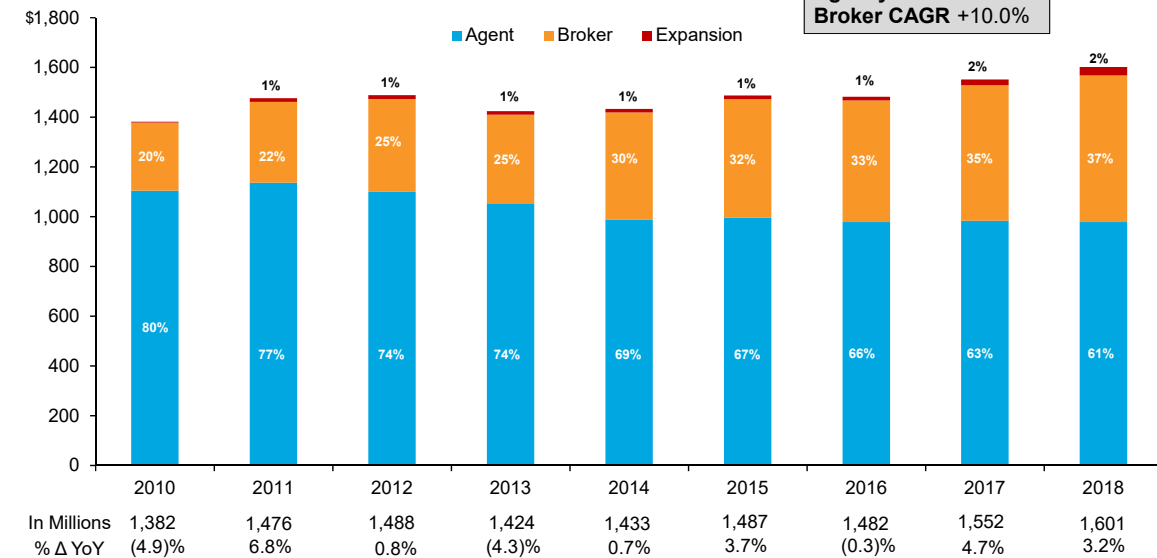
<sup>1</sup> Total Aflac policy and certificate holders as of Dec. 31, 2018; Source: 2016 U.S. Census Bureau; Bureau of Labor Statistics

## Aflac U.S. Strategic Growth Focus

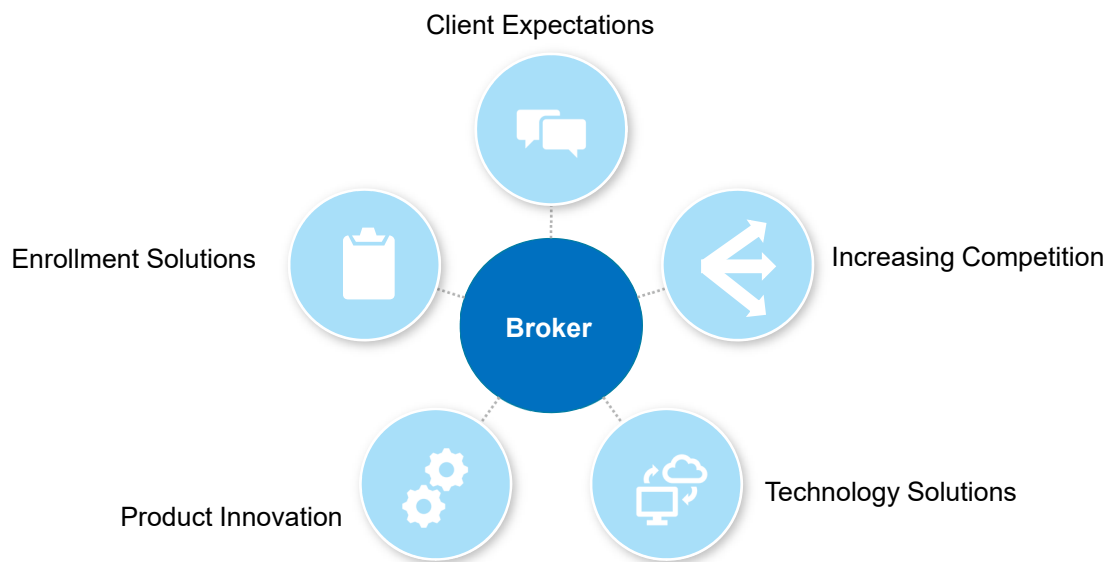


## Aflac U.S. Distribution Mix

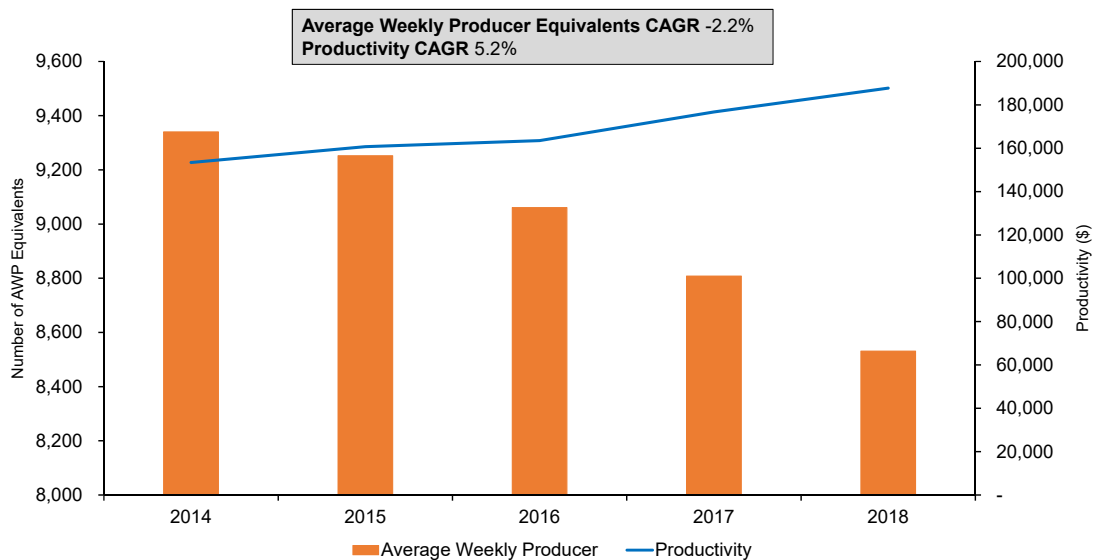
(New AP in Millions)



## Broker Sales Trends



## Producer Trends



## Enhancing Distribution Through Portfolio Expansion

### — Dental Industry View —

\$25.9 billion in-force  
\$2.9 billion new sales



3-Year 6% PPO CAGR



64% small business penetration



5-8% PPO profit margin



### — Aflac Strategic Rationale —

Market expansion opportunity

Deepen existing account penetration

Recruit and retain agents

Consistent financial profile

Source: LIMRA/NADP, Eastbridge; Deloitte

## Network Dental and Vision – Argus Acquisition

### GO-TO-MARKET STRATEGY

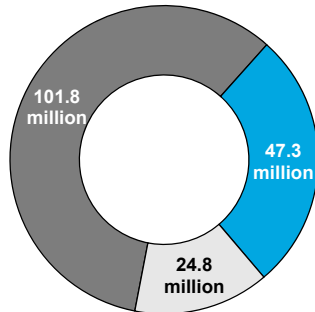
- Simplified offering through agents to **small businesses**
- Customized offering through brokers to **mid-large market**
- Direct to Consumer offers simplified products

### EXPECTED RESULTS

- Grow producers
- Accelerate small business growth
- Deepen broker network access
- \$300 to \$500 million in revenue over 5 to 7 years

## Increasing Access Through Distribution Expansion

126.6 million without access to Aflac



- Aflac is not offered to employee
- Access to Aflac at the worksite
- Self-employed - no Aflac access

35% of consumers prefer to purchase online, carrier direct

39% of consumers prefer alternative channels

Source: 2016 U.S. Census Bureau; Bureau of Labor Statistics; KL Consumer Community January 2017, Ask Your Target Market January 2017

## Consumer Markets Approach

### STRATEGY

- Direct-to-Consumer
- Aflac Brand
- Digital Platform
- Alliances / Partnerships

### EXPECTED OUTCOMES

- Access New Markets
- Increase Penetration
- Consistent Financial Profile



## **Aflac Global Investments Update**

**Eric M. Kirsch**

President, Aflac Global Investments

Executive Vice President

Global Chief Investment Officer

Aflac Incorporated



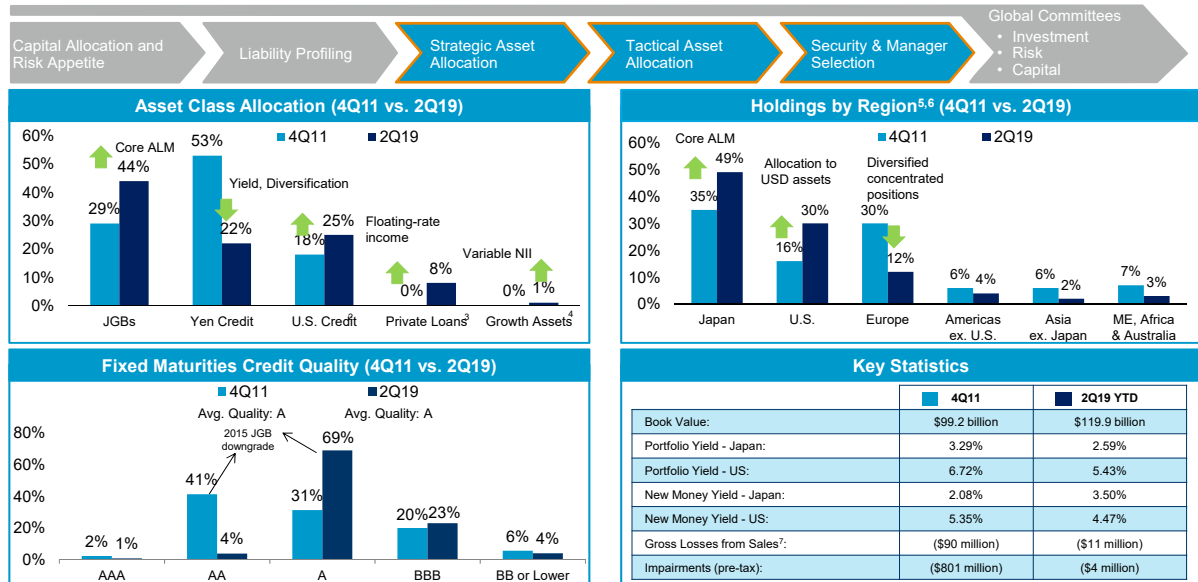
## 2019 Investment Themes

Theme	Strategy	Result
Disciplined Investment Process	SAA · TAA · ALM	Strong Performance: NMY <sup>1</sup> , NII Low losses and impairments
Navigating Low Yen Yields	Minimize JGB investments Favor higher yielding yen credit assets	Defend NII
Hedging Strategies	Hedged USD Program	Stable hedge costs Floating rate income protection
Grow Alternatives	Private Equity Real Estate Equity	Growing variable income
Protect the Portfolio	Prudent credit underwriting Up in quality bias	Higher quality, lower credit risk
Aflac Global Investments Growth Strategies	Leverage External Management Platform Aflac Corporate Ventures	Asset Manager Partnerships Partnership launched 3Q19

<sup>1</sup> New Money Yield

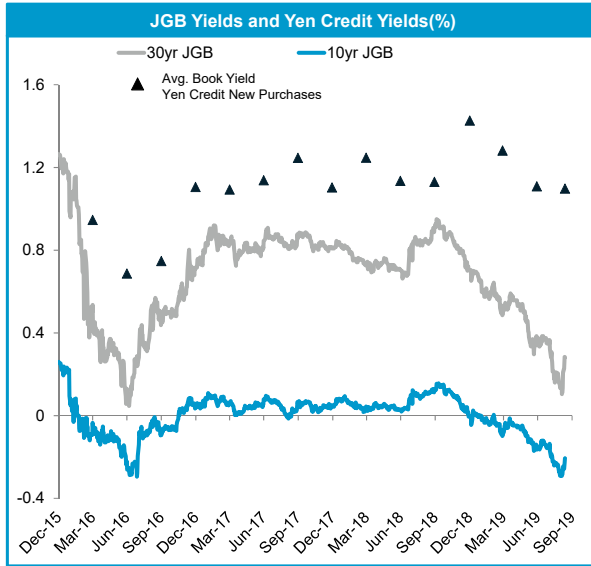
## Consistent Investment Process and Strong Performance<sup>1</sup>

Our balance sheet benefits from expanded asset allocation that includes private market assets, USD assets and geographically diverse investments

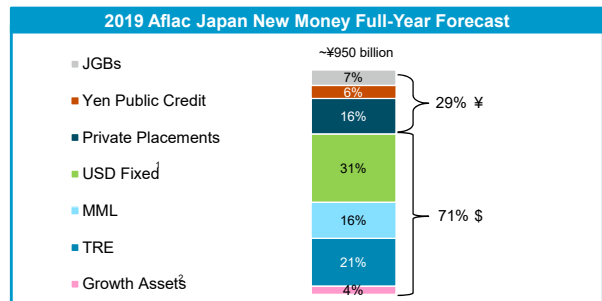


Note – Percentages may not add to 100 due to rounding 1 Excludes Corporate and Other segment 2 Includes IG corporates, munis and high yield 3 Includes bank loans, middle market loans, transitional real estate loans, commercial mortgage loans and infrastructure debt 4 Includes US equities, Japan equities and alternatives 5 Excludes equities, and alternatives 6 Supranational mapped to region of service 7 Excludes losses from equities and derivatives/other

# Navigating Japan's Low Interest Rate Environment



Note: Percentages may not add to 100 due to rounding  
 \*Includes IG Corporates, High Yield, and CMLs 2 Growth Assets includes both yen denominated and U.S. denominated assets



- Aflac Japan Cashflow Outlook ~ 3-5years**
- Lower new money to invest
    - Increased utilization of cash proceeds from operations
    - Declining maturities of legacy yen privates

- Investment Considerations**
- Strategic asset allocation target
    - Less than 30% yen allocation, focused on private and public credit
    - Modest USD program growth through re-investment

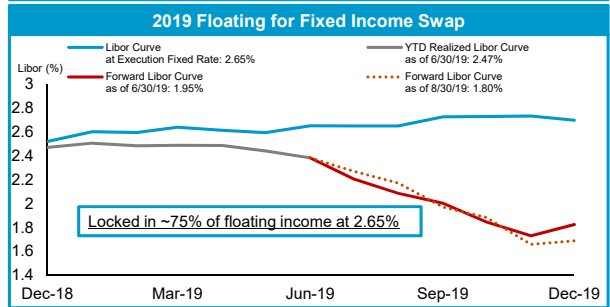
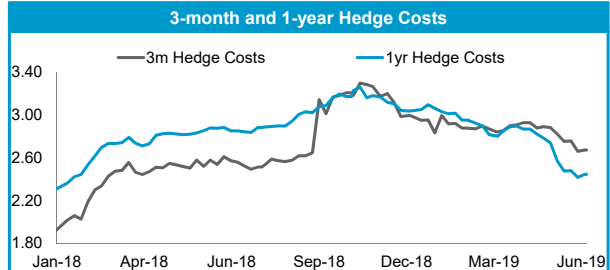
## Hedging Strategies

As of June 30, 2019

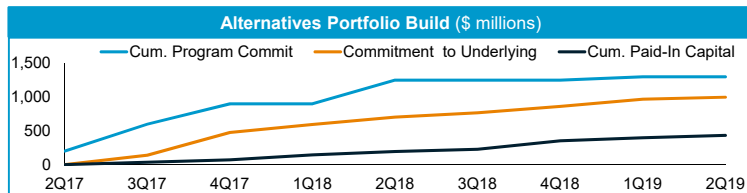
Three-Pronged FX Hedging Program			
	1 Short Hedges	2 Long Hedges	3 Unhedged
Assets	Floating	Fixed and growth	Fixed and growth
Asset Duration	3 months	7-10 years	7-10 years
Hedging Duration	3 month – 1 year forwards	3-5 year forwards	Collars (SMR)
Call outs	<ul style="list-style-type: none"> <li>Income correlates to hedge costs</li> <li>Stable net margin</li> <li>Nil Hedge &amp; HC Term Out</li> </ul>	<ul style="list-style-type: none"> <li>Locked-in hedge cost</li> <li>Credit spread</li> </ul>	<ul style="list-style-type: none"> <li>Aligns to stressed economic value of Aflac Japan</li> </ul>

USD Portfolio Key Metrics (\$ billions)							
	Assets		Hedges				
	MV (\$,B)	Dur (yrs)	Fwds (\$,B)	Dur (yrs)	Collars (\$,B)	% HC	% HR
Total	26.9	6.3	9.1	0.9	11.9	2.83%	34%
Group 1	6.7	0.3	6.8	0.4	-	3.08%	-
Group 2	2.4	8.0	2.3	2.3	-	2.14%	-
Group 3	17.9	8.3	-	-	11.9	-	34%

Note: Collars are struck out of the money, providing tail risk protection

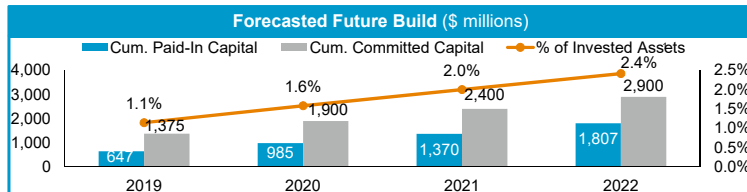


## Alternatives Portfolio Growing



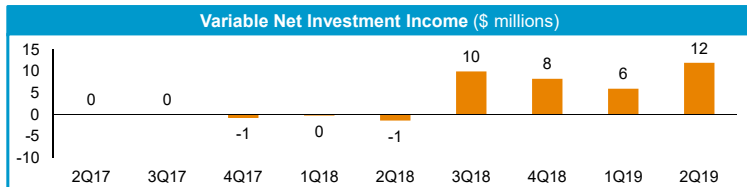
### Private Equity Investing Cycle

- Systematic annual program commitments
- Selective manager additions
- 3-7 year average call cycle



### Vintage Year Diversification

- Annual commitments paced
- Manager and strategy additions market dependent

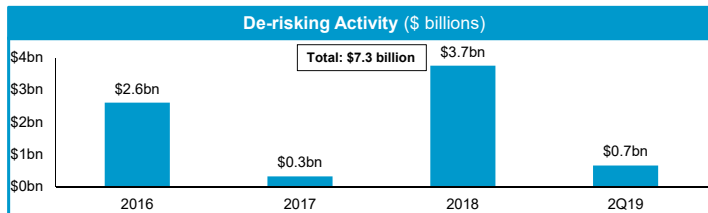


### Performance

- J-curve mitigation strategy
- Co-investments outperformed
- Variable income growing

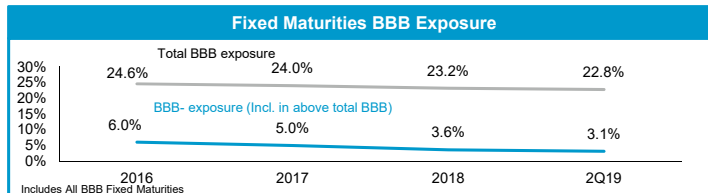
Note – Forecasted Future Build is subject to market changes and conditions. 1 Percentage of invested assets is based on cumulative committed capital and assumes constant balance sheet

## Protect the Portfolio



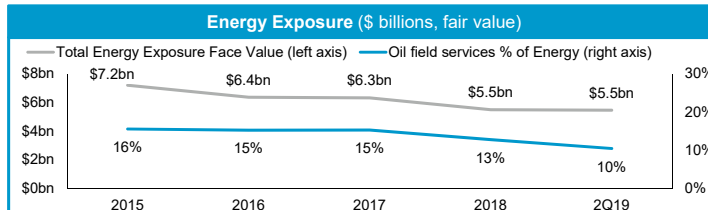
### Over \$7 billion of Tactical De-risking

- Reduced energy exposure
- Sold BBB corporates, purchased AA tax-exempt munis
- Reduced legacy private placements
- Improved quality of BBB exposure
- Selective relative value trades



### Our BBB Exposure Has a Conservative Bias

- 27% of BBBs are split rated with one A rating
- Average public BBB- position is \$25 million
- Over 1/3 of BBB- exposure matures within five years
- 11% of BBB- holdings are HY cross-over names



### Reduced Energy Exposure by ~24%, \$1.7 billion

- Reduced weaker subsectors, such as Drillers
- Over 70% of BBB energy holdings have positive or stable outlooks
- 20% of energy exposure is in sovereign-linked entities
- Average rating of energy holdings is BBB+

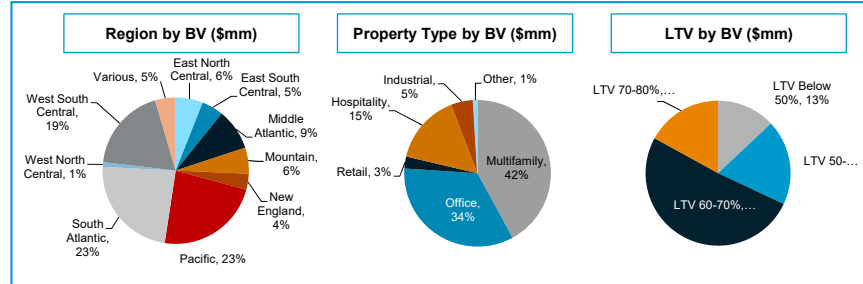
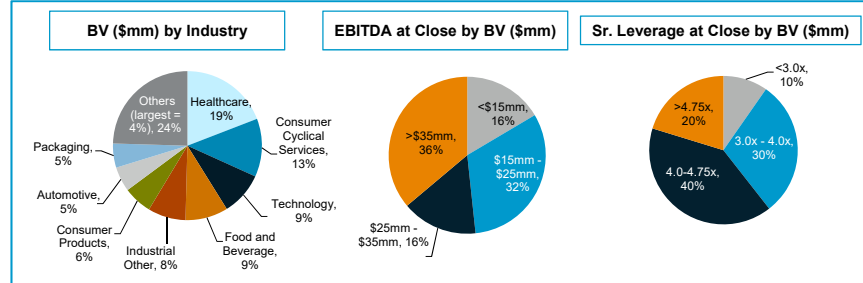
# Private Floating Rate Loan Portfolios

As of June 30, 2019

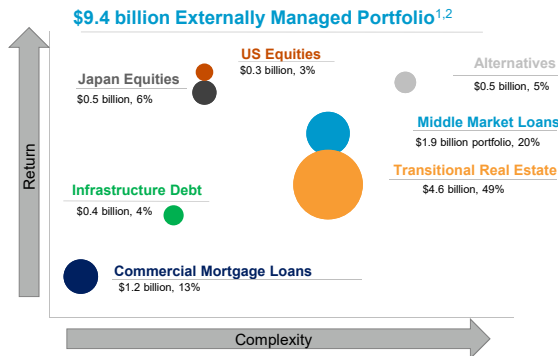
Disciplined credit underwriting focused on senior secured first lien loans

Middle Market Loans	
Book Value Outstanding (\$mm)	\$1,900
Unique Issuers	198
Average Loan Commitment Size (\$mm)	\$11
Largest Loan in Portfolio (\$mm)	\$33
Weighted Average Spread over LIBOR	467bps
Book Yield (Gross)	7.30%
Average Loan Rating	B+

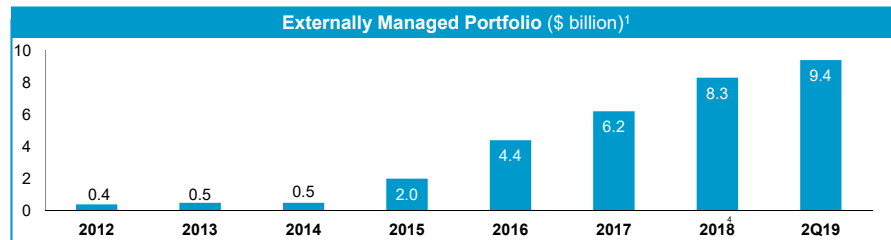
Transitional Real Estate	
Book Value Outstanding (\$mm)	\$4,591
Unique Issuers	127
Average Loan Commitment Size (\$mm)	\$41
Largest Loan in Portfolio (\$mm)	\$178
Weighted Average Spread over LIBOR	338bps
Book Yield (Gross)	5.86%
Average Loan Rating	BBB



## External Management Platform Accesses Income Enhancing Strategies



- External Management Platform delivers alpha complementing our core ALM strategy
- Dedicated and specialized 8 person team<sup>3</sup> with over \$9B in AUM and on average 17 years of experience
- Provides insights into new investments, reviewed over 400 asset managers
- Led growth in loan portfolio and equity investment in NXT
- Developed in-house alternative funds selection
- 16 mandates with 12 asset managers



<sup>1</sup> Book Value  
<sup>2</sup> As of June 30, 2019  
<sup>3</sup> Includes senior management  
<sup>4</sup> Bank Loans brought in-house in July 2018

# Global Investments Growth Strategies

*Our strategy is to identify and invest in specialized asset managers that complement our balance sheet, diversify our revenue streams and have equity growth potential*

1

## Aflac Global Investments established a world class investment platform

- Successful 8 year track record of superior performance during a difficult market environment
- Lead by a talented senior investment team with an average of 30 years' experience in NY and Tokyo
- Core competencies include Credit, FX hedging, SAA, TAA, and private loans
- Sophisticated External Management Platform

2

## "Lower for longer yields" will require strategic focus and capital investment

- Set course to enhance portfolio return to support our SAA
- Private market and alternative strategies will continue to grow and provide performance opportunities
- There will be growing demand to form strategic partnerships with asset owners

3

## Aflac GI can identify compelling investment opportunities by leveraging our core strengths

- Ample capital and stable liabilities, provide long-term orientation
- Leverage our EMP expertise to access hundred of asset managers
- Partner with high quality firms with long-term growth potential
  - Team lifts, joint ventures, equity stakes

4

## Aflac GI will seek out additional growth opportunities

- Aflac Corporate Ventures – asset management innovation
- Explore new product development

*Strategy will enable us to defend NII and grow Asset Management earnings; potential for growth in equity value*

# Well-Positioned for Continued Growth



## Diversified Asset Manager

Broaden core and EMP capabilities with

- New asset classes
- Additional top-tier managers
- Dedicated sector specialists

## Expand Opportunity Set

Grow Aflac Global Investments' footprint by

- Increase asset class specialization
- Expand partnerships with specialized asset managers
- Adopt asset management innovation

## Significant Contributor to Shareholder Value

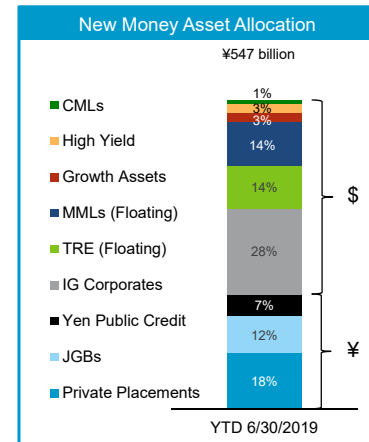
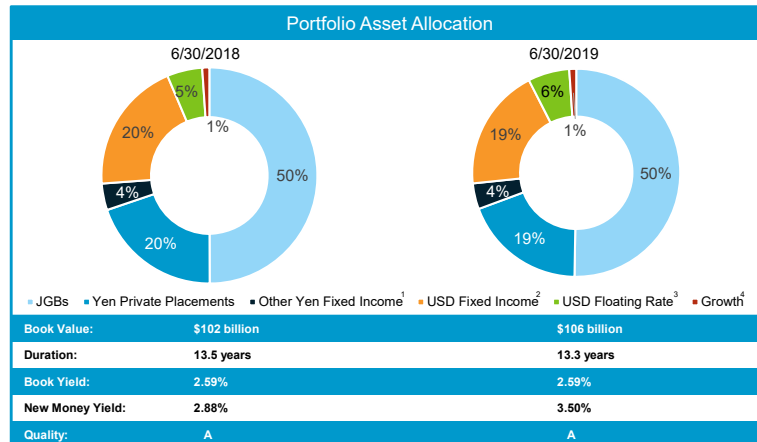
Create shareholder value through

- Defending and growing NII
- Increasing and diversifying revenue streams
- Realizing appreciation of equity investments

# Appendix

## Aflac Japan Portfolio Asset Allocation

Based on U.S. GAAP Book Value



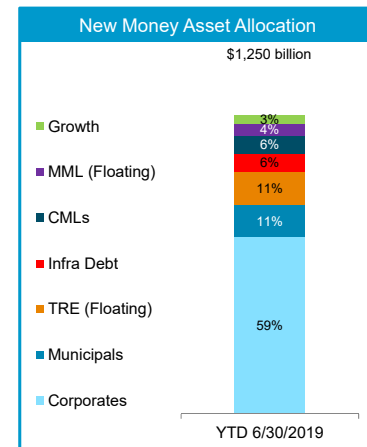
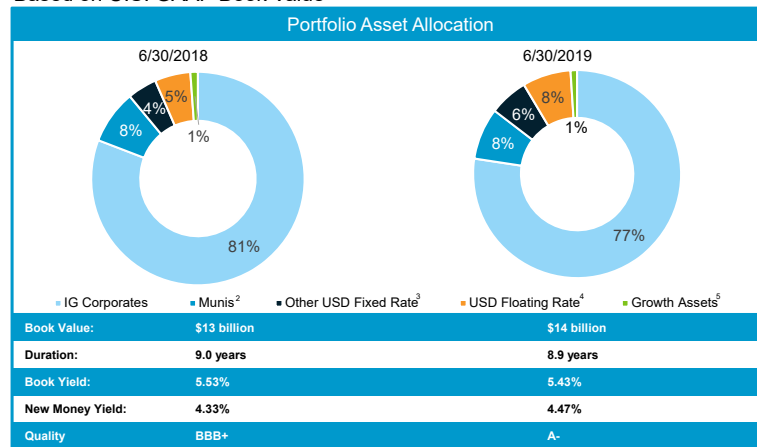
### Asset Allocation Highlights

- New money allocated 63% to USD denominated assets; 37% to yen-denominated assets
- 28% of new money allocated to floaters
- Modest pacing of growth assets – 3%

Note: Percentages may not add to 100 due to rounding <sup>1</sup>Includes RMBS, Municipal Bonds, Corporate Bonds <sup>2</sup>Includes HY Corporates, CMLs, Infrastructure <sup>3</sup>Includes Transitional Real Estate, Middle Market Loans, Bank Loans, Infrastructure (floating) <sup>4</sup>Includes Japan/US Equity and Alternatives

# Aflac U.S. Portfolio Asset Allocation<sup>1</sup>

Based on U.S. GAAP Book Value



**Asset Allocation Highlights**

- 52% of new money allocated to IG Corporates
- 15% of new money allocated to floaters
- Modest pacing of growth assets – 3%

Note: Percentages may not add to 100 due to rounding. <sup>1</sup>Aflac US Segment; excludes Aflac Inc. and CAIC Retrocession <sup>2</sup>Includes Tax Free and Taxable Munis <sup>3</sup>Other USD fixed rate includes Government, Agency (foreign and supranational), CMLs, Infrastructure, and High Yield Corporates <sup>4</sup>USD floating rate includes Middle Market Loans, Transitional Real Estate <sup>5</sup>Includes US Equity and Alternatives



## Financial Outlook and Capital Management

### Max K. Brodén

Senior Vice President;  
Deputy Chief Financial Officer and Treasurer;  
Head of Corporate Development,  
Aflac Incorporated

## Aflac Japan: Strength in Core Margins<sup>1</sup>

Aflac Japan			
	1H 2019	2019e	2019e – 2021e
	Total	Total	Total
Benefit Ratio <sup>2</sup>	69.0%	~69.0 - 69.5%	68.5 - 70.5%
Expense Ratio <sup>3</sup>	20.3%	~21.0 - 21.5%	20 - 22%
Pretax Profit Margin	21.9%	~21.0 - 21.5%	20 - 22%
Revenue CAGR (-1.5 to -2.5%)			
Considerations			
<ul style="list-style-type: none"> <li>• Business mix</li> <li>• IT and digital investments</li> </ul>			

<sup>1</sup> Based on current U.S. GAAP

<sup>2</sup> Benefit ratio measured to earned premium

<sup>3</sup> Expense ratio measured to total revenue



## Aflac U.S.: Stable Profit Margins<sup>1</sup>

Aflac U.S. <sup>2</sup>			
	1H 2019	2019e	2019e – 2021e
	Total	Total	Total
Benefit Ratio <sup>3</sup>	49.7%	~50%	49 - 51%
Expense Ratio <sup>4</sup>	35.6%	~36.5%	35 - 37%
Pretax Profit Margin	20.2%	~19%	19 - 21%

Revenue CAGR ~ 2%

Considerations
<ul style="list-style-type: none"> <li>Business mix</li> <li>IT and digital investments</li> <li>Excess capital drawdown</li> </ul>

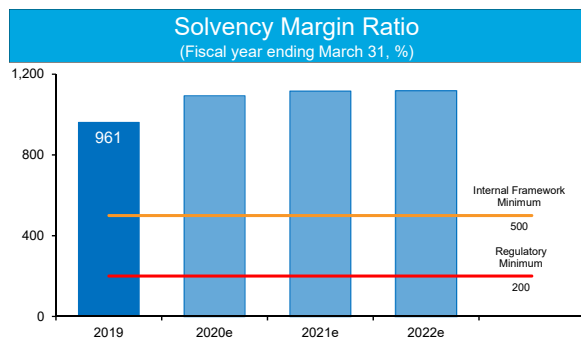
<sup>1</sup> Based on current U.S. GAAP

<sup>2</sup> Excludes Argus

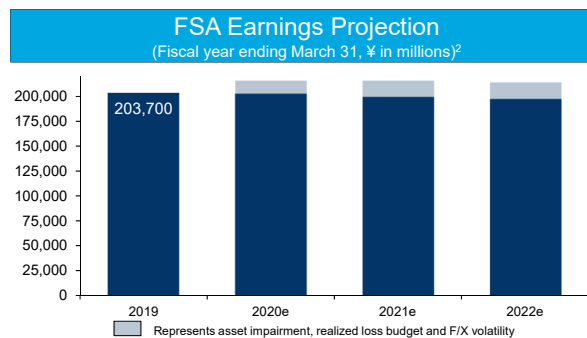
<sup>3</sup> Benefit ratio measured to earned premium

<sup>4</sup> Expense ratio measured to total revenue

## Aflac Japan Capital and FSA Earnings



SMR Sensitivity as of June 30, 2019 (% points <sup>1</sup> )	
Yen rates +1%	(58)
Dollar rates +1%	(47)
Yen strengthens +10	(76)
Credit spreads +1%	(82)



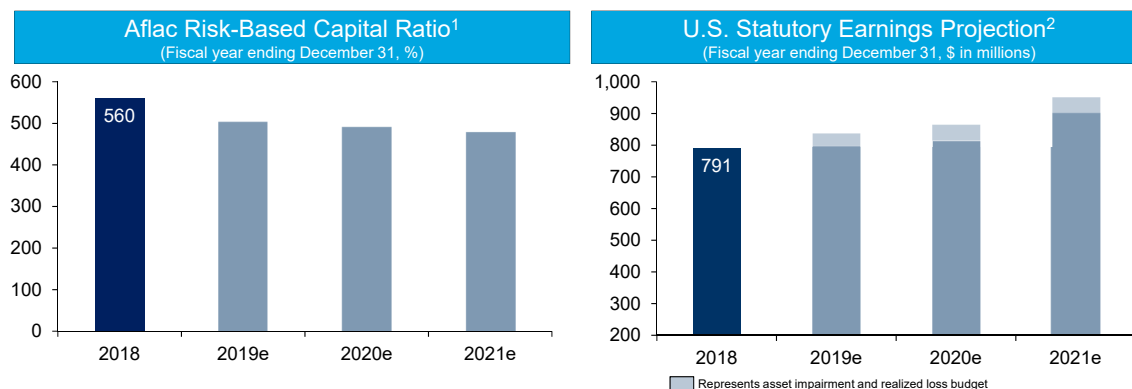
### Dividend Policy: 80% - 100% of FSA Earnings

- AFS portfolio and foreign currency influences SMR, FSA earnings and ultimate dividend capacity:

Retained earnings  
+ Other capital reserve  
- Unrealized after-tax net loss on AFS  
Dividend capacity

<sup>1</sup> SMR sensitivities to rates, spreads and currency movement are not linear <sup>2</sup> Assumes average exchange rate of 110 ¥/\$

## Aflac U.S. Capital and Statutory Earnings



### Considerations

- 2019 - 2020 annual statutory net earnings run-rate of \$800 to \$850 million
- Ordinary dividend of 80% - 100% of U.S. statutory earnings

<sup>1</sup> RBC ratio for American Family Life Assurance Company of Columbus; projections exclude the impact of proposed C-1 changes

<sup>2</sup> U.S. statutory earnings excluding Aflac Japan and includes Aflac (Columbus) and CAIC (Aflac Group)

## Expected Impacts of LDTI on U.S. GAAP Financials

Aflac Japan's \$35 Billion of Cancer In Force Drives a Unique Impact

### Adoption Update:

- Likely to adopt modified retrospective
- Anticipate adoption first quarter 2022
- Implementation costs of \$60 million from 2019 to 2021

### Impact Analysis

#### Income Statement Impact:

- » Increase in nearer term earnings from lowering net premium reserve ratio

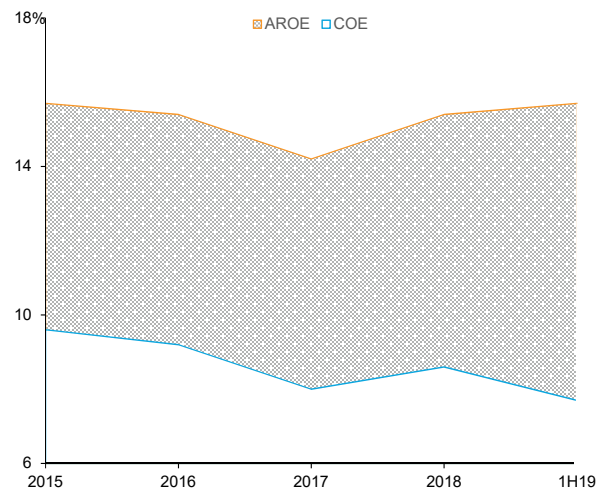
#### Balance Sheet Impact: (upon transition, assuming current rate environment)

- » AOCI – significant unrealized loss on discount rate applied to Japan liabilities
- » Asset Gains - No offset from unrealized gains on approximately \$31 billion of Japan HTM assets
- » ALM - Japan cancer accelerates rate loss component without associated morbidity gains

### Economic Value impact - Zero

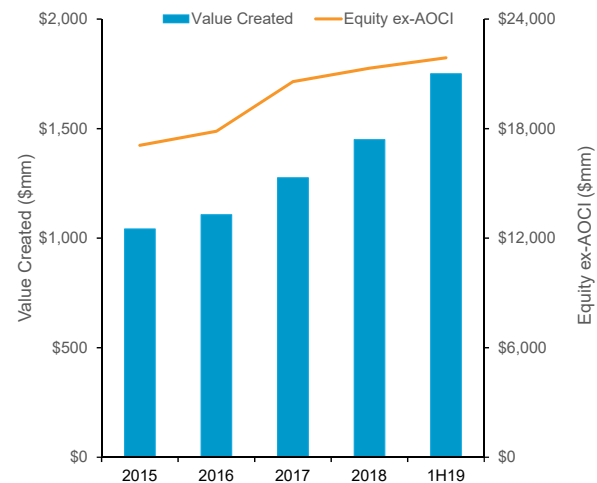
- No impact to statutory capital or earnings in U.S. or Japan
- No impact to holding company cash flow and excess capital and liquidity
- No impact to gross premium valuation (GPV) margins which take into account all cash flows

## Value Creation<sup>1</sup>



- Stable differential between adjusted return on equity and cost of equity

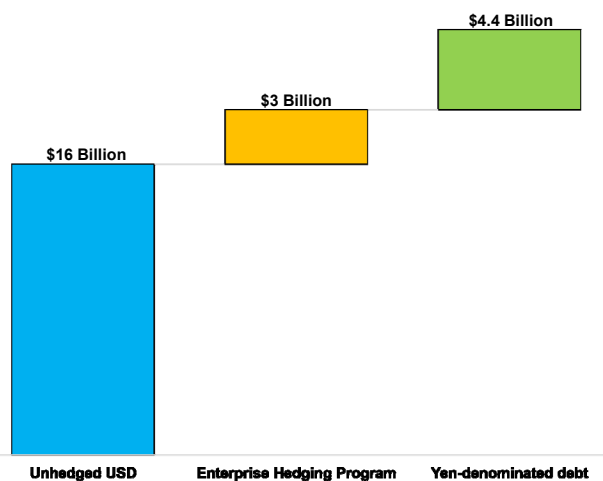
<sup>1</sup>Value created = (AROE – COE) \* equity ex. AOCI



- Building equity and creating value, as measured by the product of equity and the differential between AROE and COE

## Lowering Enterprise Exposure to Currency

Economic Hedge: Protecting current and future distributions of Japan's economic value



### Hedging Real Economic Events

- Cash flows from the foreign subsidiary, Aflac Life Insurance Japan, to the holding company
- Future expected cash flows on a present value basis

	Constraints
Unhedged USD	FSA earnings and SMR volatility
Enterprise Hedging Program	Holding company liquidity
Yen-denominated debt	Japan debt capital market conditions

## Aflac Incorporated Strong Capital & Liquidity

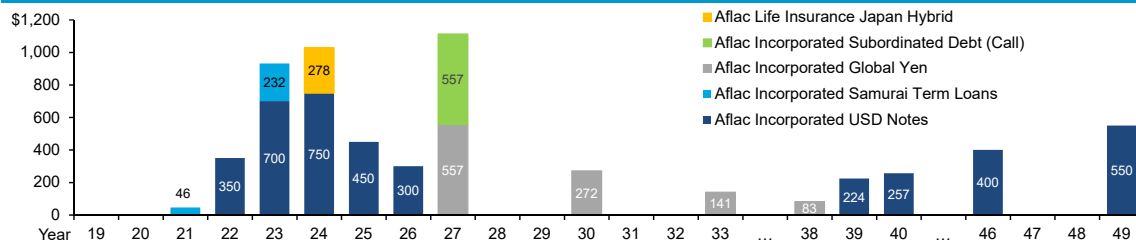
### Capital Structure and Liquidity Objectives

- Maintain strong capital ratios and investment grade ratings
- Support nimble investment in our strategic growth objectives
- Balanced shareholder distribution policy
- Defend low cost of capital
- Optimize yen and dollar financing mix while managing duration
- Maintain leverage ratios within our current ratings

### Aflac Incorporated Liquidity

\$mm	2017	2018	2019e
Operating Cash <sup>1</sup>	\$2,683	\$2,765	\$3,664
- Capital Buffer <sup>2</sup>	\$1,000	\$1,000	\$1,000
- Liquidity Support <sup>2</sup>	\$500	\$1,000	\$1,000
Cash Available to Shareholders <sup>3</sup>	\$1,183	\$765	\$1,664

### Notes Payable Maturity Profile<sup>4</sup> (In millions)



<sup>1</sup>Total cash less non-operating cash

<sup>2</sup>Balance based on internal policy

<sup>3</sup>Net cash that may be deployable to shareholders at a given time

<sup>4</sup>As of 6/30/2019. USD notes based on issuance amount

## Financial Focus

### Earnings profile

Low risk liabilities – Lowered asset risk – Stability in margins and cash flows

### Risk reduction

Strong capital ratios – Reduced FX exposure – Reduced investment risk

### Modeling

LDTI – Economic modeling – Capital allocation

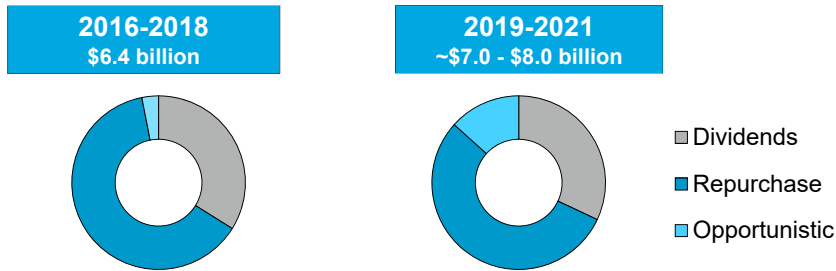
### Economic Value-Based Criteria



## **Growth Investments & Capital Allocation**

**Frederick J. Crawford**  
Executive Vice President;  
Chief Financial Officer,  
Aflac Incorporated

## Capital Deployment Under Stable Conditions

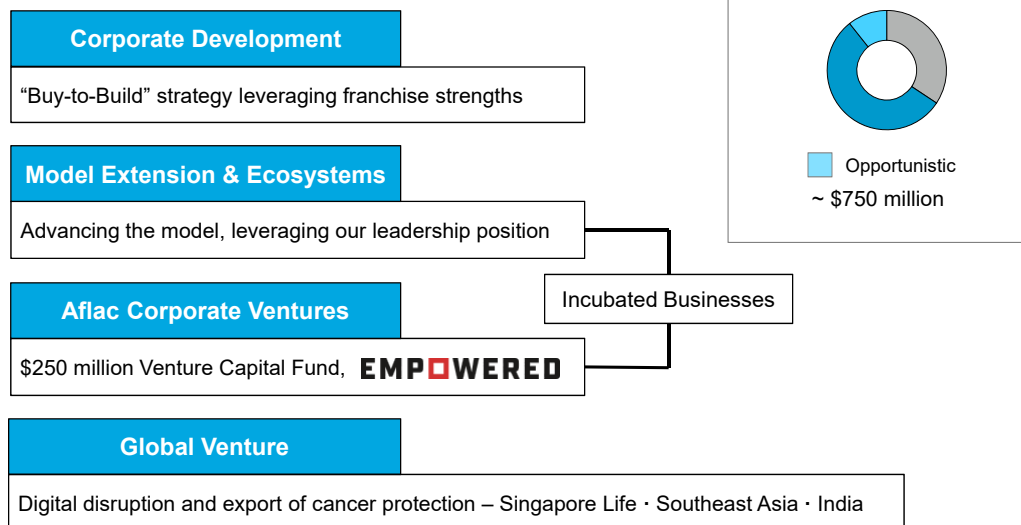


### Considerations







- Run-rate annualized insurance subsidiary dividends of \$2.0 billion to \$2.5 billion<sup>1</sup>
- Deployable capital defined as excess capital after reinvestment in core insurance businesses
- 2019-2021 deployable capital range includes U.S. capital drawdown of ~\$500 million in 2019
- Opportunistic represents amounts available for incremental growth investments

<sup>1</sup>Assumes average exchange rate of 110 ¥/\$ and provision for asset impairments; excludes dividend of excess U.S. capital in 2019.

## Opportunistic Capital Deployment



## Corporate Development – “Buy to Build”

2009	2015	2019 (Pending)
		
<b>Purchase Price:</b> \$100 million	<b>Purchase Price:</b> \$40 million	<b>Purchase Price:</b> \$96 million <sup>1</sup>
<b>Strategic Rationale:</b> <i>Entry into the supplemental group insurance business</i>	<b>Strategic Rationale:</b> <i>Tech platform supporting small business HR solutions</i>	<b>Strategic Rationale:</b> <i>Entry into the network dental and vision market</i>
		
Quality platforms with domain expertise leveraging the power of Aflac's franchise		

<sup>1</sup>Includes \$21 million in contingency payments. Subject to regulatory approval – forecasted to close 4Q 2019.

## New Business Incubation

~\$200mm of allocated capital through 2021  
with measurable revenue contribution in 2022

Leveraging Leadership in an Ecosystem



Cancer in Japan

Advancing the Model:  
Business Incubation

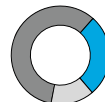


Japan Consumer  
Markets (Digital)



U.S. Small Businesses  
HR Solutions

126.6 million without access to Aflac

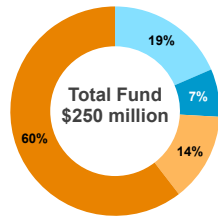


U.S. Consumer  
Markets (Digital)

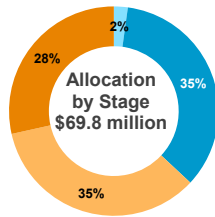
■ Aflac is not offered to employee  
■ Access to Aflac at the worksite  
■ Self-employed - no Aflac access

Source: 2016 U.S. Census Bureau; Bureau of Labor Statistics

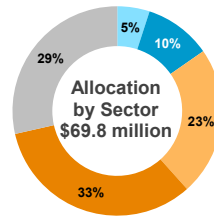
## Aflac Venture Fund - \$250 million



Direct Investment	\$49.9M	19%
Fund Investment	\$19.9M	7%
In process	\$37.0M	14%
Remaining funds	\$143.2M	60%

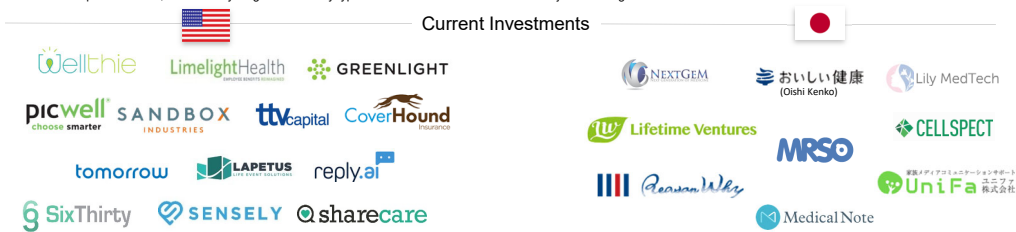


Seed	\$1.5M	2%
Early Stage	\$24.3M	35%
Late Stage	\$24.1M	35%
External Fund	\$19.9M	28%



Customer Support	\$3.5M	5%
Benefit (Cancer) Ecosystem	\$7.2M	10%
Distribution/Enrollment	\$16.1M	23%
Health/Wellness	\$23.1M	33%
External Funds	\$19.9M	29%

Note: As of September 2019; allocation by stage and security type are as of time of investment and subject to change.



## Global Ventures

**SingaporeLife** \$36 million investment



### Aflac's Long-Term Objectives

- Gain exposure to growing Southeast Asia and India digital insurance markets
- Partner with a digitally focused platform seeking to disrupt traditional models
- Export our cancer insurance expertise via reinsurance partnership
- Limit capital-at-risk and commitment of Aflac management time and energy
- Singapore Life: focused on building-out its presence in Singapore with a desire to expand throughout Southeast Asia



## Financial Overview

### Strategic Outlook

- **Investments:** De-risking while defending net investment income
- **Margins:** Stable profit margins while funding growth and digital initiatives
- **Tactical:** Building opportunistic capital and reducing enterprise FX exposure
- **Accounting:** LDTI adoption, rating agency dialogue, and disclosures
- **Capital Deployment:** Balanced with shift toward growth investments

Guided by Growth & Stability of Economic Value



## Appendix

### Glossary of Non-U.S. GAAP Measures

The Company defines adjusted earnings (a non-U.S. GAAP financial measure) as the profits derived from operations. The most comparable U.S. GAAP measure is net earnings. Adjusted earnings are adjusted revenues less benefits and adjusted expenses. The adjustments to both revenues and expenses account for certain items that cannot be predicted or that are outside management's control. Adjusted revenues are U.S. GAAP total revenues excluding realized investment gains and losses, except for amortized hedge costs/income related to foreign currency exposure management strategies and net interest cash flows from derivatives associated with certain investment strategies. Adjusted expenses are U.S. GAAP total acquisition and operating expenses including the impact of interest cash flows from derivatives associated with notes payable but excluding any nonrecurring or other items not associated with the normal course of the Company's insurance operations and that do not reflect the Company's underlying business performance.

Adjusted earnings excluding current period foreign currency impact are computed using the average yen/dollar exchange rate for the comparable prior-year period, which eliminates fluctuations driven solely by yen-to-dollar currency rate changes.

Adjusted return on equity excluding foreign currency impact is calculated using adjusted earnings excluding the impact of the yen/dollar exchange rate, as reconciled with total U.S. GAAP net earnings, divided by average shareholders' equity, excluding accumulated other comprehensive income (AOCI). The most comparable U.S. GAAP financial measure is return on average equity (ROE) as determined using net earnings and average total shareholders' equity.

Adjusted book value is the U.S. GAAP book value (representing total shareholders' equity), less Accumulated Other Comprehensive Income (AOCI) as recorded on the U.S. GAAP balance sheet. The Company considers adjusted book value important as it excludes AOCI, which fluctuates due to market movements that are outside management's control.

Amortized hedge costs/income represent costs/income incurred or recognized in using foreign currency forward contracts to hedge certain foreign exchange risks in the company's Japan segment (costs) or in the Corporate and Other segment (income). These amortized hedge costs/ income are derived from the difference between the foreign currency spot rate at time of trade inception and the contractual foreign currency forward rate, recognized on a straight line basis over the term of the hedge. There is no comparable U.S. GAAP financial measure for amortized hedge costs/income.

A non-U.S. GAAP financial measure, normalized earned premium is adjusted to account for the effect of paid-up policies on earned premium. This normalized effect of paid up policies is not a part of adjusted revenues as previously defined. In reliance on the "unreasonable efforts" exception in 17 CFR §244.100(a)(2), a quantitative reconciliation of adjusted earned premium to the most comparable U.S. GAAP measure, earned premium, is not provided. Forward-looking information with regard to earned premium is not available without unreasonable effort. This is due to the unpredictable and uncontrollable nature of the reconciling items, which would require an unreasonable effort to forecast and we believe would result in such a broad range of projected values that would not be meaningful to investors. For this reason, we believe that the probable significance of such information is low.

## Reconciliation of U.S. GAAP Net Earnings to Adjusted Earnings

	In Millions					Per Diluted Share				
	2019 (YTD June 30, 2019)	2018	2017	2016	2015	2019 (YTD June 30, 2019)	2018	2017	2016	2015
Net earnings	\$1,745	\$2,920	\$4,604	\$2,659	\$2,533	\$2.32	\$3.77	\$5.77	\$3.21	5.85
Items impacting net earnings:										
Realized investment (gains) losses	(70)	297	0	(87)	(94)	(0.09)	0.38	.00	(0.10)	(0.33)
Other and non-recurring (income) loss	1	75	69	137	233	.00	0.10	0.08	0.16	0.12
Income tax (benefit) expense on items excluded from adjusted earnings	18	(83)	(24)	(18)	(48)	0.02	(0.11)	(0.03)	(0.02)	0.53
Tax reform adjustment	0	18	(1,933)	0	0	.00	0.02	(2.42)	.00	(0.11)
Adjusted earnings	1,695	3,226	2,716	2,691	2,624	2.25	4.16	\$3.40	3.25	6.06
Current period foreign currency impact	13	N/A	N/A	N/A	N/A	.02	N/A	N/A	N/A	N/A
Adjusted earnings excluding current period foreign currency impact	\$1,708	\$3,226	\$2,716	\$2,691	\$2,624	\$2.27	\$4.16	\$3.40	\$3.25	\$6.06

## Reconciliation of U.S. GAAP Return on Equity (ROE) to Adjusted ROE

	2019 (YTD June 30, 2019)	2018	2017	2016	2015
U.S. GAAP ROE	13.5 %	12.2 %	20.4 %	13.9 %	14.1 %
Impact of excluding unrealized foreign currency translation gains	(1.0)%	(1.0)%	(2.0)%	(1.7)%	(2.0)%
Impact of excluding unrealized gains (losses) on securities and derivatives	3.9 %	3.0 %	5.8 %	3.1 %	3.2 %
Impact of excluding pension liability adjustment	(0.1)%	(0.1)%	(0.2)%	(0.1)%	(0.1)%
Impact of excluding AOCI	2.7 %	1.8 %	3.6 %	1.3 %	1.1 %
U.S. GAAP ROE - less AOCI	16.2 %	13.9 %	24.0 %	15.2 %	15.1 %
Differences between adjusted & net earnings	(0.5)%	1.5 %	(9.8)%	0.2 %	0.5 %
Adjusted ROE - reported	15.7 %	15.4 %	14.2 %	15.4 %	15.7 %
Less impact of foreign currency	(0.1)%	N/A	N/A	N/A	N/A
Adjusted ROE, excluding foreign currency impact	15.8 %	15.4 %	14.2 %	15.4 %	15.7 %