

# Aflac Incorporated

Investor Presentation | June 2021



# Forward-Looking Statements and Non-GAAP Financial Measures

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, including those caused by COVID-19
- defaults and credit downgrades of investments
- exposure to significant interest rate risk
- concentration of business in Japan
- limited availability of acceptable yen-denominated investments
- foreign currency fluctuations in the yen/dollar exchange rate
- differing judgments applied to investment valuations
- significant valuation judgments in determination of expected credit losses recorded on the Company's investments
- decreases in the Company's financial strength or debt ratings
- decline in creditworthiness of other financial institutions
- the effects of COVID-19, and any resulting economic effects and government interventions, on the Company's business and financial results
- ability to attract and retain qualified sales associates, brokers, employees, and distribution partners
- deviations in actual experience from pricing and reserving assumptions
- ability to continue to develop and implement improvements in information technology systems
- 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
- subsidiaries' ability to pay dividends to the Parent Company
- inherent limitations to risk management policies and procedures
- concentration of the Company's investments in any particular single-issuer or sector
- events related to the Japan Post investigation and other matters
- tax rates applicable to the Company may change
- failure to comply with restrictions on policyholder privacy and information security
- extensive regulation and changes in law or regulation by governmental authorities
- competitive environment and ability to anticipate and respond to market trends
- catastrophic events including, but not necessarily limited to, epidemics, pandemics (such as the coronavirus COVID-19), tornadoes, hurricanes, earthquakes, tsunamis, war or other military action, terrorism or other acts of violence, and damage incidental to such events
- ability to protect the Aflac brand and the Company's reputation
- ability to effectively manage key executive succession
- changes in accounting standards
- level and outcome of litigation
- allegations or determinations of worker misclassification in the United States

## Non-U.S. GAAP Financial Measures and Reconciliations

This document may include references to the Company's financial performance measures which are not calculated in accordance with United States generally accepted accounting principles (U.S. GAAP) (non-U.S. GAAP). The financial measures exclude items that the Company believes may obscure the underlying fundamentals and trends in insurance operations because they tend to be driven by general economic conditions and events or related to infrequent activities not directly associated with insurance operations.

Definitions of the Company's non-U.S. GAAP financial measures and applicable reconciliations to the most comparable U.S. GAAP measures are provided as appropriate.

Due to the size of Aflac Japan, where the functional currency is the Japanese yen, fluctuations in the yen/dollar exchange rate can have a significant effect on reported results. In periods when the yen weakens, translating yen into dollars results in fewer dollars being reported. When the yen strengthens, translating yen into dollars results in more dollars being reported. Consequently, yen weakening has the effect of suppressing current period results in relation to the comparable prior period, while yen strengthening has the effect of magnifying current period results in relation to the comparable prior period. A significant portion of the Company's business is conducted in yen and never converted into dollars but translated into dollars for U.S. GAAP reporting purposes, which results in foreign currency impact to earnings, cash flows and book value on a U.S. GAAP basis. Management evaluates the Company's financial performance both including and excluding the impact of foreign currency translation to monitor, respectively, cumulative currency impacts on book value and the currency-neutral operating performance over time. The average yen/dollar exchange rate is based on the published MUFG Bank, Ltd. telegraphic transfer middle rate (TTM).

# 2020 Highlights

**Cash  
Dividend**  
+3.7%

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**Share  
Repurchase**  
\$1.5 billion

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**EPS**  
+50.6%

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**Adjusted EPS**  
+10.8%

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**ROE**  
15.3%

**Adjusted ROE**  
15.0%

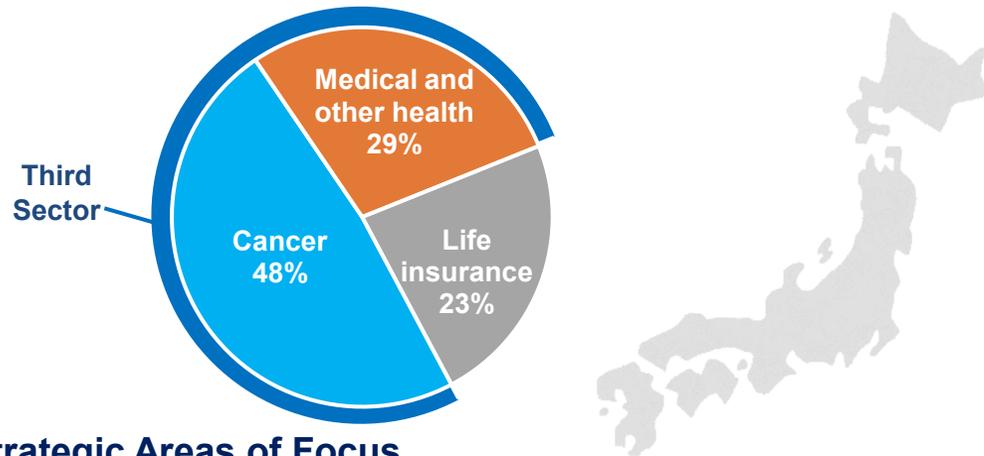
- Our strategic focus:
  - » Navigating the pandemic in a strong financial condition
  - » Executing on key growth initiatives and efficiency initiatives
  - » Setting the stage for strong, post-pandemic recovery
  - » Driving ESG initiatives across the enterprise

# Segment Overview

## Aflac Japan Business Profile

- Aflac Japan insures **1 in 4 households**<sup>1</sup> in Japan and is the **#1** cancer and medical insurer<sup>2</sup>.
- Our core **third sector** insurance – cancer and medical – helps policyholders cover out-of-pocket expenses not covered by Japan's national health insurance system.
- Aflac Japan's third sector product portfolio is complemented by a select offering of **first sector protection** products.
- Aflac Japan's goal is to be the leading company for “living in your own way.”

### 2020 Net Earned Premiums



### Strategic Areas of Focus

- Navigating pandemic conditions to drive recovery
- Refining product portfolio to address aging population
- Incubating businesses focused on cancer ecosystem
- Operating efficiency – enterprise paperless initiative

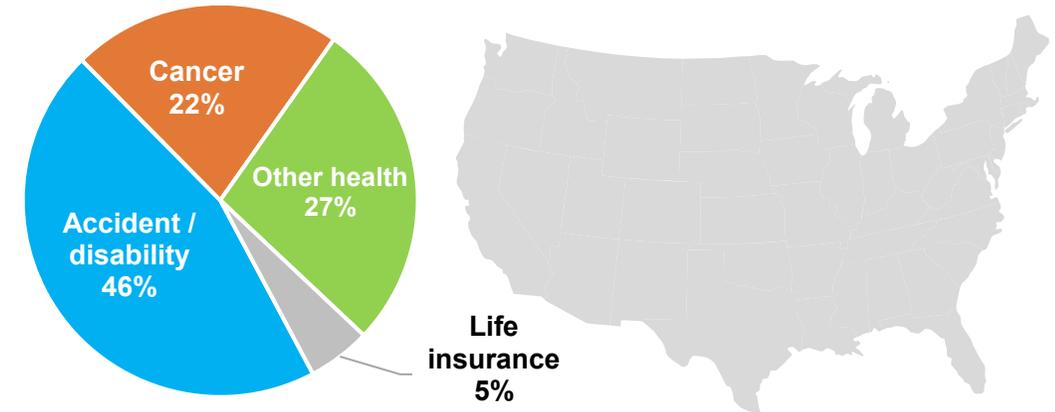
<sup>1</sup>Based on the 2020 number of households published by Japan's Ministry of Internal Affairs and Communications and the number of households with our holdings at January 2021.

<sup>2</sup> Aflac is the number one insurer in terms of the total combined number of cancer insurance and medical insurance policies in force, according to Statistics of Life Insurance Business in Japan 2020.

## Aflac U.S. Business Profile

- **Aflac is the # 1 provider of supplemental insurance** at the worksite in the U.S., which accounts for approximately 95% of our sales.<sup>1</sup>
- Aflac's supplemental policies **pay cash directly** to the insured to help protect against rising out-of-pocket expenses when a qualifying medical event occurs.
- Aflac U.S.'s vision is to seek to further develop “a world where people are better prepared for unexpected health expenses.”

### 2020 Net Earned Premiums



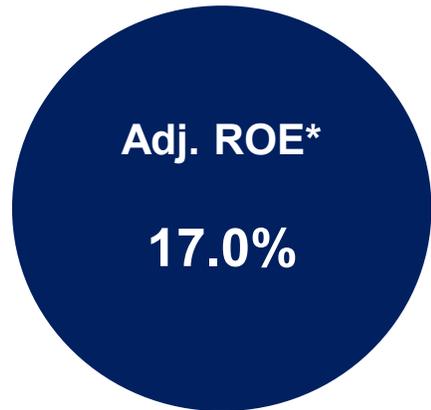
### Strategic Areas of Focus

- Navigating pandemic conditions to drive recovery
- Executing on growth initiatives:
  - Dental & Vision
  - Group Benefits
  - Digital Direct to Consumer
- Critical operating and technology initiatives

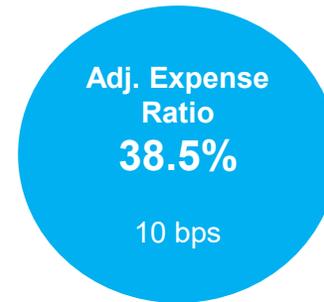
<sup>1</sup>Eastbridge Consulting Group, Inc. “U.S. Voluntary/Worksite Sales Report. Carrier Results for 2019.” Avon, CT: May 2020

# 1Q21 Core Insurance Margins vs. 1Q20<sup>1</sup>

## Aflac Incorporated



### Aflac U.S.



### Aflac Japan



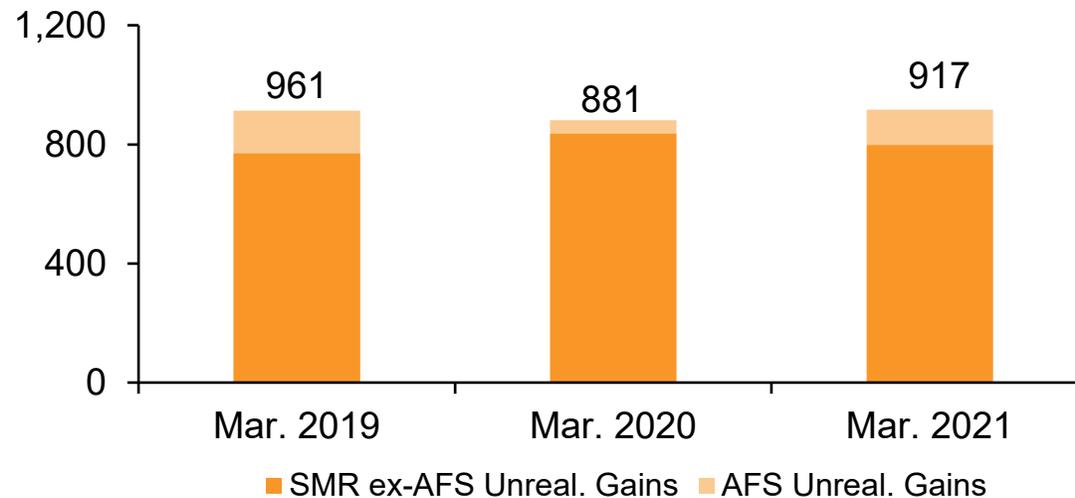
\*Non-GAAP measure; please see Appendix for reconciliation. <sup>1</sup> Benefit ratios measured to earned premium; expense ratios and pretax margins relative to total revenue \*

# 1Q 2021 Insurance Capital Position

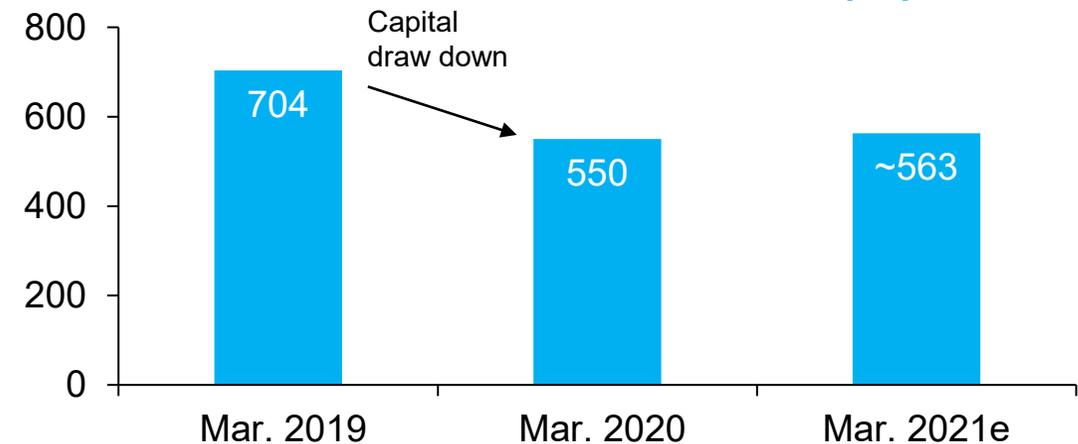
Aflac enters the pandemic with strong core insurance capital ratios

Aflac Japan's ESR as of 1Q 2021 was ~230% as compared to 202% 1Q 2020

**Aflac Japan SMR (%)**



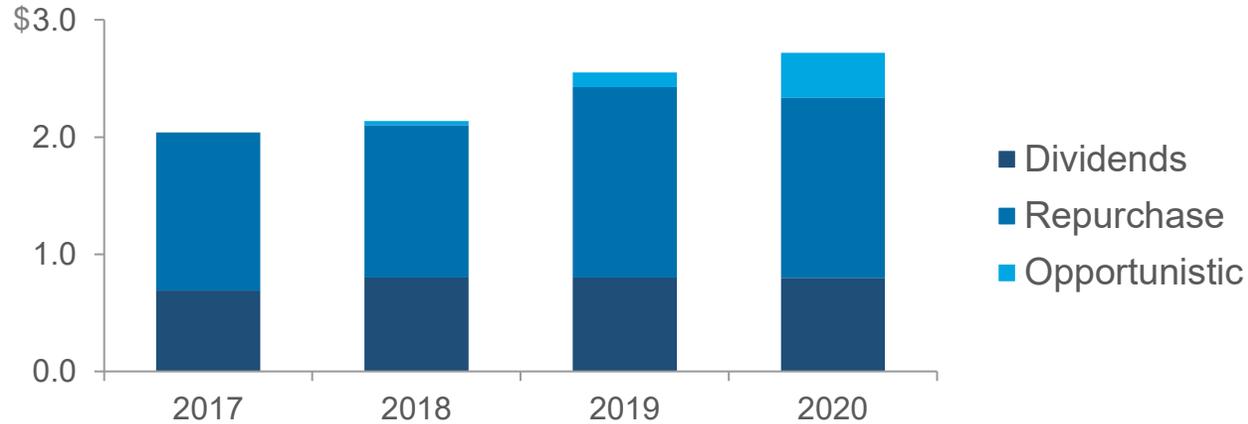
**Aflac - Columbus RBC (%)**



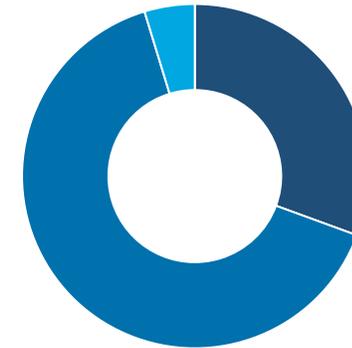
**Strategy:** maintain a defensive position influenced by stress-testing

# Capital Deployment Under Stable Conditions

## Tactical Deployment (\$ billions)



## 2020-2022e Deployment ~\$8 - \$9 billion



## Considerations

- Expected deployment of \$2.9 – 3.4 billion in 2021. Share repurchase in Q1 of \$650 million
- Deployable capital defined as excess capital after reinvestment in core insurance businesses
- Opportunistic represents amounts available for incremental growth investments

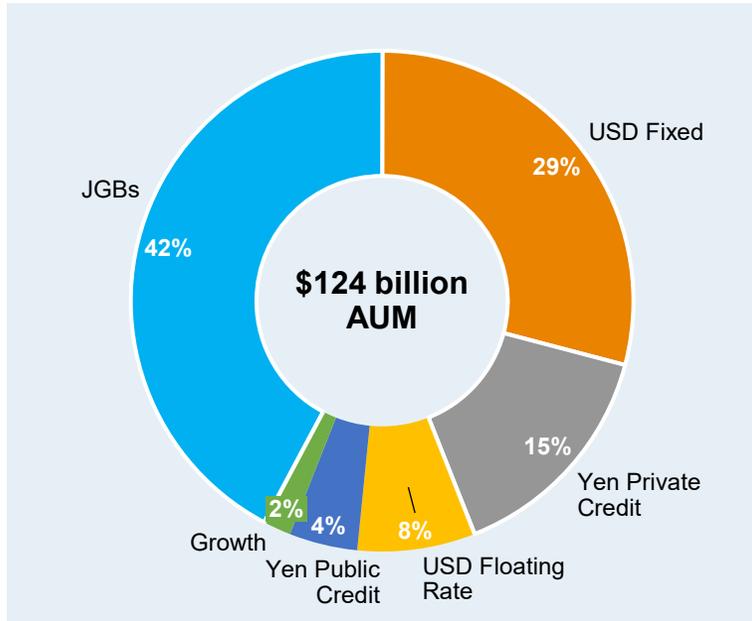
# Appendix



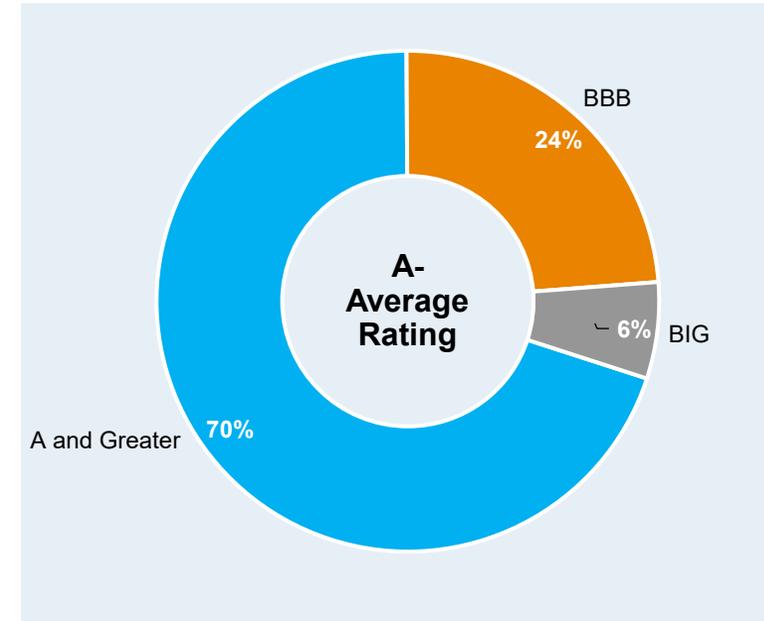
# Resilient Global Portfolio - Consolidated

As of 1Q21

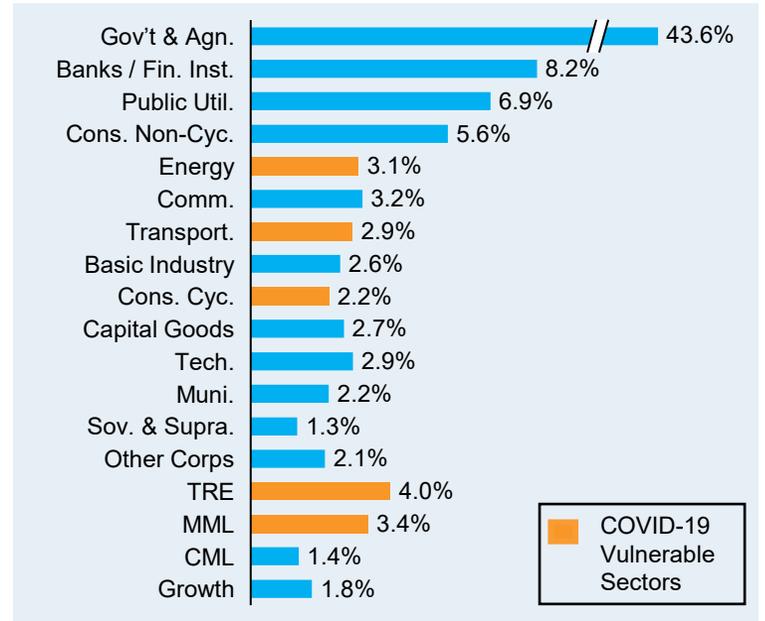
## Asset Allocation



## Quality



## Sector and Industry Diversification



## Global Portfolio Highlights

- **Consistent investment process:** Strategic asset allocation, tactical asset allocation, asset-liability matching, capital efficiency
- **Maintain A- high average credit quality:** 94% of assets investment grade
- **Disciplined credit underwriting process:** Middle-Market (MMLs) and Transitional Real Estate (TRE) loans performing well with minimal amendments

# Glossary of Non-U.S. GAAP Measures

The Company defines the non-U.S. GAAP financial measures included in this document as follows:

- **Adjusted earnings** are adjusted revenues less benefits and adjusted expenses. Adjusted earnings per share (basic or diluted) are the adjusted earnings for the period divided by the weighted average outstanding shares (basic or diluted) for the period presented. 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 adjusted net investment gains and losses. 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. Management uses adjusted earnings and adjusted earnings per diluted share to evaluate the financial performance of the Company's insurance operations on a consolidated basis and believes that a presentation of these financial measures is vitally important to an understanding of the underlying profitability drivers and trends of the Company's insurance business. The most comparable U.S. GAAP financial measures for adjusted earnings and adjusted earnings per share (basic or diluted) are net earnings and net earnings per share, respectively.
- **Adjusted earnings excluding current period foreign currency impact** is computed using the average foreign currency exchange rate for the comparable prior-year period, which eliminates fluctuations driven solely by foreign currency exchange rate changes. Adjusted earnings per diluted share excluding current period foreign currency impact is adjusted earnings excluding current period foreign currency impact divided by the weighted average outstanding diluted shares for the period presented. The Company considers adjusted earnings excluding current period foreign currency impact and adjusted earnings per diluted share excluding current period foreign currency impact important because a significant portion of the Company's business is conducted in Japan and foreign exchange rates are outside of management's control; therefore, the Company believes it is important to understand the impact of translating foreign currency (primarily Japanese yen) into U.S. dollars. The most comparable U.S. GAAP financial measures for adjusted earnings excluding current period foreign currency impact and adjusted earnings per diluted share excluding current period foreign currency impact are net earnings and net earnings per share, respectively.
- **Amortized hedge costs/income** represent costs/income incurred or recognized as a result of using foreign currency derivatives to hedge certain foreign exchange risks in the Company's Japan segment or in the Corporate and Other segment. These amortized hedge costs/ income are estimated at the inception of the derivatives based on the specific terms of each contract and are recognized on a straight-line basis over the term of the hedge. The Company believes that amortized hedge costs/income measure the periodic currency risk management costs/income related to hedging certain foreign currency exchange risks and are an important component of net investment income. There is no comparable U.S. GAAP financial measure for amortized hedge costs/ income.

# Glossary of Non-U.S. GAAP Measures (Cont.)

- **Adjusted net investment income** is net investment income adjusted for i) amortized hedge cost/income related to foreign currency exposure management strategies and certain derivative activity, and ii) net interest cash flows from foreign currency and interest rate derivatives associated with certain investment strategies, which are reclassified from net investment gains and losses to net investment income. The Company considers adjusted net investment income important because it provides a more comprehensive understanding of the costs and income associated with the Company's investments and related hedging strategies. The most comparable U.S. GAAP financial measure for adjusted net investment income is net investment income.
- **Adjusted net investment gains and losses** are net investment gains and losses adjusted for i) amortized hedge cost/income related to foreign currency exposure management strategies and certain derivative activity, ii) net interest cash flows from foreign currency and interest rate derivatives associated with certain investment strategies, which are both reclassified to net investment income, and iii) the impact of interest cash flows from derivatives associated with notes payable, which is reclassified to interest expense as a component of total adjusted expenses. The Company considers adjusted net investment gains and losses important as it represents the remainder amount that is considered outside management's control, while excluding the components that are within management's control and are accordingly reclassified to net investment income and interest expense. The most comparable U.S. GAAP financial measure for adjusted net investment gains and losses is net investment gains and losses.
- **Adjusted return on equity** is adjusted earnings divided by average shareholders' equity, excluding accumulated other comprehensive income (AOCI). Management uses adjusted return on equity to evaluate the financial performance of the Company's insurance operations on a consolidated basis and believes that a presentation of this financial measure is vitally important to an understanding of the underlying profitability drivers and trends of the Company's insurance business. The Company considers adjusted return on equity important as it excludes components of AOCI, which fluctuate due to market movements that are outside management's control. The most comparable U.S. GAAP financial measure for adjusted return on equity 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 AOCI as recorded on the U.S. GAAP balance sheet. Adjusted book value per common share is adjusted book value at the period end divided by the ending outstanding common shares for the period presented. The Company considers adjusted book value and adjusted book value per common share important as they exclude AOCI, which fluctuates due to market movements that are outside management's control. The most comparable U.S. GAAP financial measures for adjusted book value and adjusted book value per common share are total book value and total book value per common share, respectively.

# Reconciliation of Net Earnings Per Diluted Share to Adjusted Earnings Per Diluted Share<sup>1</sup>

Three Months Ended March 31

	<u>2021</u>	<u>2020</u>	<u>% Change</u>
Net earnings per diluted share	\$1.87	\$0.78	139.7%
Items impacting net earnings:			
Adjusted net investment (gains) losses	(.44)	.62	
Other and non-recurring (income) loss	.01	.02	
Income tax (benefit) expense on items excluded from adjusted earnings	.09	(.20)	
Adjusted earnings per diluted share	<u>\$1.53</u>	<u>\$1.21</u>	26.4%
Current period foreign currency impact <sup>2</sup>	<u>(.02)</u>	<u>N/A</u>	
Adjusted earnings per diluted share excluding current period foreign currency impact <sup>3</sup>	<u>\$1.51</u>	<u>\$1.21</u>	24.8%

<sup>1</sup> Amounts may not foot due to rounding.

<sup>2</sup> Prior period foreign currency impact reflected as "N/A" to isolate change for current period only.

<sup>3</sup> Amounts excluding current period foreign currency impact are computed using the average foreign currency exchange rate for the comparable prior year period, which eliminates fluctuations driven solely by foreign currency exchange rate changes.

# Reconciliation of U.S. GAAP Return on Equity to Adjust ROE<sup>1</sup>

Three Months Ended March 31, In Millions of Dollars

	<u>2021</u>	<u>2020</u>
U.S. GAAP ROE – Net earnings <sup>2</sup>	15.8%	8.2%
Impact of excluding unrealized foreign currency translation gains (losses)	(0.9)	(0.6)
Impact of excluding unrealized gains (losses) on securities and derivatives	6.1	2.7
Impact of excluding pension liability adjustment	(0.2)	(0.1)
Impact of excluding AOCI	5.0	2.0
U.S. GAAP ROE – less AOCI	20.7	10.2
Differences between adjusted earnings and net earnings <sup>3</sup>	(3.8)	5.7
Adjusted ROE - reported	17.0	15.8
Less: Impact of foreign currency <sup>4</sup>	0.2	N/A
Adjust ROE, excluding impact of foreign currency	16.7	15.8

<sup>1</sup>Amounts presented may not foot due to rounding.

<sup>2</sup>U.S. GAAP ROE is calculated by dividing net earnings (annualized) by average shareholders' equity.

<sup>3</sup>See separate reconciliation of net income to adjusted earnings.

<sup>4</sup> Impact of foreign currency is calculated by restating all foreign currency components of the income statement to the weighted average foreign currency exchange rate for the comparable prior year period. The impact is the difference of the restated adjusted earnings compared to reported adjusted earnings. For comparative purposes, only current period income is restated using the weighted average prior period exchange rate, which eliminates the foreign currency impact for the current period. This allows for equal comparison of this financial measure.

# Reconciliation of U.S. GAAP Book Value<sup>1</sup>

Three Months Ended March 31, In Millions of Dollars

	<u>2021</u>	<u>2020</u>	<u>% Change</u>
U.S. GAAP book value	\$32,103	\$26,402	
Less:			
Unrealized foreign currency translation gains (losses)	(1,674)	(1,543)	
Unrealized gains (losses) on securities and derivatives	8,761	6,008	
Pension liability adjustment	<u>(280)</u>	<u>(277)</u>	
Total AOCI	6,807	4,188	
Adjusted book value <sup>2</sup>	<u>\$25,296</u>	<u>\$22,214</u>	
Add:			
Unrealized foreign currency translation gains (losses)	(1,674)	(1,543)	
Adjusted book value including unrealized foreign currency translation gains (losses) <sup>3</sup>	<u>\$ 23,622</u>	<u>\$20,671</u>	
Number of outstanding shares at end of period	680,707	718,382	
U.S. GAAP book value per common share	<u>\$47.16</u>	<u>\$36.75</u>	28.3%

<sup>1</sup> Amounts may not foot due to rounding.

<sup>2</sup> Adjusted book value is the U.S. GAAP book value (representing total shareholder's equity), excluding AOCI (as recorded on the U.S. GAAP balance sheet).

<sup>3</sup> Adjusted book value including unrealized foreign currency translation gains (losses) is adjusted book value plus unrealized foreign currency translation gains (losses).

# Reconciliation of U.S. GAAP Book Value per Share<sup>1</sup>

Three Months Ended March 31, In Millions of Dollars

	<u>2021</u>	<u>2020</u>	<u>% Change</u>
U.S. GAAP book value per common share	\$47.16	\$36.75	28.3%
Less:			
Unrealized foreign currency translation gains (losses) per common share	(2.46)	(2.15)	
Unrealized gains (losses) on securities and derivatives per common share	12.87	8.36	
Pension liability adjustment per common share	(0.41)	(0.39)	
Total AOCI per common share	<u>10.00</u>	<u>5.83</u>	
Adjusted book value per common share <sup>2</sup>	<u>\$37.16</u>	<u>\$30.92</u>	20.2%
Add:			
Unrealized foreign currency translation gains (losses) per common share	(2.46)	(2.15)	
Adjusted book value including unrealized foreign currency translation gains (losses) per common share <sup>3</sup>	<u>\$ 34.70</u>	<u>\$28.77</u>	20.6%

<sup>1</sup> Amounts may not foot due to rounding.

<sup>2</sup> Adjusted book value is the U.S. GAAP book value (representing total shareholder's equity), excluding AOCI (as recorded on the U.S. GAAP balance sheet).

<sup>3</sup> Adjusted book value including unrealized foreign currency translation gains (losses) is adjusted book value plus unrealized foreign currency translation gains (losses).

# Reconciliation of Net Investment Income to Adjusted Net Investment Income

Three Months Ended March 31, In Millions of Dollars

	<u>2021</u>	<u>2020</u>	<u>% Change</u>
Net Investment Income	\$925	\$904	2.3%
Items impacting net investment income:			
Amortized hedge costs	(19)	(55)	
Amortized hedge income	17	29	
Net interest cash flows from derivatives associated with certain investment strategies	(8)	(6)	
Adjusted net investment income	\$915	\$872	4.9%