

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
**FORM 10-K**

(Mark One)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2019

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-07434



**Aflac Incorporated**

(Exact name of registrant as specified in its charter)

**Georgia**

**58-1167100**

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

**1932 Wynnton Road**

**Columbus Georgia**

**31999**

(Address of principal executive offices)

(ZIP Code)

**Registrant's telephone number, including area code: 706.323.3431**

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of each class</u>	<u>Trading Symbols(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$.10 Par Value	AFL	New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.  Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).  Yes  No

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 28, 2019, was \$40,396,253,541.

The number of shares of the registrant's common stock outstanding at February 12, 2020, with \$.10 par value, was 722,520,700.

**Documents Incorporated By Reference**

Certain information contained in the Notice and Proxy Statement for the Company's 2020 Annual Meeting of Shareholders is incorporated by reference into Part III hereof.

**Aflac Incorporated**  
**Annual Report on Form 10-K**  
**For the Year Ended December 31, 2019**  
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## PART I

### 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. Aflac Incorporated and its subsidiaries (the Company) desire to take advantage of these provisions. This report 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 the ones listed below or similar words, as well as specific projections of future results, generally qualify as forward-looking. The Company undertakes no obligation to update such forward-looking statements.

- |          |              |             |           |             |
|----------|--------------|-------------|-----------|-------------|
| • expect | • anticipate | • believe   | • goal    | • objective |
| • may    | • should     | • estimate  | • intends | • projects  |
| • will   | • assumes    | • potential | • target  | • outlook   |

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:

- ability to attract and retain qualified sales associates, brokers, employees, and distribution partners
- events related to the ongoing Japan Post investigation and other matters
- competitive environment and ability to anticipate and respond to market trends
- deviations in actual experience from pricing and reserving assumptions
- ability to continue to develop and implement improvements in information technology systems
- defaults and credit downgrades of investments
- exposure to significant interest rate risk
- concentration of business in Japan
- limited availability of acceptable yen-denominated investments
- failure to comply with restrictions on policyholder privacy and information security
- 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
- 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
- difficult conditions in global capital markets and the economy
- ability to protect the Aflac brand and the Company's reputation
- extensive regulation and changes in law or regulation by governmental authorities
- foreign currency fluctuations in the yen/dollar exchange rate
- tax rates applicable to the Company may change
- decline in creditworthiness of other financial institutions
- significant valuation judgments in determination of amount of impairments taken on the Company's investments
- U.S. tax audit risk related to conversion of the Japan branch to a subsidiary
- 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
- changes in accounting standards
- level and outcome of litigation
- allegations or determinations of worker misclassification in the United States

## ITEM 1. BUSINESS

### OVERVIEW

Aflac Incorporated (the Parent Company) was incorporated in 1973 under the laws of the state of Georgia. The Parent Company and its subsidiaries (collectively, the Company) provide financial protection to more than 50 million people worldwide. The Company's principal business is supplemental health and life insurance products with the goal to provide customers the best value in supplemental insurance products in the United States (U.S.) and Japan. When a policyholder or insured gets sick or hurt, the Company pays cash benefits fairly and promptly for eligible claims, directly to the insured (unless assigned otherwise). For more than sixty years, the Company's supplemental insurance policies have given policyholders the opportunity to focus on recovery, not financial stress.

The Company's strategy for growth in the U.S. and Japan has remained straightforward and consistent for many years. The Company develops relevant supplemental insurance products and sells them through expanded distribution channels. To help promote its insurance products, the Company's marketing campaigns feature the Aflac Duck.



In 1999, the Company had been running commercials for nearly a decade, but its brand awareness was hovering at about 10%. An innovative marketing campaign with something unique and memorable that would build brand awareness was needed. The Aflac Duck's first commercial in the U.S., "Park Bench," aired on January 1, 2000 and taught consumers how to pronounce "Aflac." The Aflac Duck made his international debut in Japan in 2003. In the two decades since his U.S. debut, the Aflac Duck has become one of the most familiar advertising icons in the world, appearing in several commercials and countless print ads in both the U.S. and Japan. Today, the Aflac Duck is a helpmate who increases brand knowledge and connection.

The Company is authorized to conduct insurance business in all 50 states, the District of Columbia, several U.S. territories and Japan. The Company's website is: [www.aflac.com](http://www.aflac.com). Information included on the Company's website is not incorporated by reference into this filing. The Company makes available free of charge through its website, its annual report on Form 10-K, its quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after they have been electronically filed with or furnished to the Securities and Exchange Commission (SEC).

### REPORTING SEGMENTS

The Company's insurance business consists of two reporting segments: Aflac Japan and Aflac U.S. The Parent Company's primary insurance subsidiaries are Aflac Life Insurance Japan Ltd. in Japan (Aflac Japan) and American Family Life Assurance Company of Columbus (Aflac); Continental American Insurance Company (CAIC), branded as Aflac Group Insurance (AGI); American Family Life Assurance Company of New York (Aflac New York) and Tier One Insurance Company (TOIC) in the U.S. (collectively, Aflac U.S.).

## [Item 1. Business](#)

Aflac Japan is the principal contributor to the Parent Company's consolidated earnings. Aflac Japan's revenues, including realized gains and losses on its investment portfolio, accounted for 69% of the Company's total revenues in 2019, compared with 70% in both 2018 and 2017. The percentage of the Company's total assets attributable to Aflac Japan was 83% and 84% at December 31, 2019 and 2018, respectively. The conversion of Aflac Japan to a subsidiary structure in April 2018 did not affect the Company's segment reporting structure.

Effective January 1, 2018, investments of Aflac U.S. as well as certain sub-advised assets of Aflac Japan, are managed by the Company's U.S. asset management subsidiary, Aflac Asset Management LLC (AAM), and investments of Aflac Japan are managed pursuant to an investment advisory agreement between Aflac Japan and the Company's asset management subsidiary in Japan, Aflac Asset Management Japan Ltd. (AAMJ). AAMJ is licensed as a discretionary asset manager under the Japan Financial Instruments and Exchange Act and is subject to rules of the Japan Investment Advisors Association, a self-regulatory organization with mandatory membership for Japan investment managers. AAM and AAMJ are reported in the "Corporate and other segment" category; however, the assets that they manage are reported in the respective Aflac Japan and Aflac U.S. business segments.

In November 2019, the Company acquired Argus Holdings, LLC and its subsidiary Argus Dental & Vision, Inc. (Argus), a benefits management organization and national network dental and vision company, which provides a platform for Aflac Dental and Vision. The Company paid \$75 million at closing and made an additional commitment of up to \$21 million in contingent consideration payable over three years based on the achievement by Argus of certain performance targets. Argus is an addition to the Aflac U.S. segment.

Revenues derived from any customer did not exceed 10% of consolidated premiums and other revenues for the years ended December 31, 2019 and 2018. For information on the Company's results of operations and financial information by segment, see Item 7. Management Discussion and Analysis (MD&A) and Note 2 of the Notes to the Consolidated Financial Statements in this report.

### **AFLAC JAPAN**

Aflac Japan is the largest insurer in Japan in terms of cancer and medical (third sector insurance products) policies in force. As of December 31, 2019, Aflac Japan exceeded 24 million individual policies in force in Japan. Aflac Japan continued to be the number one seller of cancer insurance policies in Japan throughout 2019, with more than 15 million cancer policies in force as of December 31, 2019.

#### **Insurance Products**

Aflac Japan's third sector insurance products are designed to help consumers pay for medical and nonmedical costs that are not reimbursed under Japan's national health insurance system. Changes in Japan's economy and an aging population have put increasing pressure on Japan's national health care system. As a result, more costs have been shifted to Japanese consumers, who in turn have become increasingly interested in insurance products that help them manage those costs. Aflac Japan has responded to this consumer need by enhancing existing products and developing new products. The focus at Aflac Japan remains on maintaining leadership in third sector insurance products that are less interest rate sensitive and have strong and stable margins. At the same time, Aflac Japan complements this core business with similarly profitable first sector protection products as outlined below.

<b>THIRD SECTOR INSURANCE</b>	<b>FIRST SECTOR INSURANCE</b>				
<ul style="list-style-type: none"><li>▪ <b>Cancer</b></li><li>▪ <b>Medical</b></li><li>▪ <b>Income Support</b></li></ul>	<p><b>Life insurance products include:</b></p> <table><tr><td><b>Protection type:</b></td><td><b>Savings type:</b></td></tr><tr><td><ul style="list-style-type: none"><li>▪ <b>Term Life</b></li><li>▪ <b>Whole Life</b></li><li>▪ <b>GIFT</b></li></ul></td><td><ul style="list-style-type: none"><li>▪ <b>WAYS</b></li><li>▪ <b>Child Endowment</b></li></ul></td></tr></table>	<b>Protection type:</b>	<b>Savings type:</b>	<ul style="list-style-type: none"><li>▪ <b>Term Life</b></li><li>▪ <b>Whole Life</b></li><li>▪ <b>GIFT</b></li></ul>	<ul style="list-style-type: none"><li>▪ <b>WAYS</b></li><li>▪ <b>Child Endowment</b></li></ul>
<b>Protection type:</b>	<b>Savings type:</b>				
<ul style="list-style-type: none"><li>▪ <b>Term Life</b></li><li>▪ <b>Whole Life</b></li><li>▪ <b>GIFT</b></li></ul>	<ul style="list-style-type: none"><li>▪ <b>WAYS</b></li><li>▪ <b>Child Endowment</b></li></ul>				

[Cancer Insurance](#) Aflac Japan pioneered the cancer insurance market in Japan in 1974, and remains the number one provider of cancer insurance in Japan today. Aflac Japan's cancer insurance products provide a lump-sum benefit upon initial diagnosis of cancer and fixed daily benefits for subsequent hospitalization and outpatient treatments due to cancer, as well as cancer-related surgical and convalescent care benefits.

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[Medical Insurance](#) Aflac Japan's medical insurance products provide benefits for hospitalization, surgeries and outpatient treatment of various illnesses, as well as lump sum benefits related to three critical illnesses: cancer, heart attack, and stroke.

[Income Support Insurance](#) Aflac Japan's Income Support Insurance provides fixed-benefit amounts in the event that a policyholder is unable to work due to significant illness or injury and was developed to supplement the disability coverage within Japan's social security system.

[Whole Life](#) Aflac Japan launched Prepare Smart Whole-Life Insurance in 2018, a whole life insurance product with low cash surrender value, which offers non-smoking policyholders further discounted premiums, and it provides beneficiaries, typically a designated family member, with a pre-determined benefit payment upon the death of the insured.

[GIFT](#) GIFT is a term life insurance product that provides a designated family member with a fixed amount of money every month upon a breadwinner's death or serious disability as family support.

[WAYS and Child Endowment](#) Beginning in 2013, Aflac Japan began to curtail sales of WAYS and Child Endowment, first sector savings-type products, due to persistent low interest rates in Japan and, in particular, the relatively large capital commitment required by such products and their lower profitability, in such an environment.

### **Distribution Channels**

[Traditional Sales Channel](#) This distribution channel includes individual agencies, independent corporate agencies and affiliated corporate agencies. Aflac Japan was represented by more than 9,000 sales agencies at the end of 2019, with more than 109,000 licensed sales associates employed by those agencies, including individual agencies.

[Banks](#) Consumers in Japan rely on banks to provide not only traditional bank services, but also as one key source to provide insurance solutions and other services. By the end of 2019, Aflac Japan had agreements with approximately 90% of the total number of banks in Japan to sell its products.

[Dai-ichi Life](#) Aflac Japan's alliance with Dai-ichi Life was launched in 2001, and approximately 40,000 Dai-ichi Life representatives offer Aflac's cancer products.

[Japan Post Group](#) Aflac Japan's alliance with Japan Post Group was launched in 2008. After the alliance strengthened in 2013, the number of postal outlets of Japan Post Co. Ltd. (JPC) selling Aflac Japan's cancer product increased to more than 20,000 since 2015. Japan Post Insurance Co., Ltd. (JPI) offers Aflac Japan cancer products through its 76 directly managed sales offices. In 2018, the Company' entered a strategic alliance with Japan Post Holdings Co., Ltd. (Japan Post Holdings), the parent company of Japan Post Co. Ltd (JPC) and Japan Post Insurance Co., Ltd. (JPI). See the "Aflac Japan Segment" subsection of MD&A for more about this alliance.

[Daido Life](#) In 2013, Aflac Japan and Daido Life Insurance entered into an agreement for Daido to sell Aflac Japan's cancer insurance products specifically to the Hojinkai market, which is an association of small businesses. Currently, Daido also sells Aflac Japan's cancer insurance products to the market in the tax payment association, which is a not-for-profit association for small businesses to support tax related matters.

### **Competition**

The Company competes with other insurance carriers through policyholder service, price, product design and sales efforts, as the number of insurance companies offering stand-alone cancer and medical insurance has more than doubled since the deregulation of the Japan market in 2001. However, based on Aflac Japan's growth of annualized premiums in force and diversified distribution network, the Company does not believe that Aflac Japan's market-leading position has been significantly impacted by increased competition. Furthermore, the Company believes the continued development and maintenance of operating efficiencies will allow Aflac Japan to offer affordable products that appeal to consumers. The Company believes Aflac Japan will remain a leading provider of cancer and medical insurance coverage in Japan, principally due to its experience in the market, well-known brand, low-cost operations, expansive marketing system and product expertise.

### **Regulation**

[Financial Services Agency \(FSA\)](#) The financial and business affairs of Aflac Japan are subject to examination by Japan's FSA. Aflac Japan files annual reports and financial statements for the Japanese insurance operations based on a March 31 fiscal year end, prepared in accordance with Japanese regulatory accounting practices prescribed or permitted by the FSA. Japanese regulatory basis earnings are determined using accounting principles that differ materially from U.S. generally

## Item 1. Business

accepted accounting principles (U.S. GAAP). Capital and surplus of Aflac Japan, based on Japanese regulatory accounting practices, was \$7.8 billion at December 31, 2019, compared with \$6.4 billion at December 31, 2018. Two FSA regulations applicable to Aflac Japan are outlined below.

- **Privacy and Cybersecurity**  
With regard to personal information obtained from policyholders, the insured, or others, Aflac Japan is regulated in Japan by the Act on the Protection of Personal Information (APPI) and guidelines issued by FSA and other governmental authorities. The FSA updated its guidelines regarding cybersecurity in October 2018.
- **FSA Solvency Standard**  
The FSA maintains a solvency standard, the solvency margin ratio (SMR), which is used by Japanese regulators to monitor the financial strength of insurance companies. As of December 31, 2019, Aflac Japan's SMR was 1,043%, compared with 965% at December 31, 2018. Aflac Japan's SMR is sensitive to interest rate, credit spread and foreign exchange rate changes. See the Liquidity and Capital Resources section of the MD&A for a discussion of measures the Company has taken to mitigate the sensitivity of Aflac Japan's SMR.

**Japan Company Law** As a branch of Aflac prior to April 1, 2018, Aflac Japan repatriated a portion of its accumulated earnings, as determined on a Japanese regulatory accounting basis, to Aflac U.S. provided that Aflac Japan had determined that it adequately protected policyholders' interests as measured by its SMR. After the conversion of Aflac Japan to a subsidiary structure on April 1, 2018 and starting in the fourth quarter of 2018, Aflac Japan distributes dividends to the Parent Company. Such dividends are subject to permitted dividend capacity under the Japan Company Law.

**Policyholder Protection** The Japanese insurance industry has a policyholder protection corporation that provides funds for the policyholders of insolvent insurers. For additional information, see the policyholder protection section of the MD&A.

For additional information regarding Aflac Japan's operations and regulations, see the "Aflac Japan Segment" subsection of MD&A and Notes 2 and 13 of the Notes to the Consolidated Financial Statements in this report.

### **AFLAC U.S.**

The Company designs its U.S. insurance products to provide supplemental coverage for people who already have major medical or primary insurance coverage, as Aflac U.S. insurance policies pay benefits regardless of other insurance. Aflac U.S. products are distributed in the individual and group supplemental insurance markets. Aflac's individual policies are portable, meaning that individuals may retain their full insurance coverage upon separation from employment or affiliation with a group, generally at the same premium. Individual policies are typically guaranteed-renewable for the lifetime of the policyholder (to age 75 for short-term disability policies).

#### **Insurance Products**

<ul style="list-style-type: none"><li>▪ <b>Cancer</b></li><li>▪ <b>Accident</b></li><li>▪ <b>Short-Term Disability</b></li></ul>	<ul style="list-style-type: none"><li>▪ <b>Critical Illness</b></li><li>▪ <b>Hospital Indemnity</b></li><li>▪ <b>Dental</b></li></ul>	<ul style="list-style-type: none"><li>▪ <b>Vision</b></li><li>▪ <b>Life (Term and Whole)</b></li></ul>
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**Cancer Insurance** Aflac U.S.'s cancer insurance products provide a lump-sum benefit upon initial diagnosis of cancer and subsequent benefits for treatment received due to cancer. Aflac U.S. offers cancer insurance on an individual basis.

**Accident Insurance** Aflac U.S. offers accident coverage on both an individual and group basis. These policies pay cash benefits in the event of a covered injury. The accident portion of the policy includes lump-sum benefits for accidental death, dismemberment and specific injuries as well as fixed benefits for hospital confinement. Additional benefits are also available for home modifications, wellness and increased benefits for injuries related to participations in an organized sporting activity.

**Short-Term Disability Insurance** Aflac U.S. offers short-term disability benefits on both an individual and group basis. The individual short-term disability product offers an Aflac Value Rider that pays a benefit, less claims, for every consecutive five-year term that the policy is in force.

**Critical Illness Insurance** Aflac U.S. offers coverage for critical illness plans on both an individual and group basis. These policies are designed to pay cash benefits in the event of critical illnesses such as heart attack, stroke or cancer.



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[Hospital Indemnity Insurance](#) Aflac U.S. offers hospital indemnity coverage on both an individual and group basis. Hospital indemnity products provide policyholders fixed dollar benefits triggered by hospitalization due to accident or sickness. Indemnity benefits for inpatient and outpatient surgeries, as well as various other diagnostic events, are also available. Aflac U.S. also offers a lump sum rider for a range of critical illness events that can be added to its individual accident, short-term disability and hospital indemnity products.

[Dental and Vision Insurance](#) Aflac U.S. now offers network dental and vision products on a group basis. Aflac U.S. offers fixed-benefit dental coverage on both an individual and group basis. Aflac U.S. offers Vision Now<sup>SM</sup>, an individually issued policy which provides benefits for serious eye health conditions and loss of sight as well as coverage for corrective eye materials and exam benefits.

[Life \(Term and Whole\)](#) Aflac U.S. offers term- and whole-life policies on both an individual and group basis.

### **Distribution Channels**

[Independent Associates/Career Agents](#) The career agent channel in Aflac U.S. focuses on marketing Aflac to the small business market, defined as employers of between three and 99 employees. Sales associates in the U.S. are independent contractors and are paid commissions and other variable compensation based on first-year and renewal premiums from their sales of insurance products.

[Brokers](#) The broker channel of Aflac U.S. focuses on selling to the mid- and large-case market, which is comprised of employers with 100 or more employees and typically an average size of 1,000 employees or more. Brokers in the U.S. are independent contractors and are paid commissions based on first-year and renewal premiums from their sales of insurance products.

Aflac U.S. concentrates on marketing its insurance products at the worksite. This method offers policies to individuals through employment, trade and other associations. Aflac U.S. believes that worksite marketing enables sales associates and brokers to reach a greater number of prospective policyholders and lowers distribution costs, compared with individually marketed business. Aflac U.S. is also expanding its distribution strategy to reach consumers outside of the traditional worksite through digital lead generation.

### **Competition**

Aflac U.S. competes against several supplemental insurance carriers on a national and regional basis. Aflac U.S. believes its policies, premium rates, platforms, value-added services and sales commissions are competitive by product type. Moreover, Aflac U.S. believes that its products are distinct from competitive offerings given its product focus (including features, benefits and claims service model), distribution capabilities and brand awareness.

Since Aflac products provide an additional level of financial protection for policyholders, the Company believes the increased financial exposure some employees may face creates a favorable opportunity for Aflac U.S. products. However, given the profitability erosion some major medical carriers are facing in their core lines of business, the Company has seen a more competitive landscape as these carriers seek entry into Aflac's supplemental product segments and leverage their core benefit offerings by bundling and discounting products in order to gain market share.

One Day Pay<sup>SM</sup> is a claims initiative that Aflac U.S. has focused on to process, approve and pay eligible claims in just one day. The Company believes that this claims practice enhances the Aflac U.S. brand reputation and the trust policyholders have in Aflac, and it helps Aflac stand out from competitors.

### **Regulation**

[Insurance Regulation](#) The Parent Company and its U.S. insurance subsidiaries, Aflac, CAIC, TOIC (Nebraska-domiciled insurance companies) and Aflac New York (a New York-domiciled insurance company) are subject to state regulations in the U.S. as an insurance holding company system. Such regulations generally provide that transactions between companies within the holding company system must be fair and equitable. In addition, transfers of assets among such affiliated companies, certain dividend payments from insurance subsidiaries and certain transactions between companies within the system, including management fees, loans and advances are subject to prior notice to, or approval by, state regulatory authorities. These laws generally require, among other things, the insurance holding company and each insurance company directly owned by the holding company to register with the insurance departments of their respective domiciliary states and to furnish annually financial and other information about the operations of companies within the holding company system.



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Like all U.S. insurance companies, Aflac, Aflac New York, CAIC and TOIC are subject to regulation and supervision in the jurisdictions in which they do business. In general, the insurance laws of the various jurisdictions establish supervisory agencies with broad administrative powers relating to, among other things:

- granting and revoking licenses to transact business
- regulating trade and claims practices
- licensing of insurance agents and brokers
- approval of policy forms and premium rates
- standards of solvency and maintenance of specified policy benefit reserves and minimum loss ratio requirements
- capital requirements
- limitations on dividends to shareholders
- the nature of and limitations on investments
- deposits of securities for the benefit of policyholders
- filing of financial statements prepared in accordance with statutory insurance accounting practices prescribed or permitted by regulatory authorities
- periodic examinations of the market conduct, financial, and other affairs of insurance companies

The insurance laws of Nebraska that govern Aflac's activities provide that the acquisition or change of "control" of a domestic insurer or of any person that controls a domestic insurer cannot be consummated without the prior approval of the Nebraska Department of Insurance (NDOI). A person seeking to acquire control, directly or indirectly, of a domestic insurance company or of any person controlling a domestic insurance company (in the case of Aflac, CAIC and TOIC, the Parent Company) must generally file with the NDOI an application for change of control containing certain information required by statute and published regulations and provide a copy to Aflac. In Nebraska, control is generally presumed to exist if any person, directly or indirectly, acquires 10% or more of an insurance company or of any other person or entity controlling the insurance company. The 10% presumption is not conclusive and control may be found to exist at less than 10%. Similar laws apply in New York, the domiciliary jurisdiction of Aflac's New York insurance subsidiary.

State insurance departments conduct periodic examinations of the books and records, financial reporting, policy filings and market conduct of insurance companies domiciled in their states, generally once every three to five years. Examinations are generally carried out in cooperation with the insurance departments of other states under guidelines promulgated by the National Association of Insurance Commissioners (NAIC). In 2016, full-scope, risk-focused financial examinations were conducted by the NDOI, New York Department of Financial Services (NYDFS), and the South Carolina Department of Insurance (SCDOI) on their state domiciled insurance entities Aflac, Aflac New York, and CAIC, respectively. There were no material findings contained in the final exam reports. CAIC redomiciled to Nebraska as of December 2016 and TOIC redomiciled to Nebraska effective March 11, 2019. The NDOI and NYDFS are scheduled to conduct a full-scope comprehensive financial examination covering years 2016-2019 in 2020.

NAIC Risk-Based Capital The NAIC continually reviews regulatory matters, such as risk-based capital (RBC) modernization, group capital calculations, liquidity risk assessment and principle-based reserving. The NAIC has adopted a valuation manual containing a principle-based approach to calculation of life insurance reserves. The valuation manual became effective January 1, 2017. There is a three-year transition period, beginning January 1, 2017, during which companies can choose on a product by product basis to implement principle-based reserving for new business. The Company anticipates that the adoption of this manual will not cause a material impact on the statutory reserves of Aflac, Aflac New York, CAIC or TOIC. The NAIC uses an RBC formula relating to insurance risk, business risk, asset risk and interest rate risk to facilitate identification by insurance regulators of inadequately capitalized insurance companies based upon the types and mix of risk inherent in the insurer's operations. The formulas for determining the amount of RBC specify various weighting factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by a ratio of a company's regulatory total adjusted capital to its authorized control level RBC as defined by the NAIC. Companies below specific trigger points or ratios are classified within certain levels, each of which requires specified corrective action. The levels are company action, regulatory action, authorized control, and mandatory control. As of December 31, 2019, based on year-end statutory accounting results, Aflac's company action level RBC ratio was 539%. The 2018 RBC as filed is lower than Aflac U.S. stand-alone RBC due to the inclusion of Aflac Japan for the first quarter of 2018. The RBC charge reflects the business risk without any total adjusted capital (TAC). Aflac's NAIC RBC ratio remains high and reflects a very strong capital and surplus position.

Guaranty Association and Similar Arrangements Under state insurance guaranty association laws and similar laws in international jurisdictions, the Company is subject to assessments, based on the share of business the Company writes in the relevant jurisdiction, for certain obligations of insolvent insurance companies to policyholders and claimants. In the U.S., some states permit member insurers to recover assessments paid through full or partial premium tax offsets. The Company's policy is to accrue assessments when the entity for which the insolvency relates has met its state of domicile's statutory

## Item 1. Business

definition of insolvency, the amount of the loss is reasonably estimable and the related premium upon which the assessment is based is written. In most states, the definition is met with a declaration of financial insolvency by a court of competent jurisdiction.

**Federal Initiatives** Federal legislation and administrative policies in several areas, including health care reform legislation, financial services reform legislation, securities regulation, pension regulation, privacy, tort reform legislation and taxation, can significantly and adversely affect insurance companies. Federal regulations applicable to Aflac U.S. are outlined below.

- *Affordable Care Act (ACA)*

The ACA, federal health care reform legislation, gave the U.S. federal government direct regulatory authority over the business of health insurance. The reform included major changes to the U.S. health care insurance marketplace. The ACA, as enacted, does not require material changes in the design of the Company's insurance products. However, indirect consequences of the legislation and regulations could present challenges that could potentially have an impact on the Company's sales model, financial condition and results of operations. The U.S. Congress has considered and may continue to consider legislation that would repeal and replace key provisions of the ACA. There can be no assurance that any legislation affecting the ACA will be passed by Congress, nor as to the ultimate timing or provisions of any such legislation, nor as to the effect of any such legislation on the design or marketability of the Company's insurance products. Further, certain provisions of the ACA have been and may continue to be subject to challenge through litigation, the ultimate effects of which on the ACA are uncertain.

- *Dodd-Frank Act*

Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank) and regulations issued thereunder, in particular rules to require central clearing for certain types of derivatives, may have an impact on the Company's derivative activity, including activity on behalf of Aflac Japan. In addition, in 2015 and 2016, six U.S. financial regulators, including the U.S. Commodity Futures Trading Commission (CFTC), issued final rules regarding the exchange of initial margin (IM) and variation margin (VM) for uncleared swaps that impose greater obligations on swap dealers regarding uncleared swaps with certain counterparties, such as the Company. The requirements of such rules with respect to IM are currently being phased in and will be fully implemented by September 1, 2020, although an extension to September 1, 2021 is expected for covered entities with an aggregate average notional amount below \$50 billion. The margin requirements are expected to result in more stringent collateral requirements and to affect other aspects of the Company's derivative activity.

The Dodd-Frank Act also established a Federal Insurance Office (FIO) under the U.S. Treasury Department to monitor all aspects of the insurance industry and of lines of business other than certain health insurance, certain long-term care insurance and crop insurance. Traditionally, U.S. insurance companies have been regulated primarily by state insurance departments. The FIO does not directly regulate the insurance industry, but under Dodd-Frank it has the power to preempt state insurance regulations that are inconsistent with international agreements reached by the federal government, subject to certain requirements and restrictions. The FIO and certain federal agencies must achieve consensus positions with the state insurance regulators when taking positions on insurance proposals by certain international forums. The President and Congress have stated proposals to reform or repeal certain provisions of the Dodd-Frank Act, some of which have been implemented. The Company cannot predict with any degree of certainty what impact, if any, such proposals might have on Aflac's business, financial condition, or results of operations.

- *Privacy and Cybersecurity*

The collection, maintenance, use, protection, disclosure and disposal of individually identifiable data by the Company's businesses are regulated at the international, federal and state levels. These laws and rules are subject to change by legislation or administrative or judicial interpretation. Various state laws address the unauthorized access and acquisition of personal information and the use and disclosure of individually identifiable health data to the extent they are more restrictive than those contained in the privacy and security provisions in the federal Gramm-Leach-Bliley Act of 1999 (GLBA) and in the Health Insurance Portability and Accountability Act of 1996 (HIPAA). For example, the California Consumer Privacy Act became effective January 1, 2020 and requires businesses to provide California consumers rights to access, delete, and restrict certain uses of their personal information. Under the law, the California Attorney General may not bring an enforcement action prior to July 1, 2020. HIPAA also requires that the Company imposes privacy and security requirements on its business associates (as such term is defined in the HIPAA regulations).

Cybersecurity also continues to be an area of evolving focus for U.S. legislation and regulatory activity. In March 2017, new cybersecurity regulation issued by the NYDFS went into effect that requires covered entities, including Aflac New York, to maintain an information security program meeting certain security, data disposal, audit, activity

## Item 1. Business

monitoring, and data encryption requirements. In October 2017, the NAIC adopted an Insurance Data Security Model Law that may be adopted in whole or in part by U.S. states in which the Company's subsidiaries are licensed. Other states have adopted and, the Company expects, will continue to pass legislation and issue regulations related to cybersecurity. The Company anticipates, assesses and if necessary modifies its information security program to accommodate such changes.

For further information concerning Aflac U.S. operations, see the "Aflac U.S. Segment" subsection of the MD&A and Notes 2 and 13 of the Notes to the Consolidated Financial Statements in this report.

### **CORPORATE AND OTHER**

The Company's other operations include the Parent Company, asset management subsidiaries, results of reinsurance retrocession activities and a printing subsidiary. For additional information on the Company's other operations, see the "Corporate and Other" subsection of the MD&A and Note 8 in the Notes to the Consolidated Financial Statements.

### **EMPLOYEES**

As of December 31, 2019, Aflac Japan had 6,178 employees, Aflac U.S. had 4,799 employees, and the Company's other operations had 752 employees.

[Item 1. Business](#)**Information about the Company's Executive Officers**

NAME	PRINCIPAL OCCUPATION <sup>(1)</sup>	AGE
Daniel P. Amos	Chairman, Aflac Incorporated and Aflac, since 2001; Chief Executive Officer, Aflac Incorporated and Aflac, since 1990; President, Aflac, since 2017; President, Aflac Incorporated, from 2018 until 2020	68
Koji Ariyoshi	Executive Vice President, Director of Sales and Marketing, Aflac Japan, since 2012	66
Steven K. Beaver	Senior Vice President, Chief Financial Officer, Aflac U.S., since 2019; Senior Vice President, Financial Planning and Analysis, Aflac Incorporated, from 2018 until 2019; Senior Vice President, Global Strategic Projects, Corporate Financial Planning and Analysis, Aflac Incorporated, from 2017 until 2018; Vice President, Deputy Chief Accounting Officer, Tax Department, Aflac Incorporated, from 2015 until 2016; Vice President, Corporate Tax, Aflac Incorporated, from 2012 until 2014	55
Max K. Broden	Executive Vice President, Chief Financial Officer, Aflac Incorporated, since 2020; Senior Vice President and Treasurer, Aflac Incorporated, from 2017 until 2020; Senior Portfolio Manager, Norges Bank, from 2007 until 2017	41
Frederick J. Crawford	President and Chief Operating Officer, Aflac Incorporated, since 2020; Executive Vice President, Chief Financial Officer, Aflac Incorporated, from 2015 until 2020; Executive Vice President, Chief Financial Officer, CNO Financial Group, from 2012 until 2015	56
J. Todd Daniels	Executive Vice President, Chief Financial Officer, Aflac Japan, since 2018; Executive Vice President, Global Chief Risk Officer and Chief Actuary, Aflac Incorporated, from 2016 until 2018; Senior Vice President, Global Chief Risk Officer and Chief Actuary, Aflac, from 2015 until 2016; Senior Vice President, Deputy Corporate Actuary and Global Chief Risk Officer, Aflac, from 2014 until 2015; Senior Vice President, Deputy Corporate Actuary, Aflac, from 2012 until 2014	49
June Howard	Chief Accounting Officer, Aflac Incorporated and Aflac, since 2010; Senior Vice President, Financial Services, Aflac Incorporated and Aflac, since 2010; Treasurer, Aflac, from 2011 until 2015	53
Eric M. Kirsch	Executive Vice President, Global Chief Investment Officer, Aflac, since 2012; President, Aflac Asset Management LLC, since 2017	59
Masatoshi Koide	President and Chief Operating Officer, Aflac Japan since 2017; Deputy President, Aflac Japan from 2016 until 2017; Executive Vice President, Aflac Japan from 2015 until 2016; First Senior Vice President, Aflac Japan, from 2013 until 2015	59
Charles D. Lake, II	President, Aflac International, since 2014; Chairman, Aflac Japan, since 2008	58
Albert A. Riggieri	Senior Vice President, Global Chief Risk Officer and Chief Actuary, Aflac Incorporated, since 2018; Senior Vice President, Corporate Actuary, Aflac, from 2016 until 2018; Group Chief Actuary, Unum Group, until 2016	64
Audrey B. Tillman	Executive Vice President, General Counsel, Aflac Incorporated and Aflac, since 2014; Executive Vice President, Corporate Services, Aflac Incorporated, from 2008 until 2014	55
Teresa L. White	President, Aflac U.S., since 2014	53
Richard L. Williams Jr.	Executive Vice President and Chief Distribution Officer, Aflac since 2017; Senior Vice President and General Manager, Stop Loss, Unum, U.S. in 2017; Senior Vice President, Growth Markets, Colonial Life and Accident Insurance Company from 2013 until 2017	48

<sup>(1)</sup>Unless specifically noted, the respective executive officer has held the occupation(s) set forth in the table for at least the last five years. Each executive officer is appointed annually by the board of directors and serves until his or her successor is chosen and qualified, or until his or her death, resignation or removal.

## ITEM 1A. RISK FACTORS

The Company faces a wide range of risks, and its continued success depends on its ability to identify, prioritize and appropriately manage enterprise risk exposures. Readers should carefully consider each of the following risks and all of the other information set forth in this Form 10-K. These risks and other factors may affect forward-looking statements, including those in this document or made by the Company elsewhere, such as in earnings release webcasts, investor conference presentations or press releases. The risks and uncertainties described herein may not be the only ones facing the Company. Additional risks and uncertainties not presently known to the Company or that the Company currently believes to be immaterial may also adversely affect its business. If any of the following risks and uncertainties develops into actual events, there could be a material impact on the Company.

### **Sales of the Company's products and services are dependent on its ability to attract, retain and support a network of qualified sales associates, brokers and employees in the U.S. and sales associates and other distribution partners in Japan.**

The Company's sales, results of operations and financial condition could be materially adversely affected if its sales networks deteriorate or if the Company does not adequately provide support, training and education for its existing network of sales associates, brokers, other distribution partners and employees. In the U.S., competition exists for sales associates and brokers with demonstrated ability. In Japan, the Company's sales results are dependent upon its relationship with sales associates and other distribution partners, including its strategic partner, Japan Post.

The Company competes with other insurers and financial institutions primarily on the basis of its products, compensation, support services and financial rating. The Company's sales associates, brokers and other distribution partners are independent contractors and may sell products of its competitors. If the Company's competitors offer products that are more attractive, or pay higher commissions than the Company does, any or all of these distribution partners may concentrate their efforts on selling the Company's competitors' products instead of the Company's. In addition to the Company's commissioned sales force in the U.S., Aflac has expanded its sales leadership team to include a salaried sales force of over 200 market directors and broker sales professionals. The Company's inability to attract and retain qualified sales associates, brokers and other distribution partners, including its alliance partners in Japan, could have a material adverse effect on the Company's sales, results of operations and financial condition.

Additionally, as the Japan and U.S. employment markets continue to evolve, there is risk that the Company's practices regarding attracting, developing, and retaining employees may not be fully effective. Failure to successfully meet and maintain sufficient levels of employees may diminish the Company's ability to achieve its financial and compliance objectives, both of which are time consuming and personnel-intensive.

For more information on the strategic partnership with Japan Post, see the risk factor below entitled, " Events related to the ongoing Japan Post investigation and other matters regarding sales of Japan Post Insurance products could negatively impact the Company's sales and results of operations."

### **Events related to the ongoing Japan Post investigation and other matters regarding sales of Japan Post Insurance products could negatively impact the Company's sales and results of operations**

As previously disclosed, in the second half of 2019 and the first quarter of 2020 there have been news reports and public comments regarding improper sales practices relating to sales of JPI products by JPI and JPC, each an affiliate of Japan Post Holdings (together with JPI and JPC, the Japan Post Group). JPC and JPI are important distribution and alliance partners of the Company, which in 2018 collectively accounted for approximately 25% of Aflac Japan's third sector sales. On July 24, 2019, after such news reports and other public comments, the Japan Post Group announced that they had established a Special Investigative Committee comprised of independent former prosecutors to determine whether JPC and JPI sales practices with respect to JPI products had caused disadvantages to customers holding such policies that were not otherwise the result of honoring such customers' intentions.

On December 18, 2019, the Japan Post Group issued a release discussing results of the investigation and stating that JPI had identified a number of cases involving potential violation of laws and regulations or internal rules. On the same date, the Japan Post Group stated that it would continue the investigation with a goal of completing it by March 2020. On December 27, 2019, the Japanese FSA issued three-month business suspension orders to JPC and JPI for the sale of JPI insurance products, and the Japan Ministry of Internal Affairs and Communications also issued a three-month business suspension order to JPC for the sale of JPI insurance products. Also on December 27, 2019, the Japan Post Group announced the resignation of the chief executives of Japan Post Holdings, JPC and JPI, to be effective January 5, 2020. On January 31,

## Item 1A. Risk Factors

2020, the Japan Post Group announced that its internal investigation had been expanded to additional policyholders and the investigation would continue with a goal of completing it by the end of June 2020. The Japan Post Group stated they could not comment on the expected timing for it to re-initiate sales of JPI insurance products.

Notwithstanding the JPI investigation and the three-month suspension orders promulgated by the FSA and the Japan Ministry of Internal Affairs and Communications, the sale of Aflac Japan cancer policies has continued through JPC and JPI. However, while the sale of Aflac Japan cancer insurance products is not within the scope of the suspension orders, beginning in August 2019 the Company has experienced a material decrease of sales in the Japan Post Group channel. This decline has continued into 2020. The Company believes that sales of Aflac Japan cancer insurance through JPC and JPI are unlikely to return to 2018 levels in the near term. It is uncertain what long-term effect these developments will have on the Company's results of operations or financial condition, but any such effects could be material. See the "Aflac Japan Segment" subsection of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

### **Competition could adversely affect the Company's ability to increase or maintain its market share or profitability.**

The Company operates in a competitive environment and in an industry that is subject to ongoing changes from market pressures brought about by customer demands, legislative reform, marketing practices and changes to health care and health insurance delivery. These factors require the Company to anticipate market trends and make changes to differentiate the Company's products and services from those of its competitors. The Company also faces the potential of competition from existing or new companies in the U.S. and Japan that have not historically been active in the supplemental health insurance industry, but some of which have greater financial, marketing and management resources than the Company does. Further, some of these potential competitors could introduce new means of product development and delivery that disrupt the Company's business model. Failure to anticipate market trends and/or to differentiate the Company's products and services can affect the Company's ability to retain or grow profitable lines of business. Further, as employers and brokers are increasingly requesting a full-suite of products from one insurance provider, a failure to react and adapt to these demands could result in decreased sales or market share.

The insurance market is undergoing rapid changes with frequent introductions of new technology-driven products and services. The Company's future success will depend, in part, on its ability to keep pace with the technological changes and to use technology to satisfy and grow customer demand for the Company's products and services and to create additional efficiencies in its operations. The Company expects that it will need to continue making substantial investments in its technology and information systems to compete effectively and to stay current with technological changes. The Company may not be able to effectively implement new technology-driven products and services or be successful in marketing these products and services to its customers. A failure to meet evolving customer demands through innovative product development, effective distribution channels, and continuous investment in the Company's technology could result in lower revenues and less favorable policy terms and conditions, which could adversely affect the Company's operating results. As a result, the Company's ability to effectively compete to retain or acquire new business may be impaired, and its business, financial condition or results of operations may be adversely affected.

### **If future policy benefits, claims or expenses exceed those anticipated in establishing premiums and reserves, the Company's financial results would be adversely affected.**

The Company establishes premiums for many of its policies on assumptions for morbidity, mortality, longevity and persistency. The Company also establishes and carries, as a liability, reserves based on estimates of how much will be required to pay for future benefits and claims on its policies. The Company calculates these reserves using various assumptions and estimates, including premiums the Company will receive over the assumed life of the policy; the timing, frequency and severity of the events covered by the insurance policy; and the investment returns on the assets the Company purchases with a portion of its net cash flow from operations.

The assumptions and estimates that the Company uses in establishing premiums and reserves depend on the Company's judgment regarding the likelihood of future events and are inherently uncertain. Many factors can cause actual outcomes to deviate from these assumptions and estimates, such as changes in incidence rates, economic conditions, changes in government healthcare policy, advances in medical technology, changes in treatment patterns, and changes in average lifespan. Accordingly, the Company cannot determine with precision the ultimate amounts that it will pay for, or the timing of payment of, actual benefits and claims or whether the assets supporting the policy liabilities will grow to the level the Company assumes prior to payment of benefits or claims. If the Company's actual experience is different from its assumptions or estimates, the Company's reserves may prove inadequate. As a result, the Company would incur a charge to earnings in the period in which it determines such a shortfall exists, which could have a material adverse effect on the Company's business, results of operations and financial condition.



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Generally, lower mortality decreases the profitability of third sector products in Japan, as more policyholders will survive into ages where they have a higher rate of claim incidence. This assumption can impact pricing and reserving. For instance, Japan FSA periodically requires updates to their Standard mortality tables for FSA reserves. An update to the Standard mortality tables was performed in April 2018 applicable to all business issued after that date. For business that is in force prior to the update, the change in mortality table would not have an impact. For new issues, the updated mortality tables would be included in the Company's reserve assumptions, and slow the emergence of FSA earnings for third sector products and therefore will have an impact on pricing returns. The Company adjusts pricing assumptions as new products are developed to adjust for these mortality assumptions.

### **The success of the Company's business depends in part on effective information technology systems and on continuing to develop and implement improvements in technology.**

The Company's business depends in large part on its technology systems for interacting with employers, policyholders, sales associates, and brokers, and the Company's business strategy involves providing customers with easy-to-use products to meet their needs and ensuring employees have the technology in place to support those needs. Some of the Company's information technology systems and software are older, legacy-type systems that are less efficient and require an ongoing commitment of significant resources to maintain or upgrade to current standards including adequate business continuity procedures. The Company is in a continual state of upgrading and enhancing its business systems; however, these changes tend to challenge the Company's complex integrated environment. The Company's success is dependent in large part on maintaining or improving the effectiveness of existing systems and continuing to develop and enhance information systems that support its business processes in a cost-efficient manner. If the Company does not maintain the effectiveness of its systems, the Company's operations and reputation could be adversely affected and it could be exposed to litigation as well as to regulatory proceedings and fines or penalties.

### **Defaults, downgrades, widening credit spreads or other events impairing the value of the fixed maturity securities and loan receivables in the Company's investment portfolio may reduce the Company's earnings and capital position.**

The Company is subject to the risk that the issuers and/or guarantors of fixed maturity securities and loan receivables the Company owns may default on principal or interest. A significant portion of the Company's portfolio represents an unsecured obligation of the issuer, including some that may be subordinated to other debt in the issuer's capital structure. In these cases, many factors can influence the overall creditworthiness of the issuer and ultimately its ability to service and repay the Company's holdings. This can include changes in the global economy, the company's assets, strategy, or management, shifts in the dynamics of the industries in which they compete, their access to additional funding, and the overall health of the credit markets. Factors unique to the Company's securities including contractual protections such as financial covenants or relative position in the issuer's capital structure also influence the value of the Company's holdings.

Most of the Company's investments carry a rating by one or more of the nationally recognized statistical rating organizations (NRSROs or rating agencies). Any change in the rating agencies' approach to evaluating credit and assigning an opinion could negatively impact the fair value of the Company's portfolio. The Company employs a team of credit analysts to monitor the creditworthiness of the issuers in its portfolio. Any credit-related declines in the fair value of positions held in the Company's portfolio believed to be not temporary in nature will negatively impact the Company's net income and capital position through impairment and other credit related losses. These losses would also affect the Company's solvency ratios in the U.S. and Japan. Aflac Japan has certain regulatory accounting requirements for realizing impairments that could be triggered by credit-related losses, which may be different from U.S. GAAP and statutory requirements. These impairment losses could negatively impact Aflac Japan's earnings, and the corresponding dividends and capital deployment.

The Company is also subject to the risk that any collateral providing credit enhancement to the Company's positions could deteriorate. These instruments may include senior secured first lien loans, such as commercial mortgage loans, bank loans, middle market loans, and loan-backed securities where the underlying loan or collateral notes may default on principal, interest, or other payments, causing an adverse change in cash flows to the positions held in the Company's investment portfolio.

The Company is exposed to sovereign credit risk through instruments issued directly by governments and government entities as well as banks and other institutions that rely in part on the strength of the underlying government for their credit quality. In addition to the U.S. and Japan, many governments, especially in Europe, have been subject to rating downgrades due to the need for fiscal and budgetary remediation and structural reforms, reduced economic activity, and investment needed to support banks or other systemically important entities. Additional downgrades or default of the Company's sovereign issuers will have a negative impact on its portfolio and could reduce the Company's earnings and capital.



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In addition to the Company's exposure to the underlying fundamental credit strength of the issuers of its fixed maturity securities and the underlying risk of default, the Company is also exposed to the general movement in credit market spreads. A widening of credit spreads could reduce the value of the Company's existing portfolio, create unrealized losses on its investment portfolio, and reduce the Company's adjusted capital position which is used in determining the SMR in Japan. This widening of credit spreads could, however, increase the net investment income on new credit investments. Conversely, a tightening of credit spreads could increase the value of the Company's existing portfolio and create unrealized gains on its investment portfolio. This tightening of credit spreads could also reduce the net investment income available to the Company on new credit investments. Increased market volatility also makes it difficult to value certain of the Company's investment holdings (see the Critical Accounting Estimates section in Item 7, Management's Discussion and Analysis, of this Form 10-K).

For more information regarding credit risk, see the Credit Risk subsection of Item 7A, Quantitative and Qualitative Disclosures about Market Risk, of this Form 10-K.

### **The Company is exposed to significant interest rate risk, which may adversely affect its results of operations, financial condition and liquidity.**

The Company has substantial investment portfolios that support its policy liabilities. Low levels of interest rates on investments experienced in Japan and the U.S. over the last decade have reduced the level of investment income earned by the Company. The Company's overall level of investment income will be negatively impacted in a persistent low-interest-rate environment. While the Company generally seeks to maintain a diversified portfolio of fixed-income investments that reflects the cash flow and duration characteristics of the liabilities it supports, the Company may not be able to fully mitigate the interest rate risk of its assets relative to its liabilities. The Company's exposure to interest rate risk relates primarily to the ability to invest future cash flows to support the interest rate assumption made at the time the Company's products were priced and the related reserving assumptions were established. A sustained decline in interest rates could hinder the Company's ability to earn the returns assumed in the pricing and the reserving for its products at the time they were sold and issued. Due to low interest rates, the Company's ability to earn the returns it expects may also influence the Company's ability to develop and price attractive new products and could impact its overall sales levels. The Company's first sector products are more interest rate sensitive than third sector products. As discussed in Item 1. Business, beginning in 2013, Aflac Japan began to curtail sales of first sector savings-type products due to persistent low interest rates in Japan. The continuing negative interest rate imposed by the Bank of Japan (BoJ) on excess bank reserves could continue to have a negative impact on the distribution and pricing of these products.

A rise in interest rates could improve the Company's ability to earn higher rates of return on future investments, as well as floating rate investments held in its investment portfolio. However, an increase in the differential of short-term U.S. and Japan interest rates would increase the cost of hedging a portion of the U.S. dollar-denominated assets in the Aflac Japan segment into yen, which could have a material adverse effect on the Company's business, results of operations or financial condition. The Company's floating rate investments typically bear interest based on the London Interbank Offered Rate (LIBOR). Regulatory and industry initiatives to eliminate LIBOR as an interest rate benchmark may create uncertainty in the valuation of LIBOR-based loans, as well as for other LIBOR-based derivatives and assets. This may adversely impact both pricing and liquidity in such instruments. The Company is unable to predict with certainty how LIBOR elimination may impact markets, pricing, liquidity and other factors or the Company's activities.

Changes in interest rates impact unrealized gains and losses of fixed income securities in the Company's investment portfolio; however, they do not have a direct impact on the related valuation of the corresponding liabilities. Prolonged periods of low interest rates, as have been experienced in recent years, heighten the risk associated with future increases in interest rates because an increasing proportion of the Company's investment portfolio includes investments that bear lower rates of return than the embedded book yield of the investment portfolio. A rise in interest rates could decrease the fair value of the Company's debt securities. Some of the insurance products that Aflac sells in the U.S. and Japan provide cash surrender values. A rise in interest rates could trigger significant policy surrenders, which might require the Company to sell investment assets and recognize unrealized losses. This situation is commonly referred to as disintermediation risk. The Company generally invests its assets to match the duration and cash flow characteristics of its policy liabilities, and therefore would not expect to realize most of these gains or losses, however, the Company's risk is that unforeseen events or economic conditions, such as changes in interest rates resulting from governmental monetary policies, domestic and international economic and political conditions, and other factors beyond the Company's control will reduce the effectiveness of this strategy. These events or economic conditions could either cause the Company to dispose of some or all of these investments prior to their maturity, or increase the risk that the issuers of these securities may default or may require impairment, which could result in the Company having to recognize such gains or losses.

## Item 1A. Risk Factors

Rising interest rates also negatively impact the SMR since unrealized losses on the available-for-sale investment portfolio factor into the ratio. For regulatory accounting purposes for Aflac Japan, there are certain requirements for realizing impairments that could be triggered by rising interest rates, negatively impacting Aflac Japan's earnings and corresponding dividends and capital deployment.

Further, interest rate risk is still an inherent portfolio, business and capital risk for the Company, and significant changes in interest rates could have a material adverse effect on the Company's consolidated results of operations, financial condition or cash flows through realized losses, impairments, changes in unrealized positions, and liquidity.

For more information regarding interest rate risk, see the Interest Rate Risk subsection within the Market Risks of Financial Instruments section of MD&A in this report.

### **The Company's concentration of business in Japan poses risks to its operations.**

The Company's operations in Japan, including realized gains and losses on Aflac Japan's investment portfolio, accounted for 69% of the Company's total revenues in 2019, and 70% in both 2018 and 2017. The Japanese operations accounted for 83% of the Company's total assets at December 31, 2019, compared with 84% at December 31, 2018.

Further, because of the concentration of the Company's business in Japan and its need for long-dated yen-denominated assets, the Company has a substantial concentration of Japan Government Bond (JGBs) in its investment portfolio. As such the Company has material exposure to the Japanese economy, geo-political climate, political regime, and other factors that generally determine a country's creditworthiness. Specifically, the NRSROs, credit rating agencies registered with the SEC, have placed increased scrutiny on JGBs, which are a significant component of the Company's overall investment portfolio, resulting in downgrades as discussed later in this Risk Factors section.

The Company seeks to match investment currency and interest rate risk to its yen liabilities. The low level of interest rates available on yen-denominated securities has a negative effect on overall net investment income. A large portion of the cash available for reinvestment each year is deployed in yen-denominated instruments and subject to the low level of yen interest rates.

Any potential deterioration in Japan's credit quality, market access, the overall economy of Japan, or Japanese market volatility could adversely impact the business of Aflac in general and specifically Aflac Japan and its related results of operations and financial condition.

### **Lack of availability of acceptable yen-denominated investments could adversely affect the Company's results of operations, financial position or liquidity.**

The Company attempts to match both the duration and currency of its assets with its liabilities. This is very difficult for Aflac Japan due to the lack of available long-dated yen-denominated fixed income instruments beyond JGBs.

Prior to the onset of the financial crisis of 2008, the Company was focused on investing cash flows in JGBs, which had relatively low yields, and utilizing private placement and perpetual securities to gain additional yield, extend the duration of the investment portfolio, and maintain yen exposure. Given call activity with respect to certain of the Company's legacy private placement investments, the Company has added a modest amount of yen-denominated private placements to its investment portfolio in recent periods. The investment in private placements carries risk associated with illiquidity, which is managed and monitored by the Company.

Starting in 2012, Aflac Japan augmented its investment strategy to include U.S. dollar-denominated investments, some of which could then be hedged back to yen. Initially this program focused on public investment-grade bonds but has evolved over time to include U.S. dollar-denominated investment-grade commercial mortgage loans, middle market loans, infrastructure debt, as well as other loan types, high yield bond and public and private equities. The Company plans to continue adding other instruments denominated in U.S. dollars, including floating rate investments, to improve the portfolio diversification and/or return profile. Some of the U.S. dollar-denominated asset classes that the Company has added, and anticipates continuing to add, have less liquidity than investment-grade corporate bonds. These strategies will continue to increase the Company's exposure to U.S. interest rates, credit spreads and other risks. The Company has increased foreign exchange risk exposure as the comprehensive hedging program may not always correlate to the underlying U.S. dollar-denominated assets, thereby increasing earnings volatility. These risks can significantly impact the Company's consolidated results of operations, financial position or liquidity.

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Investing in U.S. dollar-denominated investments in Aflac Japan also creates an unmatched foreign currency exposure and related SMR volatility, as Aflac Japan's insurance liabilities are yen-denominated. Although the Company engages in certain foreign exchange hedging activities to partially mitigate this risk, and such hedged assets may be used to satisfy yen-denominated insurance liabilities and other business obligations, important risks remain.

Foreign exchange derivatives used for hedging are periodically settled, which results in cash receipt or payment at maturity or early termination. Cumulative net cash settlements on derivatives hedging currency exposure of Aflac Japan's U.S. dollar-denominated investments are associated with existing U.S. dollar-denominated investments that continue to be hedged, previously hedged investments that continue to be held but are no longer hedged, as well as, investments previously hedged that have since been sold, matured or redeemed and may or may not have not been converted to yen. The Company's foreign exchange derivatives are typically shorter-dated than the underlying U.S. dollar-denominated investments being hedged, which creates roll-over risks within the hedging program that could increase the cost of such derivatives. If the Company reduces the notional amount of foreign exchange derivatives prior to the maturity of the hedged U.S. dollar-denominated investments, the foreign exchange gains or losses on the U.S. dollar-denominated investments remain economically unrealized. These foreign currency gains or losses on the investments are only economically realized, or monetized, through sale, maturity or redemption of the investments and concurrent conversion to yen. However, the Company may not realize the benefit of offsetting adverse cash settlements on hedging derivatives with cash receipts on the U.S. dollar-denominated investments if the currency exchange rates move in an adverse direction before the investments are converted to yen, or if the investments are never converted to yen. As an example of the latter, if the Company's actual insurance risk experience in Japan is as expected or more favorable than expected, the need for yen to pay expenses and claims would correspondingly remain at or below expected levels, thereby diminishing operational requirements to convert U.S. dollar-denominated investments to yen. The settlement of the foreign exchange derivatives is reported in the investing activities section of the Company's consolidated statements of cash flows in the line item "Settlement of derivatives, net."

For more information regarding unhedged U.S. dollar-denominated securities, see the risk factor entitled, "The Company is exposed to foreign currency fluctuations in the yen/dollar exchange rate." For more information regarding Aflac Japan's U.S. dollar-denominated investments and hedging activities, see the "Hedging Activities" subsection within the MD&A of this report, and for more information regarding foreign currency risk, see the "Currency Risk" subsection within the Item 7A. Quantitative and Qualitative Disclosures about Market Risk section in this report.

**If the Company fails to comply with restrictions on customer privacy and information security, including taking steps to ensure that its third-party service providers and business associates who access, store, process or transmit sensitive customer information maintain its security, integrity, confidentiality and availability, the Company's reputation and business operations could be materially adversely affected.**

The collection, maintenance, use, protection, disclosure and disposal of individually identifiable data by the Company's businesses are regulated at the international, federal and state levels. These laws and rules are subject to change by legislation or administrative or judicial interpretation. Various state laws address the unauthorized access and acquisition of personal information and the use and disclosure of individually identifiable health data to the extent they are more restrictive than those contained in the privacy and security provisions in the federal GLBA and in the HIPAA. HIPAA also requires that the Company imposes privacy and security requirements on its business associates (as such term is defined in the HIPAA regulations). With regard to personal information obtained from policyholders, the insured, or others, Aflac Japan is regulated in Japan by the APPI and guidelines issued by FSA and other governmental authorities.

The Company relies on third parties, and in some cases subcontractors, to provide information technology and data services. It also relies on various parties in its distribution channels including agencies, banks and Japan Post in Japan, as well as sales associates and brokers in the U.S., to provide services to prospective and existing customers. Although the Company provides for appropriate protections through its contracts and performs information security risk assessments of its third-party service providers and business associates, the Company still has limited control over their actions and practices. In addition, despite the security measures the Company has in place to ensure compliance with applicable laws and rules, the Company's facilities and systems, and those of the Company's third-party providers and participants in its distribution channels may be vulnerable to security breaches, acts of vandalism or theft, computer viruses, misplaced or lost data, programming and/or human errors or other similar events. From time to time, the Company, its third party providers and participants in the Company's distribution channels have experienced and will likely continue to experience such events. In such cases, notification to affected individuals, state and federal regulators, state attorneys general and media may be required, depending upon the number of affected individuals and whether personal information including health or financial data was subject to unauthorized access.

The U.S. Congress and many states are considering new privacy and security requirements that would apply to the Company's business. Compliance with new privacy and security laws, requirements, and new regulations may result in cost

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increases due to necessary systems changes, new limitations or constraints on the Company's business models, the development of new administrative processes, and the effects of potential noncompliance by the Company's business associates. They also may impose further restrictions on the Company's collection, disclosure and use of customer identifiable data that are housed in one or more of the Company's administrative databases. Noncompliance with any privacy laws or any security breach involving the misappropriation, loss, theft or other unauthorized disclosure of sensitive or confidential customer information, whether by the Company or by one of its third parties, could have a material adverse effect on the Company's business, reputation, brand and results of operations, including: material fines and penalties; compensatory, special, punitive and statutory damages; consent orders regarding the Company's privacy and security practices; adverse actions against the Company's licenses to do business; and injunctive relief.

In addition, under Japanese laws and regulations, including the APPI, if a leak or loss of personal information by Aflac Japan or its business associates should occur, depending on factors such as the volume of personal data involved and the likelihood of other secondary damage, Aflac Japan may be required to file reports to the FSA; issue public releases explaining such incident to the public; or become subject to an FSA business improvement order, which could pose a risk to the Company's reputation.

### **Interruption in telecommunication, information technology and other operational systems, or a failure to maintain the security, confidentiality, integrity or privacy of sensitive data residing on such systems, could harm the Company's business.**

The Company stores confidential policyholder, employee, agent, and other proprietary information on its information technology systems. In addition, the Company depends heavily on its telecommunication, information technology and other operational systems and on the integrity and timeliness of data it uses to run its businesses and service its customers. These systems may fail to operate properly or become disabled as a result of events or circumstances wholly or partly beyond the Company's control. Additionally, design flaws may exist in certain systems, processes, software, or configurations that in turn may result in system failure, data corruption, or compromise. Despite the Company's implementation of a variety of security measures to defend against threats incurred on a daily basis, its information technology and other systems, as well as those of third party providers and participants in the Company's distribution channels, have been and will likely continue to be subject to physical or electronic break-ins, unauthorized tampering, security breaches or other cyber-attacks, that may result in the failure to adequately maintain the security, confidentiality, integrity, or privacy of sensitive data, including personal information relating to customers and prospective customers, or in the misappropriation of the Company's intellectual property or proprietary information.

From time to time, the Company, its third party providers and participants in the Company's distribution channels have experienced and will likely continue to experience such events. Although the minor data leakage issues the Company has experienced to date have not had a material effect on its business, there is no assurance that the Company's security systems or processes will prevent or mitigate future break-ins, tampering, security breaches or other cyber-attacks. 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, whether due to actions by the Company or others, including third party providers and participants in the company's distribution channels, could delay or disrupt the Company's ability to do business and service its customers, seriously harm the Company's brand and reputation as well as the Company's ability to compete effectively, subject it to regulatory sanctions and other claims, lead to a loss of customers and revenues and otherwise adversely affect the Company's business. In addition, the costs to address or remediate system interruptions or security threats and vulnerabilities, whether before or after an incident, could be significant.

While the Company continues to invest in the infrastructure of its data security programs, the Company, as well as its third party providers and participants in the Company's distribution channels, have been, and will likely continue to be, the target of unauthorized access, social engineering, phishing, cyber-attacks, web application attacks, computer viruses or other malicious codes, or other computer-related penetrations. Although the Company attempts to manage its exposure to such events through the purchase of cyber liability insurance, such events are inherently unpredictable and insurance may not be sufficient to protect the Company against all losses. As a result, events such as these could adversely affect the Company's financial condition or results of operation.

**Catastrophic events could adversely affect the Company's financial condition and results of operations as well as the availability of the Company's infrastructure and systems.**

The Company's insurance operations are exposed to the risk of catastrophic events including, but not necessarily limited to, epidemics, pandemics, tornadoes, hurricanes, earthquakes, tsunamis, war or other military action, and terrorism or other acts of violence. The extent of losses from a catastrophe is a function of both the total amount of insured exposure in the area affected by the event and the severity of the event. Certain events such as earthquakes, tsunamis, hurricanes and man-made catastrophes could cause substantial damage or loss of life in larger areas, especially those that are heavily populated. Claims resulting from natural or man-made catastrophic events could cause substantial volatility in the Company's financial results for any fiscal quarter or year and could materially reduce its profitability or harm the Company's financial condition, as well as affect its ability to write new business.

Additionally, the Company's business operations may be adversely affected by such catastrophic events to the extent they disrupt the Company's physical infrastructure, human resources or systems that support its businesses and customers. Although the Company has a global crisis management framework to minimize the business disruption from a catastrophic event, such framework may not be effective to avoid an adverse impact to the Company from such an event.

**Difficult conditions in global capital markets and the economy could have a material adverse effect on the Company's investments, capital position, revenue, profitability, and liquidity and harm the Company's business.**

The Company's results of operations are materially affected by conditions in the global capital markets and the global economy generally, including in its two primary operating markets of the U.S. and Japan. Weak global financial markets impact the value of the Company's existing investment portfolio, influence opportunities for new investments, and may contribute to generally weak economic fundamentals, which can have a negative impact on its operating activities.

In recent years, global capital markets have been severely impacted by several major events. The financial crisis that began in the latter part of 2008 saw dramatic declines in investment values and weak economic conditions as the global financial system came under extreme pressure. Although U.S. markets began recovering in late 2009 and 2010, Europe continued to struggle under a severely weakened banking system and investor concerns with sovereign debt levels. Following a period of unprecedented intervention by governments and central banks, including the U.S. Federal Reserve and European Central Bank (ECB), financial conditions improved from the dire conditions of the global financial crisis, global recession, and European debt crisis. More recently, global markets have experienced bouts of volatility due to uncertainty surrounding a British exit from the European Union, Japan's continued recovery amidst assorted policy changes, volatility in global commodity prices including oil, divergent monetary policies in the U.S. versus many other developed economies, heightened concerns surrounding the Chinese economy and increasing protectionism in U.S. foreign trade policy. While capital and market conditions have been generally favorable in the last year, the prospect for increased volatility remains.

A shift in the global trading policies by the U.S. and subsequent trade conflict with China has raised concerns about a slowdown of the Chinese economy and the recent trade agreement between the U.S. and China left tariffs in place and many trade issues unresolved. In addition, the recent trade agreement between the U.S. and Japan resulted in tariff reductions on some products but left tariffs on other products in place. While it is not expected that the Company's products would be directly impacted by tariffs, any resulting economic downturn could adversely affect the Company.

Activity by the government of North Korea in 2018 was the subject of increasing focus for a number of other governments, including those of the U.S. and Japan. Although hostile rhetoric decreased in 2019, there is a possibility of renewed hostility between their governments. In addition, in January 2020, hostility between the government of the U.S. and the government of Iran increased, ultimately culminating in a number of missile strikes. Such activity and related geopolitical risk could have a significant impact on financial market conditions across the world. Under certain circumstances, government actions taken in response to these or similar situations could have a material impact on the Company's operations and financial performance, including the indirect impact of potentially severe and prolonged capital market volatility and disruption.

As the Company holds a significant amount of fixed maturity securities issued by borrowers located in many different parts of the world, including a large portion issued by banks and financial institutions, sovereigns, and other corporate borrowers in the U.S. and Europe, its financial results are directly influenced by global financial markets. A retrenchment of the recent strength of the capital markets could adversely affect the Company's financial condition, including its capital position and overall profitability. Market volatility and recessionary pressures could result in significant realized or unrealized losses due to severe price declines driven by increases in interest rates or credit spreads, defaults in payment of principal or interest, or credit rating downgrades.



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Following the election of Shinzo Abe as Prime Minister of Japan in December 2012, the new administration adopted a new set of financial measures to stimulate the Japanese economy, including imposing negative interest rates on excess bank reserves. In December 2014 and October 2017 snap-elections, the ruling Liberal Democratic Party (LDP) won decisive victories further strengthening Mr. Abe's ability to continue with economic reforms and address key policy challenges. In September 2018, Mr. Abe won reelection to another three-year term as president of the LDP. Most recently, the BoJ signaled to hold its policy rate at zero and to continue yield curve control to maintain a targeted yield on the 10-year JGB. Prime Minister Abe's election victories may result in the continuation of current monetary policy, but there can be no guarantee that this is the case.

Japan is the largest market for the Company's products, and the Company owns substantial holdings in JGBs. Government actions to stimulate the economy affect the value of the Company's existing holdings, its reinvestment rate on new investments in JGBs or other yen-denominated assets, and consumer behavior relative to the Company's suite of products. The additional government debt from fiscal stimulus actions could adversely impact the Japan sovereign credit profile, which could in turn lead to volatility in Japanese capital and currency markets.

The Company's investment portfolio has sizeable credit positions in many other geographic areas of the world including the Middle East, Latin America, Asia, and other emerging markets. Deterioration in their underlying economies, sovereign credit worthiness, or financial market conditions could negatively impact the Company's financial position.

While the Company has continued to add floating rate investments to its investment portfolio, most of its investment portfolio holdings are income-producing bonds that provide a fixed level of income. Many of the Company's investments were made at the relatively low level of interest rates prevailing over the last decade. Any increase in the market yields of the Company's holdings due to an increase in interest rates could create substantial unrealized losses in the Company's portfolio, as discussed further in a separate risk factor in this section of the Form 10-K.

The Company needs liquidity to pay its operating expenses, dividends on its common stock, interest on its debt, and liabilities. For a further description of the Company's liquidity needs, including maturing indebtedness, see the Liquidity and Capital Resources section of MD&A in this report. In the event the Company's current resources do not meet its needs, the Company may need to seek additional financing. The Company's access to additional funding will depend on a variety of factors such as market conditions, the general availability of credit to the financial services industry and its credit rating.

Should investors become concerned with any of the Company's investment holdings, including the concentration in JGBs, its access to market sources of funding could be negatively impacted. There is a possibility that lenders or debt investors may also become concerned if the Company incurs large investment losses or if the level of the Company's business activity decreases due to a market downturn or there are further adverse economic trends in the U.S. or Japan, specifically, or generally in developed markets. Similarly, the Company's access to funds may be impaired if regulatory authorities or rating agencies take negative actions. See more information on recent rating actions later in this Risk Factors section.

Broad economic factors such as consumer spending, business investment, government spending, the volatility and strength of the capital markets, and inflation all affect the business and economic environment and, indirectly, the amount and profitability of the Company's business. In an economic downturn characterized by higher unemployment, lower family income, lower corporate earnings, lower business investment and lower consumer spending, the demand for financial and insurance products could be adversely affected. This adverse effect could be particularly significant for companies such as Aflac that distribute supplemental, discretionary insurance products primarily through the worksite in the event that economic conditions result in a decrease in the number of new hires and total employees. Adverse changes in the economy could potentially lead the Company's customers to be less inclined to purchase supplemental insurance coverage or to decide to cancel or modify existing insurance coverage, which could adversely affect the Company's premium revenue, results of operations and financial condition. The Company is unable to predict the course of the global financial markets or the recurrence, duration or severity of disruptions in such markets.

### **Events, including those external to the Company's operations, could damage the Company's reputation.**

The Company has made significant investments in the Aflac brand over a long period of time. Because insurance products are intangible, the Company's ability to compete for and maintain policyholders relies to a large extent on consumer trust in the Company's business, including its alliance partners, sales associates and other distribution partners. The perception of unfavorable business practices or financial weakness with respect to the Company, its alliance partners, sales associates or other distribution partners could create doubt regarding the Company's ability to honor the commitments it has made to its policyholders. Such a perception could also negatively impact the Company's ability to attract and retain qualified sales associates, brokers and other distribution partners, including its alliance partners in Japan, and could have a material adverse effect on the Company's sales, results of operations and financial condition. Maintaining the Company's stature as a trustworthy

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insurer and responsible corporate citizen, which helps support the strength of the Company's brand, is critical to the Company's reputation and the failure or perceived failure to do so could adversely affect the Company's brand value, financial condition and results of operations. For example, negative publicity or allegations of unfavorable business practices or poor governance can be rapidly and widely shared over social or traditional media or other means, and could reduce demand for the Company's insurance products, reduce the Company's ability to recruit and retain employees, or lead to greater regulatory scrutiny of the Company's operations.

### **Extensive regulation and changes in legislation can impact profitability and growth.**

Aflac's insurance subsidiaries are subject to complex laws and regulations that are administered and enforced by a number of governmental authorities, including the FSA and Ministry of Finance (MOF) in Japan, and state insurance regulators, the SEC, the NAIC, the FIO, the U.S. Department of Justice, state attorneys general, the U.S. Commodity Futures Trading Commission, and the U.S. Treasury, including the Internal Revenue Service (IRS), in the U.S., each of which exercises a degree of interpretive latitude. In addition, proposals regarding the global regulation of insurance are under discussion, and changes to corporate form that attend the conversion of Aflac Japan to a subsidiary may introduce new forms of regulation compared to those with which the Company has historically been subject. For example, AAMJ is licensed as a discretionary asset manager under the Japan Financial Instruments and Exchange Act and is subject to rules of the Japan Investment Advisors Association, a self-regulatory organization with mandatory membership for Japan investment managers. Consequently, the Company is subject to the risk that compliance with any particular regulator's or enforcement authority's interpretation of a legal or regulatory issue may not result in compliance with another regulator's or enforcement authority's interpretation of the same issue, particularly when compliance is judged in hindsight. There is also a risk that any particular regulator's or enforcement authority's interpretation of a legal or regulatory issue may change over time to the Company's detriment. In addition, changes in the overall legal or regulatory environment may, even absent any particular regulator's or enforcement authority's interpretation of an issue changing, cause us to change the Company's views regarding the actions the Company needs to take from a legal or regulatory risk management perspective, thus necessitating changes to the Company's practices that may, in some cases, limit its ability to grow or otherwise negatively impact the profitability of the Company's business.

The primary purpose of insurance company regulatory supervision is the protection of insurance policyholders, rather than investors. The extent of regulation varies, but generally is governed by state statutes in the U.S. and by the FSA and the MOF in Japan. These systems of supervision and regulation cover, among other things:

- standards of establishing and setting premium rates and the approval thereof
- standards of minimum capital and reserve requirements and solvency margins, including RBC measures
- restrictions on, limitations on and required approval of certain transactions between the Company's insurance subsidiaries and their affiliates, including management fee arrangements
- restrictions on the nature, quality and concentration of investments
- restrictions on the types of terms and conditions that the Company can include in the insurance policies offered by its primary insurance operations
- limitations on the amount of dividends that insurance subsidiaries can pay
- the existence and licensing status of a company under circumstances where it is not writing new or renewal business
- certain required methods of accounting
- reserves for unearned premiums, losses and other purposes
- assignment of residual market business and potential assessments for the provision of funds necessary for the settlement of covered claims under certain policies provided by impaired, insolvent or failed insurance companies
- administrative practices requirements
- imposition of fines and other sanctions

Regulatory authorities periodically re-examine existing laws and regulations applicable to insurance companies and their products. Changes in these laws and regulations, or in interpretations thereof, could have a material adverse effect on the Company's financial condition and results of operations. If the Company's subsidiaries fail to meet the minimum capital or operational requirements established by its respective regulators, they could be subject to examination or corrective action, or the Company's financial strength ratings could be downgraded, or both.

Compliance with applicable laws and regulations is time consuming and personnel-intensive, and changes in these laws and regulations may materially increase the Company's direct and indirect compliance and other expenses of doing business, thus having a material adverse effect on the Company's financial condition and results of operations.



**The Company is exposed to foreign currency fluctuations in the yen/dollar exchange rate.**

Due to the size of Aflac Japan, where functional currency is the Japanese yen, fluctuations in the rate of exchange between the yen and the U.S. dollar can have a significant effect on the Company's reported financial position and results of operations. Aflac Japan's premiums and approximately half of its investment income are received in yen, and its claims and most expenses are paid in yen. Aflac Japan purchases yen-denominated assets and U.S. dollar-denominated assets, which may be hedged to yen, to support yen-denominated policy liabilities. These and other yen-denominated financial statement items are, however, translated into U.S. dollars for financial reporting purposes. Accordingly, fluctuations in the yen/dollar exchange rate can have a significant effect on the Company's reported financial position and results of operations. In periods when yen weakens, translating yen into U.S. dollars causes fewer U.S. dollars to be reported. When yen strengthens, translating yen into U.S. dollars causes more U.S. dollars to be reported. Any unrealized foreign currency translation adjustments are reported in accumulated other comprehensive income. As a result, yen weakening has the effect of suppressing current year results in relation to the prior year, while yen strengthening has the effect of magnifying current year results in relation to the prior year. In addition, the weakening of the yen relative to the U.S. dollar will generally adversely affect the value of the Company's yen-denominated investments in U.S. dollar terms.

The Company engages in certain foreign currency hedging activities for the purpose of hedging the yen exposure to its net investment in operations in Japan. These hedging activities are limited in scope, and the Company cannot provide assurance that these activities will be effective.

Unhedged U.S. dollar-denominated securities held by Aflac Japan are exposed to foreign exchange fluctuations, which impact SMR. In periods of yen strengthening, the unhedged U.S. dollar-denominated investments will experience unrealized foreign exchange losses, negatively impacting SMR. This impact increases when the size of the unhedged U.S. dollar-denominated portfolio increases, which can occur due to the purchase of additional unhedged U.S. dollar-denominated investments, or through termination or expiration of existing hedges. Unrealized currency gains and losses on unhedged U.S. dollar-denominated securities are monetized (or, in other words, are economically realized) only upon converting the proceeds from the sale, maturity or redemption of these securities to yen, which primarily occurs when yen are needed to satisfy policyholder obligations or other business expenses of Aflac Japan. To mitigate exposure to the foreign exchange risk from U.S. dollar-denominated investments and to reduce SMR volatility, the Company engages in certain currency hedging activities. However, these hedging activities are limited in scope and the Company cannot provide assurance that its hedging strategies will be effective. As a result, periods of unusually volatile currency exchange rates could result in limitations on dividends available to the Parent Company.

As indicated in the MD&A, the Company has determined that the unhedged U.S. dollar-denominated investment portfolio acts as a natural economic currency hedge of a portion of the Company's investment in Aflac Japan against erosion of economic value. However, the unhedged U.S. dollar-denominated investment portfolio at the same time creates an unmatched foreign currency exposure and subjects Aflac Japan to volatility in regulatory capital and earnings, which may adversely impact Aflac Japan's ability to pay dividends to the Parent Company. The overall investment strategy in Aflac Japan is guided primarily by the objective of securing the long-term financial strength of Aflac Japan and funding of yen liabilities. As a result, the Company has historically maintained and currently maintains the size of the unhedged portfolio at levels below the economic equity surplus in Aflac Japan. However, there can be no assurance that this strategy will be successful.

Furthermore, for regulatory accounting purposes, there are certain requirements for realizing impairments that could be triggered by changes in the rate of exchange between the yen and U.S. dollar and could negatively impact Aflac Japan's earnings and the corresponding dividends and capital deployment.

Additionally, the Company is exposed to currency risk when yen cash flows are converted into U.S. dollars, resulting in an increase or decrease in the Company's U.S. dollar-denominated cash flows and earnings when exchange gains or losses, respectively, are realized. This primarily occurs when the Company dividends funds from Aflac Japan to the Parent Company, but it also has an impact when cash in the form of yen is converted to U.S. dollars for investment into U.S. dollar-denominated assets. The exchange rates prevailing at the time of dividend payment may differ from the exchange rates prevailing at the time the yen profits were earned. In 2018, the Parent Company began entering into forward contracts to accomplish a dual objective of hedging foreign currency exchange rate risk related to dividend payments by Aflac Japan, and reducing enterprise-wide hedge costs. If the markets experience a significant strengthening of yen, this could cause cash strain at the Parent Company as a result of cash collateral and potentially cash settlement requirements. Based on the timing and severity of exchange rate fluctuations combined with the level of outstanding activity in this program, the cash strain at the Parent Company could be significant.

For more information regarding unhedged U.S. dollar-denominated securities, see the risk factor below entitled, "Lack of availability of acceptable yen-denominated investments could adversely affect the Company's results of operations, financial

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position or liquidity". For more information regarding foreign currency risk, see the Currency Risk subsection within the Market Risks of Financial Instruments section of MD&A.

### **Tax rates applicable to the Company may change.**

The Company is subject to taxation in Japan, and in the U.S. under federal and numerous state and local tax jurisdictions. In preparing the Company's financial statements, the Company estimates the amount of tax that will become payable, but the Company's effective tax rate may be different than estimates due to numerous factors including accounting for income taxes, the mix of earnings from Japan and the U.S., the results of tax audits, adjustments to the value of uncertain tax positions, changes to estimates and other factors. Further, changes in U.S. or Japan tax laws or interpretations of such laws could increase the Company's corporate taxes and reduce earnings.

In addition, it remains difficult to predict the timing and effect that future tax law changes could have on the Company's earnings both in the U.S. and in foreign jurisdictions. Any of these factors could cause the Company to experience an effective tax rate significantly different from previous periods or the Company's current estimates. If the Company's effective tax rate were to increase, the Company's financial condition and results of operations could be adversely affected.

### **A decline in the creditworthiness of other financial institutions could adversely affect the Company.**

The Company has exposure to and routinely executes transactions with counterparties in the financial services industry, including broker dealers, derivative counterparties, commercial banks and other institutions.

The Company uses derivative instruments to mitigate various risks associated with its investment portfolio, notes payable, and subsidiary dividends. The Company enters into a variety of agreements involving assorted instruments including foreign currency forward contracts; foreign currency options; foreign currency swaps; and interest rate swaps and swaptions. The Company's use of derivatives results in financial exposure to derivative counterparties. If the Company's counterparties fail or refuse to honor their obligations under derivative instruments, the Company's hedges of the risks will be ineffective, and the Company's financial condition and results of operations could be adversely affected.

The Company engages in derivative transactions directly with unaffiliated third parties under International Swaps and Derivatives Association, Inc. (ISDA) agreements and other documentation. Most of the ISDA agreements also include Credit Support Annexes (CSAs) provisions, which generally provide for two-way collateral postings at the first dollar of exposure. The Company mitigates the risk that counterparties to transactions might be unable to fulfill their contractual obligations by monitoring counterparty credit exposure and collateral value while generally requiring that collateral be posted at the outset of the transaction. In addition, a significant portion of the derivative transactions have provisions that give the counterparty the right to terminate the transaction upon a downgrade of Aflac's financial strength rating. The actual amount of payments that the Company could be required to make, depends on market conditions, the fair value of outstanding affected transactions, and other factors prevailing at and after the time of the downgrade. If the Company is required to post collateral to support derivative contracts and/or pay cash to settle the contracts at maturity, the Company's liquidity could be strained. In addition, the Company's cleared swaps result in counterparty exposure to clearing brokers and central clearinghouses; while this exposure is mitigated in part by clearinghouse and clearing broker capital and regulation, no assurance can be provided that these counterparties will fulfill their obligations. The Company also has exposure to counterparties to securities lending transactions in the event they fail to return loaned securities. The Company is also exposed to the risk that there may be a decline in value of securities posted as collateral for securities lending programs or a decline in value of investments made with cash posted as collateral for such programs.

Further, the Company has agreements with various financial institutions for the distribution of its insurance products. For example, at December 31, 2019, the Company had agreements with 367 banks to market Aflac's products in Japan. Sales through these banks represented 4.3% of Aflac Japan's new annualized premium sales in 2019. Any material adverse effect on these or other financial institutions could also have an adverse effect on the Company's sales.

The Company has entered into significant reinsurance transactions with large, highly rated counterparties. Negative events or developments affecting any one of these counterparties could have an adverse effect on the Company's financial position or results of operations.

All of these risks related to exposure to other financial institutions could adversely impact the Company's consolidated results of operations and financial condition.

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**The determination of the amount of impairments taken on the Company's investments is based on significant valuation judgments and could materially impact its results of operations or financial position.**

An investment in a fixed maturity security is impaired if the fair value falls below book value. The Company regularly reviews its entire investment portfolio for declines in value. The majority of the Company's investments are evaluated for other-than-temporary impairment using the Company's debt impairment model.

The Company's debt impairment model includes emphasis on the ultimate collection of the cash flows from its investments. The determination of the amount of impairments under this model is based upon the Company's periodic evaluation and assessment of known and inherent risks associated with the respective securities. Such evaluations and assessments are revised as conditions change and new information becomes available.

For the Company's fixed maturity securities reported in the available-for-sale portfolio, the Company reports the investments at fair value in the statement of financial condition and records any unrealized gain or loss in the value of the asset in accumulated other comprehensive income. For the Company's held-to-maturity securities portfolio, the Company reports the investments at amortized cost. Under the debt impairment model, the determination of whether an impairment in value is other than temporary is based largely on the Company's evaluation of the issuer's creditworthiness. The Company must apply considerable judgment in determining the likelihood of the security recovering in value while the Company owns it. Factors that may influence this include the Company's assessment of the issuer's ability to continue making timely payments of interest and principal, the overall level of interest rates and credit spreads, and other factors. The Company also verifies whether it has the intent to sell or if it is more likely than not the Company would be required to sell the security prior to recovery of its amortized cost. If the Company determines it is unlikely to recover the book value of the instrument prior to disposal of the security, the Company will reduce the carrying value of the security to its fair value and recognize any associated impairment loss in the Company's consolidated statement of earnings or other comprehensive income, depending on the nature of the loss.

For regulatory accounting purposes for Aflac Japan, there are certain requirements for realizing impairments that could be triggered by rising interest rates, credit-related losses, or changes in foreign exchange, negatively impacting Aflac Japan's earnings and corresponding dividend and capital deployment.

The Company's management updates its evaluations regularly as conditions change and as new information becomes available and reflects impairment losses in the Company's income statement when considered necessary. Furthermore, additional impairments may need to be taken in the future. Historical trends may not be indicative of future impairments.

**U.S. tax audit risk related to conversion of the Japan branch to a subsidiary could adversely impact the Company's financial position.**

The conversion of the Japan branch to a legal subsidiary, which the Company executed in the second quarter of 2018, was a complex, tax-free transaction that is conditioned on the continued validity of a private letter ruling the Company received from the IRS. Notwithstanding the receipt of the private letter ruling, the IRS could determine that the Japan branch conversion should be treated as a taxable transaction. For example, the IRS could conclude that the representations, assumptions and covenants on which the private letter ruling is based are untrue, not accurate, or have not been fulfilled. If the IRS made such a conclusion, the Company could incur significant U.S. federal income tax liabilities or litigation costs to defend the tax-free treatment of the transaction outlined by the private letter ruling. Such liabilities or costs could have a material adverse effect on the Company's business, results of operations and financial condition.

**As a holding company, the Parent Company depends on the ability of its subsidiaries to transfer funds to it to meet its debt service and other obligations and to pay dividends on its common stock.**

The Parent Company is a holding company and has no direct operations, and its most significant assets are the stock of its subsidiaries. Because the Parent Company conducts its operations through its operating subsidiaries, the Parent Company depends on those entities for dividends and other payments to generate the funds necessary to meet its debt service and other obligations, to pay dividends on and conduct repurchases of its common stock, and to make investments into its subsidiaries or external investment opportunities.

Aflac is domiciled in Nebraska and is subject to insurance regulations that impose certain limitations and restrictions on payments of dividends, management fees, loans and advances by Aflac to the Parent Company. The Nebraska insurance statutes require prior approval for dividend distributions that exceed the greater of the net income from operations, which excludes net realized investment gains, for the previous year determined under statutory accounting principles, or 10% of statutory capital and surplus as of the previous year-end. In addition, the Nebraska insurance department must approve

## Item 1A. Risk Factors

service arrangements and other transactions within the affiliated group of companies. After the Japan branch conversion, the Nebraska insurance department and the FSA approved their respective domiciled insurance company service arrangements and transactions. The FSA does not allow dividends or other payments from Aflac Japan unless it meets certain financial criteria as governed by Japanese corporate law. Under these criteria, dividend capacity at the Japan subsidiary will be defined as retained earnings plus other capital reserve less net after-tax net unrealized losses on available-for-sale securities.

The ability of Aflac and Aflac Japan to pay dividends or make other payments to the Parent Company could also be constrained by the Company's dependency on financial strength ratings from independent rating agencies. The Company's ratings from these agencies depend to a large extent on Aflac's capitalization level. Any inability of Aflac to pay dividends or make other payments to the Parent Company could have a material adverse effect on the Company's financial condition and results of operations.

For the foregoing reasons, there is no assurance that the earnings from, or other available assets of, the Parent Company's operating subsidiaries will be sufficient to make distributions to enable the Company to operate.

### **Any decrease in the Company's financial strength or debt ratings may have an adverse effect on its competitive position and access to liquidity and capital.**

Financial strength ratings can play an important role in establishing the competitive position of insurance companies. On an ongoing basis, NRSROs review the financial performance and condition of many insurers, including the Company and its competitors. They may assign multiple ratings including a financial strength rating, reflecting their view of the insurer's ability to pay claims on a timely basis, and ratings on an insurer's senior and subordinated debt obligations, indicating their view of an insurer's ability to make timely payments on their debt obligations.

NRSROs may change their ratings or outlook on an insurer's ratings due to a variety of factors including the NRSRO's assessment of the insurer's strength of operations and overall financial condition. Some factors that may influence ratings include competitive position; profitability; cash generation and other sources of liquidity; capital levels; quality of the investment portfolio; and perception of management capabilities. The ratings assigned to the Company by the NRSROs are important factors in the Company's ability to access liquidity and capital from the bank market, debt capital markets or other available sources, such as reinsurance transactions. Downgrades to the Company's credit ratings could give its derivative counterparties the right to require early termination of derivatives transactions or delivery of additional collateral, thereby adversely affecting the Company's liquidity.

In view of the difficulties experienced after the financial crisis by many financial institutions, including those in the insurance industry, the NRSROs have heightened the level of scrutiny that they apply to such institutions. Steps taken by the NRSROs include an increase in the frequency and scope of their reviews, additional information requests from the companies that they rate, including additional information regarding the valuation of investment securities held, and, in certain cases, an increase in the capital and other requirements employed in their models for maintenance of certain rating levels.

On September 16, 2015, S&P downgraded their credit rating of Japan's sovereign debt. Following this action, they also downgraded several other foreign insurers, including the Company. The Company's significant operations in Japan and corresponding regulation by the Japanese FSA, combined with its significant exposure to JGBs as outlined above, resulted in S&P downgrading the financial strength rating of Aflac's core insurance operations to A+ and the Parent Company's senior debt rating to A-, both with a stable outlook. While S&P made no further downgrades to the Company's ratings between 2016 and 2019, they state that a downgrade of Japan's sovereign rating could lead to a downgrade of the Company's financial strength rating. As a matter of policy, S&P rarely rates insurance companies above the sovereign long-term rating of the country of domicile because during times of stress, the sovereign's regulatory and supervisory powers may restrict an insurer's or financial system's flexibility. Moody's has also stated that the following factors could lead to a downgrade of the Company's ratings: a downgrade of the U.S. or Japanese operating entities; or a downgrade of the Government of Japan sovereign debt rating.

In addition to the impact on the Company's access to liquidity, as mentioned above, a downgrade of the Company's ratings could have a material adverse effect on agent recruiting and retention, sales, competitiveness and the marketability of its products which could negatively impact the Company's liquidity, operating results and financial condition. Additionally, sales through the bank channel in Japan could be adversely affected as a result of their reliance and sensitivity to ratings levels.

## Item 1A. Risk Factors

The Company cannot predict what actions rating agencies may take, or what actions the Company may take in response to the actions of rating agencies, which could adversely affect the Company's business. As with other companies in the financial services industry, the Company's ratings could be downgraded at any time and without any notice by any NRSRO.

### **The Company's risk management policies and procedures may prove to be ineffective and leave the Company exposed to unidentified or unanticipated risk, which could adversely affect the Company's businesses or result in losses.**

The Company has developed an enterprise-wide risk management and governance framework to mitigate risk and loss to the Company. The Company maintains policies, procedures and controls intended to identify, measure, monitor, report and analyze the risks to which the Company is exposed.

However, there are inherent limitations to risk management strategies because risk may exist, or emerge in the future, that the Company has not appropriately anticipated or identified. If the Company's risk management framework proves ineffective, the Company may suffer unexpected losses and could be materially adversely affected. As the Company's businesses change and the markets in which it operates evolve, the Company's risk management framework may not evolve at the same pace as those changes. As a result, there is a risk that new products or new business strategies may present risks that are not appropriately identified, monitored or managed. In times of market stress, unanticipated market movements or unanticipated claims experience resulting from greater than expected morbidity, mortality, longevity, or persistency, the effectiveness of the Company's risk management strategies may be limited, resulting in losses to the Company. In addition, under difficult or less liquid market conditions, the Company's risk management strategies may not be effective because other market participants may be using the same or similar strategies to manage risk under the same challenging market conditions. In such circumstances, it may be difficult or more expensive for the Company to mitigate risk due to the activity of such other market participants.

Many of the Company's risk management strategies or techniques are based upon historical customer and market behavior and all such strategies and techniques are based to some degree on management's subjective judgment. The Company cannot provide assurance that its risk management framework, including the underlying assumptions or strategies, will be accurate and effective.

Management of operational, legal and regulatory risks requires, among other things, policies, procedures and controls to record properly and verify a large number of transactions and events, and these policies, procedures and controls may not be fully effective. Models are utilized by the Company's businesses and corporate areas primarily to project future cash flows associated with pricing products, calculating reserves and valuing assets, as well as in evaluating risk and determining capital requirements, among other uses. These models are utilized under a risk management policy approved by the Company's executive risk management committees, however, the models may not operate properly and rely on assumptions and projections that are inherently uncertain. As the Company's businesses continue to grow and evolve, the number and complexity of models the Company utilizes expands, increasing the Company's exposure to error in the design, implementation or use of models, including the associated input data and assumptions.

Past or future misconduct by the Company's employees or employees of the Company's third parties (suppliers which are cost-based relationships and alliance partners which are revenue-generating relationships) could result in violations of law by the Company, regulatory sanctions and/or serious reputational or financial harm and the precautions the Company takes to prevent and detect this activity may not be effective in all cases. Despite the Company's published Supplier Code of Conduct, due diligence of the Company's alliance partners, and rigorous contracting procedures (including financial, legal, IT security, and risk reviews), there can be no assurance that controls and procedures that the Company employs, which are designed to assess third party viability and prevent the Company from taking excessive or inappropriate risks, will be effective. Additionally, the use of third parties also poses operational risks that could result in financial loss, operational disruption, brand damage, or compliance issues. Inadequate oversight of Aflac's third party suppliers due to the lack of policies, procedures, training and governance may lead to financial loss or damage to the Aflac brand.

### **The concentration of the Company's investment portfolios in any particular single-issuer or sector of the economy may have an adverse effect on the Company's financial position or results of operations.**

Negative events or developments affecting any particular single issuer, industry, group of related industries, asset class or geographic sector may have an adverse impact on a particular holding or set of holdings, which may increase risk of loss from defaults due to non-payment of interest or principal. The Company seeks to minimize this risk by maintaining an appropriate level of diversification. To the extent the Company has concentrated positions, it could have an adverse effect on the Company's results of operations and financial position. The Company's global investment guidelines establish

## Item 1A. Risk Factors

concentration limits for its investment portfolios.

For details on the concentrations within the Company's investment portfolios, see the Investments section of Item 7, MD&A, and the Credit Risk section of Item 7A, Quantitative and Qualitative Disclosures about Market Risk, of this Form 10-K.

**The valuation of the Company's investments and derivatives includes methodologies, estimations and assumptions which are subject to differing interpretations and could result in changes to investment valuations that may adversely affect the Company's results of operations or financial condition.**

The Company reports a significant amount of its fixed maturity securities and other financial instruments at fair value. As such, valuations may include inputs and assumptions that are less observable or require greater estimation as well as valuation methods which are more sophisticated, thereby resulting in values which may be greater or less than the value at which the investments may be ultimately sold. Rapidly changing and unprecedented credit and equity market conditions could materially impact the valuation of securities as reported within the Company's consolidated financial statements and the period-to-period changes in value could vary significantly.

Valuations of the Company's derivatives fluctuate with changes in underlying market variables, such as interest rates and foreign currency exchange rates. During periods of market turbulence created by political instability, economic uncertainty, government interventions or other factors, the Company may experience significant changes in the volatility of its derivative valuations. Extreme market conditions can also affect the liquidity of such instruments creating marked differences in transaction levels and counterparty valuations. Depending on the severity and direction of the movements in its derivative valuations, the Company will face increases in the amount of collateral required to be posted with its counterparties. Liquidity stresses to the Company may also occur if the required collateral amounts increase significantly over a very short period of time. Conversely, the Company may be exposed to an increase in counterparty credit risk for short periods of time while calling collateral from its counterparties.

Elimination of LIBOR as an interest rate benchmark may create uncertainty in valuation of loans, derivatives and other assets where valuation and interest rates are based on LIBOR, and may create uncertainty in the pricing of such assets in markets for their sale and disposition.

For further discussion on investment and derivative valuations, see the Critical Accounting Estimates section in Item 7, Management's Discussion and Analysis, and Notes 1, 3, 4, and 5 of the Notes to the Consolidated Financial Statements in this Form 10-K.

**The Company depends heavily on key management personnel, and the loss of services of one or more of its key executives could harm the Company's business.**

The Company's success depends to a significant extent upon the efforts and abilities of its key management personnel. The loss of the services of one or more of the Company's senior executives could significantly undermine its management expertise and the Company's business could be adversely affected.

**Changes in accounting standards issued by the Financial Accounting Standard Boards (FASB) or other standard-setting bodies may adversely affect the Company's financial statements.**

The Company's financial statements are subject to the application of U.S. GAAP, which is periodically revised and/or expanded. Accordingly, from time to time the Company is required to adopt new or revised accounting standards issued by recognized authoritative bodies, including the FASB. The impact of accounting pronouncements that have been issued but not yet implemented and are applicable to the Company is disclosed in Note 1 of the Notes to the Consolidated Financial Statements. The pronouncements expected to have the most significant impact on the Company's financial position or results of operations are outlined below.

In June 2016, the FASB issued Accounting Standard Update (ASU) 2016-13, *Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments*. The amendments in this update require a financial asset (or a group of financial assets) measured on an amortized cost basis to be presented net of an allowance for current expected credit losses in order to reflect the amount expected to be collected on the financial asset(s). The Company currently estimates the after-tax net impact from the adoption of ASU 2016-13 at a \$56 million decrease to retained earnings, which primarily relates to loans and loan receivables. The amendments are effective for fiscal years beginning after December 15, 2019.



## Item 1A. Risk Factors

Additionally, in August 2018 the FASB issued ASU 2018-12, *Financial Services - Insurance, Targeted Improvements to the Accounting for Long-Duration Contracts*. The amendments in this update will significantly change how insurers account for long-duration contracts. Among the issues addressed in the amendments is the requirement to review and, if there is a change, update cash flow assumptions for the liability for future policy benefits at least annually, and to update the discount rate assumption quarterly. The Company anticipates that the requirement to review and update assumptions for liability for future policy benefits will have a significant impact on its results of operations, systems, processes, and controls, while the requirement to update the discount rate will have a significant impact on the other comprehensive income component of its equity. The amendments are effective for fiscal years beginning after December 15, 2021. See Critical Accounting Estimates section of Item 7. MD&A in this report.

Changes to accounting standards could have a material adverse effect on the Company's results of operations and financial condition. For information on new accounting pronouncements and the impact, if any, on the Company's financial position or results of operations, see Note 1 of the Notes to the Consolidated Financial Statements in this report.

### **The Company faces risks related to litigation, regulatory investigations and inquiry and other matters.**

The Company is a defendant in various lawsuits considered to be in the normal course of business. The final results of any litigation cannot be predicted with certainty, and plaintiffs may seek very large amounts in class actions or other litigation. Although some of this litigation is pending in states where large punitive damages, bearing little relation to the actual damages sustained by plaintiffs, have been awarded in recent years, the Company believes the outcome of pending litigation will not have a material adverse effect on its financial position, results of operations, or cash flows. However, a substantial legal liability or a significant federal, state or other regulatory action against the Company, as well as regulatory inquiries or investigations, could harm the Company's reputation, result in changes in operations, result in material fines or penalties, result in significant costs due to legal fees, settlements or judgments against the Company, or otherwise have a material adverse effect on the Company's business, financial condition and results of operations. Without limiting the foregoing, the litigation and regulatory matters the Company is, has been, or may become, subject to include matters related to sales agent recruiting, policy sales practices, claim payments and procedures including denial or delay of benefits, material misstatements or omissions in the Company's financial reports or other public statements, and/or corporate governance, corporate culture or business ethics matters. Further, the Company may be subject to claims of or litigation regarding sexual or other forms of misconduct or harassment, or discrimination on the basis of race, color, national origin, religion, gender, or other bases, notwithstanding that the Company's Code of Business Conduct and Ethics prohibits such harassment and discrimination by its employees, the Company has ongoing training programs and provide opportunities to report claims of noncompliant conduct, and it investigates and may take disciplinary action regarding alleged harassment or discrimination. Any violations of or deviation from laws, regulations, internal or external codes or standards of normative behavior, or perceptions of such violations or deviations, by the Company's employees or by independent sales agents could adversely impact the Company's reputation and brand value, financial condition and results of operations.

### **Allegations or determinations of agent misclassification could adversely affect the Company's results of operations, financial condition and liquidity.**

A majority of the Company's U.S. sales force is, and has historically been, comprised of independent agents. While the Company believes that it has properly classified such agents as independent contractors, the Company may be subject to claims, regulatory action by state or federal departments of labor or tax authorities or litigation asserting that such agents are employees. The laws and regulations governing the classification of workers in the U.S. may be changed or interpreted differently compared to past interpretations, including in states where the Company generates significant sales through independent agents. An allegation or determination that independent agents in the Company's U.S. sales force have been misclassified as independent contractors could result in changes in the Company's operations and U.S. business model, result in material fines or penalties, result in significant costs due to legal fees, settlements or judgments against the Company, or otherwise have a material adverse effect on the Company's business, results of operation, financial condition and liquidity.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.



## [Item 2. Properties](#)

### **ITEM 2. PROPERTIES**

In the U.S., Aflac owns land and buildings that comprise two primary campuses located in Columbus, Georgia. These campuses include buildings that serve as the Company's worldwide headquarters and house administrative support and information technology functions for U.S. operations. Aflac leases office space in Columbia, South Carolina, which houses the Company's CAIC subsidiary (branded as Aflac Group Insurance). Aflac also leases office space in New York that houses the Company's Global Investment division. Aflac also leases administrative office space throughout the U.S., Puerto Rico and the United Kingdom.

In Tokyo, Japan, Aflac has three primary campuses. The first campus includes a building, owned by Aflac, for the customer call center, the claims department, information technology departments, and training facility. It also includes a leased property, which houses Aflac Japan's policy administration and customer service departments. The second campus comprises leased space, which serves as Aflac Japan's headquarters and houses administrative and investment support functions. The third campus comprises leased space for the information technology departments. Aflac also leases additional office space in Tokyo, along with regional offices located throughout the country.

### **ITEM 3. LEGAL PROCEEDINGS**

The Company is a defendant in various lawsuits considered to be in the normal course of business. Members of the Company's senior legal and financial management teams review litigation on a quarterly and annual basis. The final results of any litigation cannot be predicted with certainty. Although some of this litigation is pending in states where large punitive damages, bearing little relation to the actual damages sustained by plaintiffs, have been awarded in recent years, the Company believes the outcome of pending litigation will not have a material adverse effect on its financial position, results of operations, or cash flows.

### **ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**PART II**

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

**Market Information**

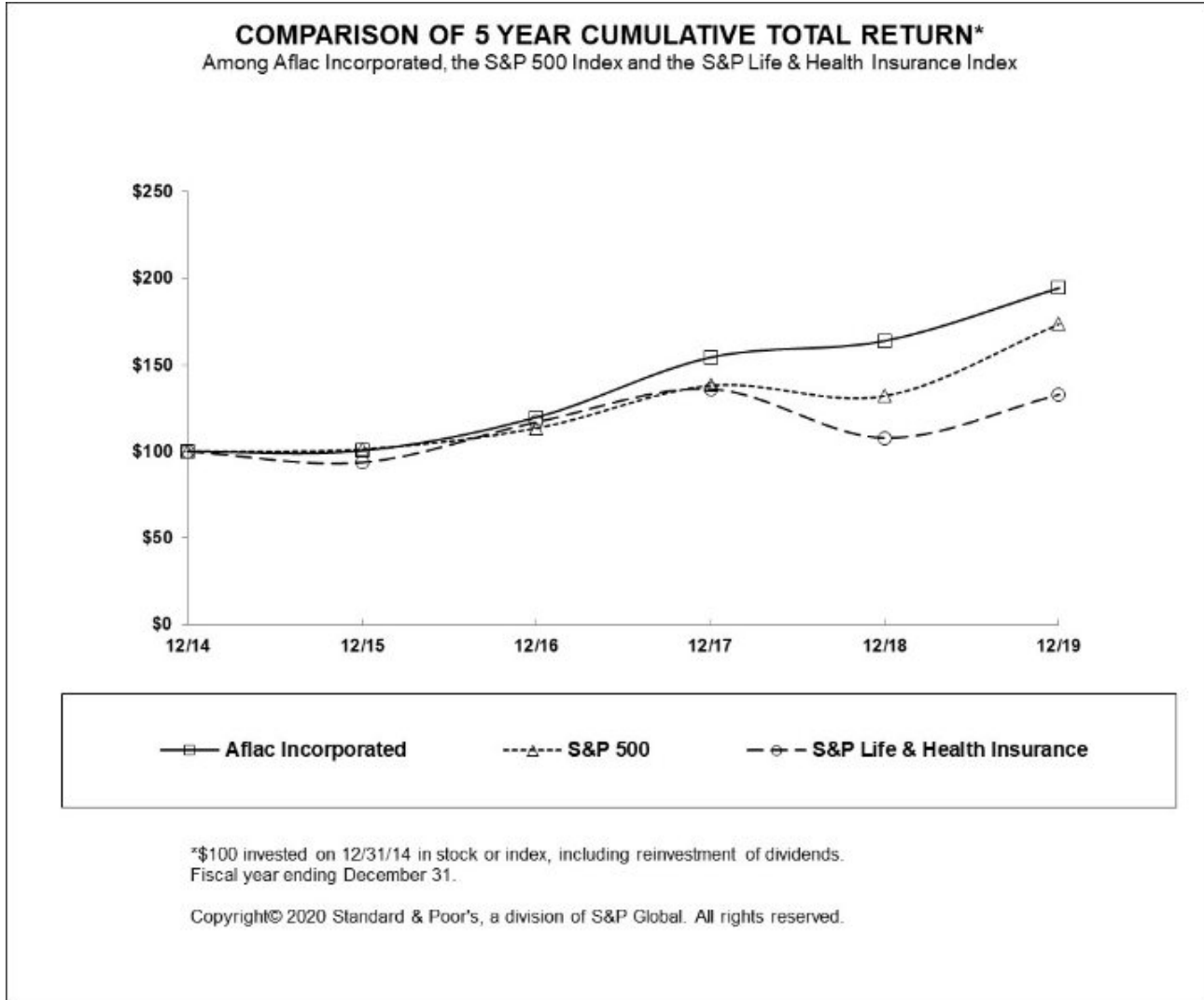
Aflac Incorporated's common stock is principally traded on the New York Stock Exchange under the symbol AFL. Until the beginning of October 2019, Aflac Incorporated's stock was also listed on the Tokyo Stock Exchange under designator 8686.

**Holdings**

As of February 12, 2020, there were 86,223 holders of record of the Company's common stock.

**Stock Performance Graph**

The following graph compares the five-year performance of the Company's common stock to the Standard & Poor's 500 Index (S&P 500) and the Standard & Poor's Life and Health Insurance Index (S&P Life and Health). The Standard & Poor's Life and Health Insurance Index includes: Aflac Incorporated, Globe Life Inc., Lincoln National Corporation, MetLife Inc., Principal Financial Group Inc., Prudential Financial Inc. and Unum Group.



**Performance Graphic Index  
December 31,**

	2014	2015	2016	2017	2018	2019
Aflac Incorporated	100.00	100.52	119.73	154.45	164.04	194.48
S&P 500	100.00	101.38	113.51	138.29	132.23	173.86
S&P Life & Health Insurance	100.00	93.69	116.98	136.20	107.91	132.92

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**Issuer Purchases of Equity Securities**

During the year ended December 31, 2019, the Company repurchased shares of Aflac common stock as follows:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs</b>
January 1 - January 31	4,465,400	\$ 46.44	4,465,400	64,582,487
February 1 - February 28	4,170,417	48.65	3,624,583	60,957,904
March 1 - March 31	2,162,830	49.50	2,147,500	58,810,404
April 1 - April 30	2,177,000	49.21	2,177,000	56,633,404
May 1 - May 31	2,813,277	50.99	2,812,850	53,820,554
June 1 - June 30	1,964,259	54.44	1,952,000	51,868,554
July 1 - July 31	1,360,017	54.33	1,360,017	50,508,537
August 1 - August 31	2,491,225	51.22	2,483,400	48,025,137
September 1 - September 30	2,111,075	51.81	2,103,600	45,921,537
October 1 - October 31	2,476,152	52.43	2,476,100	43,445,437
November 1 - November 30	1,938,000	54.03	1,938,000	41,507,437
December 1 - December 31	4,456,463	52.92	4,453,824	37,053,613
<b>Total</b>	<b>32,586,115</b> <sup>(1)</sup>	<b>\$ 50.82</b>	<b>31,994,274</b>	<b>37,053,613</b>

<sup>(1)</sup>During the year ended December 31, 2019, 591,841 shares were purchased in connection with income tax withholding obligations related to the vesting of restricted-share-based awards during the period.

As of December 31, 2019, a remaining balance of 37.1 million shares of the Company's common stock was available for purchase under share repurchase authorizations by its Board of Directors.

ITEM 6. SELECTED FINANCIAL DATA

Aflac Incorporated and Subsidiaries  
Years Ended December 31,

(In millions, except for share and per-share amounts)	2019	2018	2017	2016	2015
<b>Revenues:</b>					
Net premiums, principally supplemental health insurance	\$ 18,780	\$ 18,677	\$ 18,531	\$ 19,225	\$ 17,570
Net investment income	3,578	3,442	3,220	3,278	3,135
Realized investment gains (losses)	(135)	(430)	(151)	(14)	106
Other income	84	69	67	70	61
Total revenues	22,307	21,758	21,667	22,559	20,872
<b>Benefits and expenses:</b>					
Benefits and claims, net	11,942	12,000	12,181	12,919	11,746
Expenses	5,920	5,775	5,468	5,573	5,264
Total benefits and expenses	17,862	17,775	17,649	18,492	17,010
Pretax earnings	4,445	3,983	4,018	4,067	3,862
Income taxes	1,141	1,063	(586)	1,408	1,329
Net earnings	\$ 3,304	\$ 2,920	\$ 4,604	\$ 2,659	\$ 2,533
<b>Share and Per-Share Amounts</b>					
Net earnings (basic)	\$ 4.45	\$ 3.79	\$ 5.81	\$ 3.23	\$ 2.94
Net earnings (diluted)	4.43	3.77	5.77	3.21	2.92
Cash dividends paid	1.08	1.04	.87	.83	.79
Cash dividends declared	1.08	1.04	.87	.83	.79
Weighted-average common shares used for basic EPS (In thousands)	742,414	769,588	792,042	822,942	861,307
Weighted-average common shares used for diluted EPS (In thousands)	746,430	774,650	797,861	827,841	866,344
<b>Supplemental Data</b>					
Yen/dollar exchange rate at year-end (yen)	109.56	111.00	113.00	116.49	120.61
Weighted-average yen/dollar exchange rate (yen)	109.07	110.39	112.16	108.70	120.99

Item 6. Selected Financial Data

Aflac Incorporated and Subsidiaries  
December 31,

(In millions)	2019	2018	2017	2016	2015
<b>Assets:</b>					
Investments and cash	\$ 138,091	\$ 126,243	\$ 123,659	\$ 116,361	\$ 105,897
Other	14,677	14,163	13,558	13,458	12,359
<b>Total assets</b>	<b>\$ 152,768</b>	<b>\$ 140,406</b>	<b>\$ 137,217</b>	<b>\$ 129,819</b>	<b>\$ 118,256</b>
<b>Liabilities and shareholders' equity:</b>					
Policy liabilities	\$ 106,554	\$ 103,188	\$ 99,147	\$ 93,726	\$ 87,631
Income taxes	5,370	4,020	4,745	5,387	4,340
Notes payable and lease obligations <sup>(1)</sup>	6,569	5,778	5,289	5,360	4,971
Other liabilities	5,316	3,958	3,438	4,864	3,606
Shareholders' equity	28,959	23,462	24,598	20,482	17,708
<b>Total liabilities and shareholders' equity</b>	<b>\$ 152,768</b>	<b>\$ 140,406</b>	<b>\$ 137,217</b>	<b>\$ 129,819</b>	<b>\$ 118,256</b>

<sup>(1)</sup> See Note 1 of the Notes to the Consolidated Financial Statements for the adoption of accounting guidance on January 1, 2019 related to leases. Prior-year amounts have been adjusted for the adoption of accounting guidance on January 1, 2016 related to debt issuance costs.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*Certain statements included in this section constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements are made based on management's current expectations and beliefs concerning future developments and their potential effects upon the Company. The Company's actual results may differ, possibly materially, from expectations or estimates reflected in such forward-looking statements. Certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements can be found in the "Risk Factors" and "Forward-Looking Statements" sections herein.*

### MD&A OVERVIEW

The following financial review provides a discussion of the Company's results of operations and financial condition, as well as a summary of the Company's critical accounting estimates. This section should be read in conjunction with Part I - Item 1. Business and the audited consolidated financial statements and accompanying notes included in Part II - Item 8. Financial Statements and Supplementary Data of this report. This MD&A is divided into the following sections:

	<u>Page</u>
<a href="#">Executive Summary</a>	<a href="#">35</a>
<a href="#">Industry Trends</a>	<a href="#">35</a>
<a href="#">Outlook</a>	<a href="#">36</a>
<a href="#">Results of Operations</a>	<a href="#">37</a>
<a href="#">Investments</a>	<a href="#">49</a>
<a href="#">Policy Liabilities</a>	<a href="#">57</a>
<a href="#">Benefit Plans</a>	<a href="#">57</a>
<a href="#">Policyholder Protection</a>	<a href="#">57</a>
<a href="#">Off Balance Sheet Arrangements</a>	<a href="#">57</a>
<a href="#">Liquidity and Capital Resources</a>	<a href="#">58</a>
<a href="#">Critical Accounting Estimates</a>	<a href="#">64</a>

The Company elected to omit discussion on the earliest of the three years covered by the consolidated financial statements presented in Item 8. Financial Statements and Supplementary Data. Readers should refer to Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations located in the Company's [Annual Report on Form 10-K for the year ended December 31, 2018](#), filed on February 25, 2019, for reference to discussion of the year ended December 31, 2017, the earliest of the three years presented. Amounts reported in this MD&A may not add due to rounding.



## EXECUTIVE SUMMARY

For the full year of 2019, total revenues were up 2.5% to \$22.3 billion, compared with \$21.8 billion for the full year of 2018. Net earnings were \$3.3 billion, or \$4.43 per diluted share, compared with \$2.9 billion, or \$3.77 per diluted share, for the full year of 2018.

Results for 2019 included pretax net realized investment losses of \$135 million, compared with net realized investment losses of \$430 million in 2018. Net investment losses in 2019 included \$31 million of other-than-temporary impairment losses and changes in loan loss reserves; \$236 million in net losses from certain derivatives and foreign currency gains or losses; \$101 million of net gains on equity securities; and \$31 million of net gains from sales and redemptions.

The average yen/dollar exchange rate<sup>(1)</sup> in 2019 was 109.07, or 1.2% stronger than the rate of 110.39 in 2018.

Adjusted earnings<sup>(2)</sup> for the full year of 2019 were \$3.3 billion, or \$4.44 per diluted share, compared with \$3.2 billion, or \$4.16 per diluted share, in 2018. The stronger yen/dollar exchange rate impacted adjusted earnings per diluted share by \$.02.

Total investments and cash at the end of December 2019 were \$138.1 billion, compared with \$126.2 billion at December 31, 2018. In 2019, Aflac Incorporated repurchased \$1.6 billion, or 32.0 million of its common shares. At the end of December, the Company had 37.1 million remaining shares authorized for repurchase.

Shareholders' equity was \$29.0 billion, or \$39.84 per share, at December 31, 2019, compared with \$23.5 billion, or \$31.06 per share, at December 31, 2018. Shareholders' equity at December 31, 2019 included a net unrealized gain on investment securities and derivatives of \$8.5 billion, compared with a net unrealized gain of \$4.2 billion at December 31, 2018. Shareholders' equity at December 31, 2019 also included an unrealized foreign currency translation loss of \$1.6 billion, compared with an unrealized foreign currency translation loss of \$1.8 billion at December 31, 2018. The annualized return on average shareholders' equity in 2019 was 12.6%.

Shareholders' equity excluding accumulated other comprehensive income (AOCI)<sup>(2)</sup> (adjusted book value) was \$22.3 billion, or \$30.74 per share at December 31, 2019, compared with \$21.3 billion, or \$28.22 per share, at December 31, 2018. The annualized adjusted return on equity excluding foreign currency impact<sup>(2)</sup> in 2019 was 15.1%.

## INDUSTRY TRENDS

The Company is impacted by financial markets, economic conditions, regulatory oversight and a variety of trends that affect the industries where it competes.

### [Financial and Economic Environment](#)

The Company's business and results of operations are materially affected by conditions in the global capital markets and the economy generally. Stressed conditions, volatility and disruptions in global capital markets, particular markets, or financial asset classes can have an adverse effect on the Company, in part because the Company has a large investment portfolio and its insurance liabilities and derivatives are sensitive to changing market factors. See Item 1A. Risk Factors for the risk factor entitled, "Difficult conditions in global capital markets and the economy could have a material adverse effect on the Company's investments, capital position, revenue, profitability, and liquidity and harm the Company's business."

### [Demographics](#)

Japan Business - With Japan's aging population and the rise in healthcare costs, supplemental health care insurance products remain attractive. However, due to the aging population and decline in birthrate, new opportunities for customer demographics are not as readily available. Japan's existing customers and potential customers seek products that are easily understood, cost-effective and can be accessed through technology-enabled devices.

<sup>(1)</sup> Yen/U.S. dollar exchange rates are based on the published MUFU Bank, Ltd. telegraphic transfer middle rate (TTM).

<sup>(2)</sup> See the Results of Operations section of this MD&A for a definition of this non-U.S. GAAP financial measure.

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U.S. Business - Customer demographics continue to evolve and new opportunities present themselves in different customer segments such as the millennial and multicultural markets. Customer expectations and preferences are changing. Trends indicate existing customers and potential customers seek cost-effective solutions that are easily understood and can be accessed through technology-enabled devices. Additionally, income protection and the health needs of retiring baby boomers are continuing to shape the insurance industry.

### Regulatory Environment

See Item 1. Business - Aflac U.S. Regulation and Aflac Japan Regulation for a discussion of regulatory developments that may impact the Company and the associated risks.

### Competitive Environment

See Item 1. Business - Aflac U.S. Competition and Aflac Japan Competition for a discussion of the competitive environment and the basis on which the Company competes in each of its segments.

## **2020 OUTLOOK**

The Company's strategy to drive long-term shareholder value is to pursue growth through product development, distribution expansion and digital advancements to improve the customer experience.

The Company's objectives in 2020 are to maintain strong pre-tax margins in its Aflac Japan and Aflac U.S. segments through disciplined product pricing, stable investment returns and leveraging a period of favorable benefit ratios to invest in its platform for future growth and efficiency. The Company believes that its market-leading position, powerful brand recognition and diverse distribution in Japan and the U.S. will provide support toward these objectives.

The Company believes that its efforts will support its prudent strategies for capital deployment in the form of dividends, share repurchases, and opportunistic investments that enhance the Company's business with a focus on digital distribution and leveraging the Company's brand, distribution and scale. The Company has stated that the dividend payout ratio from its Aflac Japan segment is likely to be to 100% of FSA earnings from Aflac Japan and 100% of U.S. statutory earnings from Aflac U.S. In its Aflac U.S. segment, the Company plans to maintain a risk-based capital (RBC) ratio in the 500% range for 2020.

### Aflac Japan Segment

In Japan, the Company anticipates that the shift in earned premium from first sector savings products to third sector cancer and medical products and first sector protection products, will continue to result in moderately lower benefit ratios in the Aflac Japan segment. The Company also expects this shift in business mix, plus continued investment in IT and digital advancements, to result in moderately higher expense ratios for Aflac Japan. The Company anticipates the Japan segment will face revenue challenges in 2020 due to the run-off and paid-up status of first sector savings and third sector products. The Company expects a decline in the range of .7% in third sector and first sector protection earned premium for 2020. In addition, net investment income is expected to decline modestly as compared to 2019, due in part to the low interest rate environment in Japan and de-risking of the portfolio, partially offset by lower hedge cost as a result of a reduction in the hedge ratio in the fourth quarter of 2019.

### Aflac U.S. Segment

The Company expects the profit margins for the Aflac U.S. segment to remain strong, providing a prudent opportunity to reinvest profits back into the U.S. business. The Company anticipates that in 2020, benefit ratios in the U.S. will remain stable and that expense ratios will continue to be elevated in light of investments into U.S. platforms in both the individual and group channels. The Company expects Aflac U.S. to generate earned premium growth in the range of 1% in 2020. Net investment income is expected to decline modestly, primarily as the result of the Company's implemented U.S. capital and RBC draw-down plan.

### Corporate and Other Segment

The Company expects corporate segment results to benefit from net investment income driven by increased capital and liquidity held at the Parent Company, as well as the increase in size of the Company's enterprise currency hedging strategy. The anticipated increase in investment income is expected to be partially offset by increased costs associated with continued investment in Aflac Corporate Ventures initiatives.

For important disclosures applicable to statements made in this 2020 Outlook, please see the Risk Factors section and the statement on Forward-Looking Information at the beginning of Item 1. Business, the Risk Factors identified in Item 1A. and Item 7. Management Discussion and Analysis.

## RESULTS OF OPERATIONS

The Company earns its revenues principally from insurance premiums and investments. The Company's operating expenses primarily consist of insurance benefits provided and reserves established for anticipated future insurance benefits, general business expenses, commissions and other costs of selling and servicing its products. Profitability for the Company depends principally on its ability to price its insurance products at a level that enables the Company to earn a margin over the costs associated with providing benefits and administering those products. Profitability also depends on, among other items, actuarial and policyholder behavior experience on insurance products, and the Company's ability to attract and retain customer assets, generate and maintain favorable investment results, effectively deploy capital and utilize tax capacity, and manage expenses.

Yen-denominated income statement accounts are translated to U.S. dollars using a weighted average Japanese yen/U.S. dollar foreign exchange rate, except realized gains and losses on security transactions which are translated at the exchange rate on the trade date of each transaction. Yen-denominated balance sheet accounts are translated to U.S. dollars using a spot Japanese yen/U.S. dollar foreign exchange rate.

The following discussion includes references to the Company's performance measures, adjusted earnings, adjusted earnings per diluted share, and amortized hedge costs/income, which are not calculated in accordance with U.S. GAAP (non-U.S. GAAP). These measures exclude items that the Company believes may obscure the underlying fundamentals and trends in the Company's insurance operations because they tend to be driven by general economic conditions and events or related to infrequent activities not directly associated with its insurance operations. The Company's management uses adjusted earnings and adjusted earnings per diluted share to evaluate the financial performance of its insurance operations on a consolidated basis, and the Company believes that a presentation of these measures is vitally important to an understanding of its underlying profitability drivers and trends of its insurance business. The Company believes that amortized hedge costs/income, which are a component of adjusted earnings, 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.

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

- Adjusted earnings are 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 per share (basic or diluted) are adjusted earnings for the period divided by the weighted average outstanding shares (basic or diluted) for the period presented. The most comparable U.S. GAAP measure is net earnings per share.
- 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.
- Adjusted earnings and adjusted earnings per diluted share 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.

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- Amounts excluding foreign currency impact on U.S. dollar-denominated investment income were determined using the average dollar/yen exchange rate for the comparable prior year period.
- 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. The Company considers adjusted book value important as it excludes AOCI, which fluctuates due to market movements that are outside management's control.
- Adjusted return on equity (ROE) 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 AOCI. The most comparable U.S. GAAP financial measure is return on average equity as determined using net earnings and average total shareholders' equity.

The following table is a reconciliation of items impacting adjusted earnings and adjusted earnings per diluted share to the most directly comparable U.S. GAAP measures of net earnings and net earnings per diluted share, respectively, for the years ended December 31.

### Reconciliation of Net Earnings to Adjusted Earnings<sup>(1)</sup>

	In Millions		Per Diluted Share	
	2019	2018	2019	2018
Net earnings	\$ 3,304	\$ 2,920	\$ 4.43	\$ 3.77
Items impacting net earnings:				
Realized investment (gains) losses <sup>(2),(3),(4),(5)</sup>	15	297	.02	.38
Other and non-recurring (income) loss	1	75	.00	.10
Income tax (benefit) expense on items excluded from adjusted earnings	(3)	(83)	.00	(.11)
Tax reform adjustment <sup>(6)</sup>	(4)	18	(.01)	.02
Adjusted earnings	3,314	3,226	4.44	4.16
Current period foreign currency impact <sup>(7)</sup>	(15)	N/A	(.02)	N/A
Adjusted earnings excluding current period foreign currency impact	\$ 3,299	\$ 3,226	\$ 4.42	\$ 4.16

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

<sup>(2)</sup> Amortized hedge costs of \$257 in 2019 and \$236 in 2018, related to certain foreign currency exposure management strategies have been reclassified from realized investment gains (losses) and included in adjusted earnings as a decrease to net investment income. See "Hedge Costs/Income" discussion below for further information.

<sup>(3)</sup> Amortized hedge income of \$89 in 2019 and \$36 in 2018, related to certain foreign currency exposure management strategies have been reclassified from realized investment gains (losses) and included in adjusted earnings as an increase to net investment income. See "Hedge Costs/Income" discussion below for further information.

<sup>(4)</sup> Net interest cash flows from derivatives associated with certain investment strategies of \$(17) in 2019 and an immaterial amount for 2018 have been reclassified from realized investment gains (losses) and included in adjusted earnings as a component of net investment income.

<sup>(5)</sup> A gain of \$66 in 2019 and \$67 in 2018, respectively, related to the interest rate component of the change in fair value of foreign currency swaps on notes payable have been reclassified from realized investment gains (losses) and included in adjusted earnings as a component of interest expense.

<sup>(6)</sup> The impact of Tax Reform was adjusted in 2018 for return-to-provision adjustments, various amended returns filed by the company, and final true-ups of deferred tax liabilities. Further impacts were recorded in 2019 a result of additional guidance released by the IRS.

<sup>(7)</sup> Prior period foreign currency impact reflected as "N/A" to isolate change for current period only.

### Reconciling Items

#### Realized Investment Gains and Losses

The Company's investment strategy is to invest primarily in fixed maturity securities to provide a reliable stream of investment income, which is one of the drivers of the Company's growth and profitability. This investment strategy incorporates asset-liability matching (ALM) to align the expected cash flows of the portfolio to the needs of the Company's liability structure. The Company does not purchase securities with the intent of generating capital gains or losses. However, investment gains and losses may be realized as a result of changes in the financial markets and the creditworthiness of specific issuers, tax planning strategies, and/or general portfolio management and rebalancing. The realization of investment gains and losses is independent of the underwriting and administration of the Company's insurance products. Realized investment gains and

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losses include securities transactions, impairments, changes in loan loss reserves, derivative and foreign currency activities and changes in fair value of equity securities.

### Securities Transactions, Impairments, and Gains (Losses) on Equity Securities

Securities transactions include gains and losses from sales and redemptions of investments where the amount received is different from the amortized cost of the investment. Impairments include other-than-temporary-impairment losses on investment securities as well as changes in loan loss reserves for loan receivables. Starting in the first quarter of 2018, gains and losses from changes in fair value of equity securities are recorded in earnings.

### Certain Derivative and Foreign Currency Gains (Losses)

The Company's derivative activities include foreign currency forwards and options on certain fixed maturity securities; foreign currency forwards and options that economically hedge certain portions of forecasted cash flows denominated in yen and hedge the Company's long-term exposure to a weakening yen; foreign currency swaps associated with certain senior notes and subordinated debentures; foreign currency swaps and credit defaults swaps held in consolidated variable interest entities (VIEs); interest rate swaps used to economically hedge interest rate fluctuations in certain variable-rate investments; and interest rate swaptions to hedge changes in the fair value associated with interest rate changes for certain dollar-denominated available-for-sale securities. Gains and losses are recognized as a result of valuing these derivatives, net of the effects of hedge accounting. The Company also excludes the accounting impacts of remeasurement associated with changes in the yen/dollar exchange rate from adjusted earnings. Amortized hedge costs/ income related to certain foreign currency exposure management strategies (see Amortized Hedge Cost/Income section below), and net interest cash flows from derivatives associated with certain investment strategies and notes payable are reclassified from realized investment gains (losses) and included in adjusted earnings.

Amortized hedge costs/income can fluctuate based upon many factors, including the derivative notional amount, the length of time of the derivative contract, changes in both U.S. and Japan interest rates, and supply and demand for dollar funding. Amortized hedge costs and income have fluctuated in recent periods due to changes in the previously mentioned factors. For additional information regarding foreign currency hedging, refer to Hedging Activities in the Investments section of this MD&A.

For additional information regarding realized investment gains and losses, including details of reported amounts for the periods presented, see Notes 3 and 4 of the Notes to the Consolidated Financial Statements.

### **Other and Non-recurring Items**

The U.S. insurance industry has a policyholder protection system that provides funds for the policyholders of insolvent insurers. The system can result in periodic charges to the Company as a result of insolvencies/bankruptcies that occur with other companies in the life insurance industry. Some states permit member insurers to recover assessments paid through full or partial premium tax offsets. These charges neither relate to the ordinary course of the Company's business nor reflect the Company's underlying business performance, but result from external situations not controlled by the Company. The Company excludes any charges associated with U.S. guaranty fund assessments and the corresponding tax benefit or expense from adjusted earnings.

In Japan, the government also requires the insurance industry to contribute to a policyholder protection corporation that provides funds for the policyholders of insolvent insurers; however, these costs are calculated and administered differently than in the U.S. In Japan, these costs are not directly related to specific insolvencies or bankruptcies, but are rather a regular operational cost for an insurance company. Based on this structure, the Company does not remove the Japan policyholder protection expenses from adjusted earnings.

Nonrecurring items also include conversion costs related to legally converting the Company's Japan business to a subsidiary; these costs primarily consist of expenditures for legal, accounting, consulting, integration of systems and processes and other similar services. These Japan branch conversion costs were an immaterial amount for the year-ended December 31, 2019 and \$75 million for the year-ended December 31, 2018.

### **Income Taxes**

The Company's combined U.S. and Japanese effective income tax rate on pretax earnings was 25.7% in 2019 and 26.7% in 2018. The decrease in the U.S. federal statutory corporate income tax rate from 35% to 21% effective January 1, 2018 drove the reduction in the effective tax rate for 2019 and 2018. Total income taxes were \$1.1 billion in both 2019 and 2018. Japanese income taxes on Aflac Japan's results account for most of the Company's consolidated income tax expense.

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For further information, see "Critical Accounting Estimates - Income Taxes" in this MD&A, and Note 10 of the Notes to the Consolidated Financial Statements for additional information.

### **Foreign Currency Translation**

Aflac Japan's premiums and a significant portion of its investment income are received in yen, and its claims and most expenses are paid in yen. Aflac Japan purchases yen-denominated assets and U.S. dollar-denominated assets, which may be hedged to yen, to support yen-denominated policy liabilities. These and other yen-denominated financial statement items are, however, translated into dollars for financial reporting purposes. The Company translates Aflac Japan's yen-denominated income statement into dollars using the average exchange rate for the reporting period, and the Company translates its yen-denominated balance sheet using the exchange rate at the end of the period.

Due to the size of Aflac Japan, whose functional currency is the Japanese yen, fluctuations in the yen/dollar exchange rate can have a significant effect on the Company's 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. 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.

### **RESULTS OF OPERATIONS BY SEGMENT**

U.S. GAAP financial reporting requires that a company report financial and descriptive information about operating segments in its annual and interim period financial statements. Furthermore, the Company is required to report a measure of segment profit or loss, certain revenue and expense items, and segment assets. Aflac's insurance business consists of two segments: Aflac Japan and Aflac U.S. Aflac Japan is the principal contributor to consolidated earnings. Businesses that are not individually reportable, such as the Parent Company, asset management subsidiaries and business activities, including reinsurance retrocession activities are included in the Corporate and other segment. See the Item 1. Business section of this Form 10-K for a summary of each segment's products and distribution channels, and a discussion of the conversion of Aflac Japan from a branch to a subsidiary and the creation of asset management subsidiaries in 2018. Consistent with U.S. GAAP guidance for segment reporting, pretax adjusted earnings is the Company's U.S. GAAP measure of segment performance. See Note 2 of the Notes to the Consolidated Financial Statements for the reconciliation of segment results to the Company's consolidated U.S. GAAP results and additional information.

### **AFLAC JAPAN SEGMENT**

#### **Aflac Japan Pretax Adjusted Earnings**

Changes in Aflac Japan's pretax adjusted earnings and profit margins are primarily affected by morbidity, mortality, expenses, persistency and investment yields. The following table presents a summary of operating results for Aflac Japan for the years ended December 31.



## Aflac Japan Summary of Operating Results

(In millions)	2019	2018
Net premium income	\$ 12,772	\$ 12,762
Net investment income:		
Yen-denominated investment income	1,307	1,283
U.S. dollar-denominated investment income	1,446	1,356
Net investment income	2,753	2,639
Amortized hedge costs related to certain foreign currency exposure management strategies	257	236
Net investment income, less amortized hedge costs	2,496	2,403
Other income (loss)	45	41
Total adjusted revenues	15,313	15,206
Benefits and claims, net	8,877	8,913
Adjusted expenses:		
Amortization of deferred policy acquisition costs	709	710
Insurance commissions	731	735
Insurance and other expenses	1,734	1,640
Total adjusted expenses	3,174	3,085
Total benefits and adjusted expenses	12,051	11,998
Pretax adjusted earnings	\$ 3,261	\$ 3,208
Weighted-average yen/dollar exchange rate	109.07	110.39

Percentage change over previous period:	In Dollars		In Yen	
	2019	2018	2019	2018
Net premium income	.1%	.1%	(1.1)%	(1.5)%
Net investment income, less amortized hedge costs	3.9	7.5	2.2	5.5
Total adjusted revenues	.7	1.2	(.6)	(.5)
Pretax adjusted earnings	1.7	5.0	.2	3.1

In yen terms, Aflac Japan's net premium income decreased in 2019, primarily due to limited-pay products reaching paid-up status. Net investment income, net of amortized hedge costs, increased in 2019 primarily due to increased investments in U.S. dollar-denominated floating rate assets and \$25 million of income related to a partial call of a concentrated yen-denominated exposure.

Annualized premiums in force at December 31, 2019, were ¥1.49 trillion, compared with ¥1.53 trillion in 2018. The decrease in annualized premiums in force in yen of 2.5% in 2019 and 1.6% in 2018 was driven primarily by limited-pay products reaching paid up status. Annualized premiums in force, translated into dollars at respective year-end exchange rates, were \$13.6 billion in 2019 and \$13.8 billion in 2018.

Aflac Japan's investment portfolios include U.S. dollar-denominated securities and reverse-dual currency securities (yen-denominated debt securities with dollar coupon payments). In years when the yen strengthens in relation to the dollar, translating Aflac Japan's U.S. dollar-denominated investment income into yen lowers growth rates for net investment income, total adjusted revenues, and pretax adjusted earnings in yen terms. In years when the yen weakens, translating U.S. dollar-denominated investment income into yen magnifies growth rates for net investment income, total adjusted revenues, and pretax adjusted earnings in yen terms.

The following table illustrates the effect of translating Aflac Japan's U.S. dollar-denominated investment income and related items into yen by comparing certain segment results with those that would have been reported had dollar/yen exchange rates remained unchanged from the prior year. Amounts excluding foreign currency impact on U.S. dollar-denominated investment income, a non-U.S. GAAP financial measure, were determined using the average dollar/yen exchange rate for the comparable prior year period. See non-U.S. GAAP financial measures defined above.



**Aflac Japan Percentage Changes Over Prior Year**

(Yen Operating Results)  
For the Years Ended December 31,

	Including Foreign Currency Changes		Excluding Foreign Currency Changes	
	2019	2018	2019	2018
Net investment income, less amortized hedge costs	2.2 %	5.5 %	2.9 %	6.4 %
Total adjusted revenues	(.6)	(.5)	(.5)	(.3)
Pretax adjusted earnings	.2	3.1	.7	3.7

The following table presents a summary of operating ratios in yen terms for Aflac Japan for the years ended December 31.

	2019	2018
<b>Ratios to total adjusted revenues:</b>		
Benefits and claims, net	58.0%	58.6%
Adjusted expenses:		
Amortization of deferred policy acquisition costs	4.6	4.7
Insurance commissions	4.8	4.8
Insurance and other expenses	11.3	10.8
Total adjusted expenses	20.7	20.3
Pretax adjusted earnings	21.3	21.1
<b>Ratios to total premiums:</b>		
Benefits and claims, net	69.5%	69.9%
Adjusted expenses:		
Amortization of deferred policy acquisition costs	5.5	5.6

In 2019, the benefit ratio decreased, compared to the prior year, primarily due to the continued change in mix of first and third sector business as first sector products become paid-up. In 2019, the adjusted expense ratio increased mainly due to lower premium income from paid-up first sector products and higher expenses for advanced technology implementation. In total for 2019, the pretax adjusted profit margin (calculated by dividing adjusted earnings by adjusted revenues) increased reflecting continued strength in benefit ratios and favorable net investment income. For 2020, the Company anticipates the Aflac Japan pretax adjusted profit margin (calculated by dividing adjusted earnings by adjusted revenues) to remain stable. For further information, see the 2020 Outlook section of this MD&A.

**Aflac Japan Sales**

The following table presents Aflac Japan's new annualized premium sales for the years ended December 31.

(In millions of dollars and billions of yen)	In Dollars		In Yen	
	2019	2018	2019	2018
New annualized premium sales	\$ 731	\$ 869	¥ 79.7	¥ 95.9
Increase (decrease) over prior period	(15.9)%	2.7%	(16.9)%	1.1%

The following table details the contributions to Aflac Japan's new annualized premium sales by major insurance product for the years ended December 31.

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	2019	2018
Cancer	59.2%	65.8%
Medical	31.0	25.0
Income support	1.2	1.8
Ordinary life:		
WAYS	.5	.5
Child endowment	.2	.3
Other ordinary life <sup>(1)</sup>	7.4	6.1
Other	.5	.5
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

<sup>(1)</sup> Includes term and whole life

The foundation of Aflac Japan's product portfolio has been, and continues to be, third sector products, which include cancer, medical and income support insurance products. Aflac Japan has been focusing more on promotion of cancer and medical insurance products in this low-interest-rate environment. These products are less interest-rate sensitive and more profitable compared to first sector savings products. With continued cost pressure on Japan's health care system, the Company expects the need for third sector products will continue to rise in the future and that the medical and cancer insurance products Aflac Japan provides will continue to be an important part of its product portfolio.

Sales of protection-type first sector and third sector products on a yen basis decreased 16.8% in 2019, compared with 2018. Earned premium growth for third and first sector protection products was 1.3%, which was consistent with the Company's expectation. The decline in sales primarily reflected reduced sales of cancer insurance through the Japan Post channel following the 2018 launch of Aflac Japan's revised cancer insurance product. In addition, the approach to refreshing the medical insurance product in 2019 took a rider versus whole policy approach. This was designed for improved economics but naturally resulted in lower reported sales. Additional factors include a change in corporate tax law, which slowed the pace of certain third sector medical products and some cancer products in both our associate channel and the bank channel, as well as increased competition from large life insurers who are increasing their focus on the third sector.

Sales of Aflac Japan cancer products in the Japan Post Group channel experienced a material decline beginning in August 2019 which has continued into 2020. For 2019, sales in the Japan Post Group channel declined by approximately 50.0% compared with 2018. The Company expects very little sales production in the Japan Post channel during the first half of 2020 and is uncertain with regard to production during the second half of the year. See the 2020 Outlook section of this MD&A for information on Aflac Japan earned premium expectations.

Independent corporate agencies and individual agencies contributed 45.7% of total new annualized premium sales for Aflac Japan in 2019, compared with 40.1% in 2018. Affiliated corporate agencies, which include Japan Post, contributed 50.0% of total new annualized premium sales in 2019, compared with 55.3% in 2018. Japan Post offers Aflac's cancer insurance products in more than 20,000 postal outlets. Notwithstanding the recent reduction in sales of Aflac Japan's cancer products in the Japan Post channel, the Company believes this alliance with Japan Post has and will benefit its cancer insurance sales over the long term. In 2019, Aflac Japan recruited 77 new sales agencies. At December 31, 2019, Aflac Japan was represented by more than 9,000 sales agencies, with more than 109,000 licensed sales associates employed by those agencies.

At December 31, 2019, Aflac Japan had agreements to sell its products at 367 banks, approximately 90% of the total number of banks in Japan. Bank channel sales accounted for 4.3% of new annualized premium sales in 2019 for Aflac Japan, compared with 4.6% in 2018.

### Strategic Alliance with Japan Post Holdings

On December 19, 2018, the Parent Company and Aflac Japan entered into a Basic Agreement with Japan Post Holdings a Japanese corporation. Pursuant to the terms of the Basic Agreement, Japan Post Holdings agreed to form a capital relationship with the Parent Company, and Japan Post Holdings and Aflac Japan agreed to reconfirm existing initiatives regarding cancer insurance and to consider new joint initiatives, including leveraging digital technology in various processes, cooperation in new product development to promote customer-centric business management, cooperation in domestic and/or overseas business expansion and joint investment in third party entities and cooperation regarding asset management.

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On February 28, 2019, the Parent Company entered a Shareholders Agreement with Japan Post Holdings, J&A Alliance Holdings Corporation, a Delaware corporation, solely in its capacity as trustee of J&A Alliance Trust, a New York voting trust (Trust), and General Incorporated Association J&A Alliance, a Japanese general incorporated association. Pursuant to the terms of the Shareholders Agreement, the Trust will use commercially reasonable efforts to acquire, through open market or private block purchases in the U.S., beneficial ownership of approximately 7% of the outstanding shares of the Parent Company's common stock within a period of 12 months following the date the Trust begins acquiring such stock. On May 7, 2019, a press release issued by Japan Post Holdings announced that purchases of shares of the Parent Company's common stock commenced on April 29, 2019 through the Trust and that it planned to complete such purchases within Japan Post's fiscal year 2019 (which ends March 31, 2020).

The Trust has agreed not to own more than 10% of the Parent Company's outstanding shares for a period expiring on the earlier of four years after the Trust acquires 7% of such shares, five years after it acquires 5% of such shares, or ten years after the Trust begins acquiring the Parent Company's stock. After expiration of such period, the Trust has agreed not to own more than the greater of 10% of the Parent Company's outstanding shares or such shares representing 22.5% of the voting rights in the Parent Company.

In light of the fact that the shares acquired by the Trust, like all Aflac Incorporated common shares, will be eligible for 10-for-1 voting rights after being held for 48 consecutive months, the Shareholders Agreement further provides for voting restrictions that effectively limit the trustee's voting rights to no more than 20% of the voting rights in the Parent Company and further restrict the trustee's voting rights with respect to certain change in control transactions. Japan Post Holdings will not have a Board seat on the Parent Company's Board of Directors and will not have rights to control, manage or intervene in the management of the Parent Company.

As of December 31, 2019, all regulatory approvals expressly set forth in the Shareholders Agreement have been obtained. The Shareholders Agreement requires the parties to use reasonable best efforts to cooperate in connection with any ongoing regulatory matters related to or arising from the Trust's acquisition or ownership or control of the shares of Company Common Stock, including any applications or filings in connection with a direct or indirect acquisition of control of or merger with an insurer by the Company or its affiliates. The foregoing is subject to and qualified in its entirety by reference to the full text of the Shareholders Agreement, a copy of which is attached as Exhibit 10.50 to the Company's Quarterly Report on Form 10-Q filed April 26, 2019, and the terms of which exhibit are incorporated herein by reference.

### **Aflac Japan Investments**

The level of investment income in yen is affected by available cash flow from operations, the timing of investing the cash flow, yields on new investments, the effect of yen/dollar exchange rates on U.S. dollar-denominated investment income, and other factors.

As part of the Company's portfolio management and asset allocation process, Aflac Japan invests in yen and U.S. dollar-denominated investments. Yen-denominated investments primarily consist of JGBs and public and private fixed maturity securities. Aflac Japan's U.S. dollar-denominated investments include fixed maturity investments and growth assets, including public equity securities and alternative investments in limited partnerships or similar investment vehicles. Aflac Japan has been investing in both publicly-traded and privately originated U.S. dollar-denominated investment-grade and below-investment-grade fixed maturity securities and loan receivables, and has entered into foreign currency forwards and options to hedge the currency risk on the fair value of a portion of the U.S. dollar investments.

The following table details the investment purchases for Aflac Japan for the years ended December 31.

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(In millions)	2019	2018
<b>Yen-denominated:</b>		
<b>Fixed maturity securities:</b>		
Japan government and agencies	\$ 583	\$ 3,895
Private placements	1,122	1,185
Other fixed maturity securities	542	796
<b>Equity securities</b>	<b>212</b>	<b>221</b>
<b>Total yen-denominated</b>	<b>\$ 2,459</b>	<b>\$ 6,097</b>
<b>U.S. dollar-denominated:</b>		
<b>Fixed maturity securities:</b>		
Other fixed maturity securities	\$ 2,767	\$ 1,299
Infrastructure debt	66	0
Bank loans	0	346
<b>Equity securities</b>	<b>58</b>	<b>120</b>
<b>Commercial mortgage and other loans:</b>		
Transitional real estate loans	1,846	3,168
Commercial mortgage loans	565	13
Middle market loans	1,442	839
<b>Other investments</b>	<b>145</b>	<b>314</b>
<b>Total dollar-denominated</b>	<b>\$ 6,889</b>	<b>\$ 6,099</b>
<b>Total Aflac Japan purchases</b>	<b>\$ 9,348</b>	<b>\$ 12,196</b>

See the Investments section of this MD&A for further discussion of these investment programs, and see Notes 1, 3 and 4 of the Notes to the Consolidated Financial Statements for more information regarding loans and loan receivables.

Funds available for investment include cash flows from operations, investment income, and funds generated from maturities, redemptions, securities lending, and other securities transactions. Securities lending is also used from time to time to accelerate the availability of funds for investment. Purchases of securities from period to period are determined based on multiple objectives including appropriate portfolio diversification, the relative value of a potential investment and availability of investment opportunities, liquidity, credit and other risk factors while adhering to the Company's investment policy guidelines.

The following table presents the results of Aflac Japan's investment yields for the years ended and as of December 31.

	2019	2018
Total purchases for the period (in millions) <sup>(1)</sup>	\$ 9,203	\$ 11,882
New money yield <sup>(1),(2)</sup>	3.83%	3.06%
Return on average invested assets <sup>(3)</sup>	2.33	2.33
Portfolio book yield, including U.S. dollar-denominated investments, end of period <sup>(1)</sup>	2.64%	2.61%

<sup>(1)</sup> Includes fixed maturity securities, commercial mortgage and other loans, equity securities, and excludes alternative investments in limited partnerships

<sup>(2)</sup> Reported on a gross yield basis; excludes investment expenses, external management fees, and amortized hedge costs

<sup>(3)</sup> Net of investment expenses and amortized hedge costs, year-to-date number reflected on a quarterly average basis

The increase in the Aflac Japan new money yield in 2019 was primarily due to decreased allocations to lower yielding yen-denominated asset classes.

See Notes 3, 4 and 5 of the Notes to the Consolidated Financial Statements and the Investments section of this MD&A for additional information on the Company's investments and hedging strategies.

**AFLAC U.S. SEGMENT**

**Aflac U.S. Pretax Adjusted Earnings**

Changes in Aflac U.S. pretax adjusted earnings and profit margins are primarily affected by morbidity, mortality, expenses, persistency and investment yields. The following table presents a summary of operating results for Aflac U.S. for the years ended December 31.

**Aflac U.S. Summary of Operating Results**

(In millions)	2019	2018
Net premium income	\$ 5,808	\$ 5,708
Net investment income	720	727
Other income	22	8
Total adjusted revenues	6,550	6,443
Benefits and claims	2,871	2,887
Adjusted expenses:		
Amortization of deferred policy acquisition costs	573	534
Insurance commissions	590	585
Insurance and other expenses	1,244	1,152
Total adjusted expenses	2,407	2,271
Total benefits and adjusted expenses	5,279	5,158
Pretax adjusted earnings	\$ 1,272	\$ 1,285
<b>Percentage change over previous period:</b>		
Net premium income	1.8 %	2.6%
Net investment income	(1.0)	.8
Total adjusted revenues	1.7	2.4
Pretax adjusted earnings	(1.0)	3.2

Annualized premiums in force increased 1.1% in 2019 and 3.0% in 2018. Annualized premiums in force at December 31 were \$6.3 billion in 2019, compared with \$6.2 billion in 2018.

The following table presents a summary of operating ratios for Aflac U.S. for the years ended December 31.

<b>Ratios to total adjusted revenues:</b>	2019	2018
Benefits and claims	43.8%	44.8%
Adjusted expenses:		
Amortization of deferred policy acquisition costs	8.7	8.3
Insurance commissions	9.0	9.1
Insurance and other expenses	19.0	17.9
Total adjusted expenses	36.7	35.2
Pretax adjusted earnings	19.4	19.9
<b>Ratios to total premiums:</b>		
Benefits and claims	49.4	50.6
Adjusted expenses:		
Amortization of deferred policy acquisition costs	9.9	9.4

The benefit ratio decreased in 2019, compared with 2018, primarily due to somewhat elevated lapses and a change in business mix from higher loss ratio, reserve building products to lower loss ratio, guaranteed issue products. The adjusted expense ratio increased in 2019, compared with 2018, primarily due to deferred policy acquisition costs (DAC) capitalization related to lower than anticipated sales as well as anticipated spending increases reflecting ongoing investments in the U.S. platform, distribution, and customer experience. Both the lower benefit and higher DAC amortization ratios were also impacted by increases in lapses as a result of large case volatility and replacement of an administrative partner. These items impacted persistency in the short-term but are expected to drive profitable earned premium growth in future periods. The pretax adjusted

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profit margin declined in 2019 when compared with 2018, due to higher expense ratios, offset somewhat by lower benefit ratios. For expectations for 2020, see the 2020 Outlook section of this MD&A.

### Aflac U.S. Sales

The following table presents Aflac's U.S. new annualized premium sales for the years ended December 31.

(In millions)	2019	2018
New annualized premium sales	\$ 1,580	\$ 1,601
Increase (decrease) over prior period	(1.3)%	3.2%

The following table details the contributions to Aflac's U.S. new annualized premium sales by major insurance product category for the years ended December 31.

	2019	2018
Accident	28.5%	29.2%
Short-term disability	22.5	22.7
Critical care <sup>(1)</sup>	21.9	22.1
Hospital indemnity	16.6	15.8
Dental/vision	4.4	4.7
Life	6.1	5.5
Total	100.0%	100.0%

<sup>(1)</sup> Includes cancer, critical illness and hospital intensive care products

New annualized premium sales for accident insurance, the Aflac U.S. leading product category, decreased 3.8%, short-term disability sales decreased 2.4%, critical care insurance sales (including cancer insurance) decreased 2.4%, and hospital indemnity insurance sales increased 3.7% in 2019, compared with 2018. While overall sales decreased in 2019, net earned premium increased 1.8%.

In 2019, the Aflac U.S. sales forces included an average of approximately 8,200 U.S. agents, including brokers, who were actively producing business on a weekly basis. The Company believes that this average weekly producer equivalent metric allows sales management to monitor progress and needs.

In November 2019, the Company acquired Argus Holdings, LLC and its subsidiary Argus Dental & Vision, Inc. (Argus), a benefits management organization and national network dental and vision company, which provides a platform for Aflac Dental and Vision. This transaction represents a commitment of \$75 million in capital at closing and an additional \$21 million in consideration paid over three years based on the achievement by Argus of certain performance targets. Tampa, Florida will serve as the home for Aflac Dental and Vision. This acquisition is a strategic entry point into the network dental and vision market and is expected to provide opportunities for sales growth, improved account penetration and distribution productivity.

### Aflac U.S. Investments

The level of investment income is affected by available cash flow from operations, the timing of investing the cash flow, yields on new investments, and other factors.

As part of the Company's portfolio management and asset allocation process, Aflac U.S. invests in fixed maturity investments and growth assets, including public equity securities and alternative investments in limited partnerships. Aflac U.S. has been investing in both publicly traded and privately originated investment-grade and below-investment-grade fixed maturity securities and loan receivables.

The following table details the investment purchases for Aflac U.S. as of December 31.

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(In millions)	2019	2018
<b>Fixed maturity securities:</b>		
Other fixed maturity securities	\$ 1,032	\$ 1,068
Infrastructure debt	119	97
<b>Equity securities</b>	<b>58</b>	76
<b>Commercial mortgage and other loans:</b>		
Transitional real estate loans	423	610
Commercial mortgage loans	104	163
Middle market loans	99	141
<b>Other investments</b>	<b>16</b>	44
<b>Total Aflac U.S. Purchases</b>	<b>\$ 1,851</b>	<b>\$ 2,199</b>

Funds available for investment include cash flows from operations, investment income, and funds generated from maturities, redemptions, and other securities transactions. Purchases of securities from period to period are determined based on multiple objectives, including appropriate portfolio diversification, the relative value of a potential investment and availability of investment opportunities, liquidity, credit and other risk factors while adhering to the Company's investment policy guidelines.

The following table presents the results of Aflac's U.S. investment yields for the years ended and as of December 31.

	2019	2018
Total purchases for period (in millions) <sup>(1)</sup>	\$ 1,835	\$ 2,155
New money yield <sup>(1), (2)</sup>	4.51%	4.55%
Return on average invested assets <sup>(3)</sup>	5.07	5.16
Portfolio book yield, end of period <sup>(1)</sup>	5.40%	5.55%

<sup>(1)</sup> Includes fixed maturity securities, commercial mortgage and other loans, equity securities, and excludes alternative investments in limited partnerships

<sup>(2)</sup> Reported on a gross yield basis; excludes investment expenses and external management fees

<sup>(3)</sup> Net of investment expenses, year-to-date number reflected on a quarterly average basis

See Note 3 of the Notes to the Consolidated Financial Statements and the Market Risks of Financial Instruments - Credit Risk subsection of MD&A for more information regarding the sector concentrations of the Company's investments.



## CORPORATE AND OTHER

Changes in the pretax adjusted earnings of Corporate and other are primarily affected by investment income. The following table presents a summary operating results for Corporate and other for the years ended December 31.

### Corporate and Other Summary of Operating Results

(In millions)	2019	2018
Premium income	\$ 200	\$ 208
Net investment income	88	77
Amortized hedge income related to certain foreign currency management strategies	89	36
Net investment income, including amortized hedge income	177	113
Other income	15	18
Total adjusted revenues	393	339
Benefits and claims, net	194	199
Adjusted expenses:		
Interest expense	133	120
Other adjusted expenses	137	159
Total adjusted expenses	270	279
Total benefits and adjusted expenses	464	478
Pretax adjusted earnings	\$ (72)	\$ (139)

Net investment income benefited from the Company's enterprise corporate hedging program for the years ended December 31, 2019 and 2018, respectively. See the Hedging Activities subsection of this MD&A for further information on the enterprise corporate hedging program.

In December 2018, the Parent Company invested \$20 million in Singapore Life Pte. Ltd. (Singapore Life), a digitally-focused life insurance company based in Singapore. The Parent Company made an additional investment of \$16 million in the second quarter of 2019, bringing the total investment to \$36 million. As part of the relationship, Aflac entered into a reinsurance agreement on certain protection products with Singapore Life in September 2019. However, the Company does not currently expect the equity investment or the reinsurance agreement to have a material impact on its financial position or results of operations.

## INVESTMENTS

The Company's investment strategy utilizes disciplined asset and liability management while seeking long-term risk-adjusted investment returns and the delivery of stable income within regulatory and capital objectives, and preserving shareholder value. In attempting to optimally balance these objectives, the Company seeks to maintain on behalf of Aflac Japan a diversified portfolio of yen-denominated investment assets, a U.S. dollar-denominated investment portfolio hedged back to yen and a portfolio of unhedged U.S. dollar-denominated assets. As part of the Company's portfolio management and asset allocation process, Aflac U.S. invests in fixed maturity investments and growth assets, including public equity securities and alternative investments in limited partnerships. Aflac U.S. invests in both publicly traded and privately originated investment-grade and below-investment-grade fixed maturity securities and loans.

For additional information concerning the Company's investments, see Notes 3, 4, and 5 of the Notes to the Consolidated Financial Statements.

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The following tables detail investments by segment as of December 31.

**Investment Securities by Segment**

2019				
(In millions)	Aflac Japan	Aflac U.S.	Corporate and Other	Total
Available for sale, fixed maturity securities, at fair value	\$ 75,780	\$ 13,703	\$ 1,779	\$ 91,262
Held to maturity, fixed maturity securities, at amortized cost	30,085	0	0	30,085
Equity securities	657	67	78	802
Commercial mortgage and other loans:				
Transitional real estate loans	4,507	943	0	5,450
Commercial mortgage loans	1,308	399	0	1,707
Middle market loans	2,141	271	0	2,412
Other investments:				
Policy loans	234	16	0	250
Short-term investments <sup>(1)</sup>	386	242	1	629
Limited partnerships	496	55	17	568
Other	0	30	0	30
Total investments	115,594	15,726	1,875	133,195
Cash and cash equivalents	1,674	417	2,805	4,896
Total investments and cash	\$ 117,268	\$ 16,143	\$ 4,680	\$ 138,091

<sup>(1)</sup> Includes securities lending collateral

2018				
(In millions)	Aflac Japan	Aflac U.S.	Corporate and Other	Total
Available for sale, fixed maturity securities, at fair value	\$ 69,409	\$ 12,132	\$ 1,354	\$ 82,895
Held to maturity, fixed maturity securities, at amortized cost	30,318	0	0	30,318
Equity securities	806	137	44	987
Commercial mortgage and other loans:				
Transitional real estate loans	3,621	756	0	4,377
Commercial mortgage loans	763	301	0	1,064
Middle market loans	1,144	334	0	1,478
Other investments:				
Policy loans	219	13	0	232
Short-term investments <sup>(1)</sup>	0	141	11	152
Limited partnerships	333	37	7	377
Other	0	26	0	26
Total investments	106,613	13,877	1,416	121,906
Cash and cash equivalents	1,779	641	1,917	4,337
Total investments and cash	\$ 108,392	\$ 14,518	\$ 3,333	\$ 126,243

<sup>(1)</sup> Includes securities lending collateral

The ratings of the Company's securities referenced in the table below are based on the ratings designations provided by major NRSROs or, if not rated, are determined based on the Company's internal analysis of such securities. When the ratings issued by the rating agencies differ, the Company utilizes the second lowest rating when three or more rating agency ratings are available or the lowest rating when only two rating agency ratings are available.

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The distributions of fixed maturity securities the Company owns, by credit rating, as of December 31 were as follows:

**Composition of Fixed Securities Portfolio by Credit Rating**

	2019		2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
AAA	1.1%	1.0%	1.0%	.9%
AA	4.3	4.4	3.9	4.0
A	68.6	69.8	67.9	69.9
BBB	23.1	22.1	23.2	21.6
BB or lower	2.9	2.7	4.0	3.6
Total	100.0%	100.0%	100.0%	100.0%

As of December 31, 2019, the Company's direct and indirect exposure to securities in its investment portfolio that were guaranteed by third parties was immaterial both individually and in the aggregate.

The following table presents the 10 largest unrealized loss positions in the Company's portfolio as of December 31, 2019.

(In millions)	Credit Rating	Amortized Cost	Fair Value	Unrealized Loss
Diamond Offshore Drilling Inc.	CCC	\$ 64	\$ 32	\$ (32)
AXA	BBB	296	271	(25)
Transocean Inc.	CCC	50	37	(13)
Intesa Sanpaolo Spa	BBB	142	132	(10)
Baker Hughes Inc.	A	123	114	(9)
Kommunal Landspensjonskasse (KLP)	BBB	137	129	(8)
Mirvac Group Finance Ltd.	A	91	84	(7)
Autostrade Per Litalia Spa	BBB	182	175	(7)
Downer Group Finance Pty LTD	BBB	91	85	(6)
Chevron Corp.	AA	148	142	(6)

Generally, declines in fair values can be a result of changes in interest rates, yen/dollar exchange rate, and changes in net spreads driven by a broad market move or a change in the issuer's underlying credit quality. As the Company believes these issuers have the ability to continue making timely payments of principal and interest, the Company views these changes in fair value to be temporary. See the Unrealized Investment Gains and Losses section in Note 3 of the Notes to the Consolidated Financial Statements for further discussions of unrealized losses related to financial institutions and other corporate investments.

**Below-Investment-Grade Securities**

The Company's portfolio of below-investment-grade securities includes debt securities purchased while the issuer was rated investment grade plus other loans and bonds purchased as part of an allocation to that segment of the market. The following is the Company's below-investment-grade exposure.

## Below-Investment-Grade Investments

December 31, 2019				
(In millions)	Par Value	Amortized Cost	Fair Value	Unrealized Gain (Loss)
Investcorp Capital Limited	\$ 388	\$ 388	\$ 452	\$ 64
Republic of South Africa	365	365	372	7
Barclays Bank PLC	183	115	157	42
KLM Royal Dutch Airlines	183	136	143	7
Telecom Italia SpA	183	183	241	58
IKB Deutsche Industriebank AG	118	51	102	51
Arconic Inc.	100	85	111	26
EMC Corp.	80	80	82	2
Generalitat de Catalunya	73	27	80	53
Teva Pharmaceuticals	68	66	61	(5)
Other Issuers	456	436	420	(16)
Subtotal <sup>(1)</sup>	2,197	1,932	2,221	289
Senior secured bank loans	462	480	459	(21)
High yield corporate bonds	726	723	755	32
Middle market loans, net of reserves <sup>(2)</sup>	2,455	2,412	2,420	8
Grand Total	\$ 5,840	\$ 5,547	\$ 5,855	\$ 308

<sup>(1)</sup> Securities initially purchased as investment grade, but have subsequently been downgraded to below investment grade

<sup>(2)</sup> Middle market loans are carried at amortized cost

The Company invests in senior secured bank loans and middle market loans primarily to U.S. corporate borrowers, most of which have below-investment-grade ratings. The objectives of these programs include enhancing the yield on invested assets, achieving further diversification of credit risk, and mitigating the risk of rising interest rates and hedge costs through the acquisition of floating rate assets.

The Company maintains an allocation to higher yielding corporate bonds within the Aflac Japan and Aflac U.S. portfolios. Most of these securities were rated below-investment-grade at the time of purchase, but the Company also purchased several that were rated investment grade which, because of market pricing, offer yields commensurate with below-investment-grade risk profiles. The objective of this allocation was to enhance the Company's yield on invested assets and further diversify credit risk. All investments in this program must have a minimum rating at purchase of low BB using the Company's above described rating methodology and are managed by the Company's internal credit portfolio management team.

## Fixed Maturity Securities by Sector

The Company maintains diversification in investments by sector to avoid concentrations to any one sector, thus managing exposure risk. The following table shows the distribution of fixed maturities by sector classification as of December 31.

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	2019	
(In millions)	Amortized Cost	% of Total
<b>Government and agencies</b>	<b>\$ 53,463</b>	<b>48.8%</b>
<b>Municipalities</b>	<b>2,414</b>	<b>2.2</b>
<b>Mortgage- and asset-backed securities</b>	<b>394</b>	<b>.4</b>
<b>Public utilities</b>	<b>8,194</b>	<b>7.5</b>
Electric	6,471	5.9
Natural Gas	303	.3
Other	695	.6
Utility/Energy	725	.7
<b>Sovereign and Supranational</b>	<b>2,042</b>	<b>1.9</b>
<b>Banks/financial institutions</b>	<b>9,947</b>	<b>9.1</b>
Banking	6,029	5.5
Insurance	1,948	1.8
Other	1,970	1.8
<b>Other corporate</b>	<b>33,002</b>	<b>30.1</b>
Basic Industry	3,484	3.2
Capital Goods	3,187	2.9
Communications	4,057	3.7
Consumer Cyclical	3,271	3.0
Consumer Non-Cyclical	6,280	5.7
Energy	4,281	3.9
Other	1,464	1.3
Technology	3,129	2.9
Transportation	3,849	3.5
<b>Total fixed maturity securities</b>	<b>\$ 109,456</b>	<b>100.0%</b>

*Securities by Type of Issuance*

The Company has investments in both publicly and privately issued securities. The Company's ability to sell either type of security is a function of overall market liquidity which is impacted by, among other things, the amount of outstanding securities of a particular issuer or issuance, trading history of the issue or issuer, overall market conditions, and idiosyncratic events affecting the specific issue or issuer.

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The following table details investment securities by type of issuance as of December 31.

### Investment Securities by Type of Issuance

(In millions)	2019		2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<b>Publicly issued securities:</b>				
Fixed maturity securities	\$ 89,625	\$ 105,557	\$ 83,482	\$ 93,255
Equity securities	717	717	936	936
Total publicly issued	90,342	106,274	84,418	94,191
<b>Privately issued securities: <sup>(1)</sup></b>				
Fixed maturity securities	19,831 <sup>(2)</sup>	23,299 <sup>(2)</sup>	23,692	26,362
Equity securities	85	85	51	51
Total privately issued	19,916	23,384	23,743	26,413
Total investment securities	\$ 110,258	\$ 129,658	\$ 108,161	\$ 120,604

<sup>(1)</sup> Primarily consists of securities owned by Aflac Japan

<sup>(2)</sup> Excludes Rule 144A securities starting in the first quarter of 2019

The following table details the Company's reverse-dual currency securities as of December 31.

### Reverse-Dual Currency Securities<sup>(1)</sup>

(Amortized cost, in millions)	2019	2018
Privately issued reverse-dual currency securities	\$ 4,993	\$ 5,120
Publicly issued collateral structured as reverse-dual currency securities	1,678	1,657
Total reverse-dual currency securities	\$ 6,671	\$ 6,777
Reverse-dual currency securities as a percentage of total investment securities	6.1%	6.3%

<sup>(1)</sup> Principal payments in yen and interest payments in dollars

Aflac Japan has a portfolio of privately issued securities to better match liability characteristics and secure higher yields than those available on Japanese government or other public corporate bonds. Aflac Japan's investments in yen-denominated privately issued securities consist primarily of non-Japanese issuers, are rated investment grade at purchase and have longer maturities, thereby allowing the Company to improve asset/liability matching and overall investment returns. These securities are generally either privately negotiated arrangements or issued under medium-term note programs and have standard documentation commensurate with credit ratings of the issuer, except when internal credit analysis indicates that additional protective and/or event-risk covenants were required. Many of these investments have protective covenants appropriate to the specific investment. These may include a prohibition of certain activities by the borrower, maintenance of certain financial measures, and specific conditions impacting the payment of the Company's notes.

### HEDGING ACTIVITIES

The Company uses derivative contracts to hedge foreign currency exchange rate risk and interest rate risk. The Company uses various strategies, including derivatives, to manage these risks. See item "7A. Quantitative and Qualitative Disclosures About Market Risk" for more information about Market risk and the Company's use of derivatives.

Derivatives are designed to reduce risk on an economic basis while minimizing the impact on financial results. The Company's derivatives programs vary depending on the type of risk being hedged. See Note 4 of the Notes to the Consolidated Financial Statements for:

- A description of the Company's derivatives, hedging strategies and underlying risk exposure.
- Information about the notional amount and fair market value of the Company's derivatives.
- The unrealized and realized gains and losses impact on adjusted earnings of derivatives in cash flow, fair value, net investments in foreign operations, or non-qualifying hedging relationships.

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### Foreign Currency Exchange Rate Risk Hedge Program

The Company has deployed the following hedging strategies to mitigate exposure to foreign currency exchange rate risk:

- Aflac Japan hedges U.S. dollar-denominated investments back to yen (see *Aflac Japan's U.S. Dollar-Denominated Hedge Program* below).
- Aflac Japan maintains certain unhedged U.S. dollar-denominated securities, which serve as an economic currency hedge of a portion of the Company's investment in Aflac Japan (see *Aflac Japan's U.S. Dollar-Denominated Hedge Program* below).
- The Parent Company designates yen-denominated liabilities (notes payable and loans) as non-derivative hedging instruments and designates certain foreign currency forwards and options as derivative hedges of the Company's net investment in Aflac Japan (see *Enterprise Corporate Hedging Program* below).
- The Parent Company enters into forward and option contracts to accomplish a dual objective of hedging foreign currency exchange rate risk related to dividend payments by its subsidiary, ALLJ, and reducing enterprise-wide hedge costs. (see *Enterprise Corporate Hedging Program* below).

### Aflac Japan's U.S. Dollar-Denominated Hedge Program

Aflac Japan buys U.S. dollar-denominated investments, typically corporate bonds, and hedges them back to yen with foreign currency forwards and options to hedge foreign currency exchange rate risk. This economically creates yen assets that match yen liabilities during the life of the derivative and provides capital relief. The currency risk being hedged is generally based on fair value of hedged investments. The following table summarizes the U.S. dollar-denominated investments held by Aflac Japan as of December 31.

(In millions)	2019		2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<b>Available-for-sale securities:</b>				
Fixed maturity securities (excluding bank loans)	\$ 18,012	\$ 19,542	\$ 17,101	\$ 17,003
Fixed maturity securities - bank loans (floating rate)	677	649	1,296	1,238
<b>Equity securities</b>	<b>19</b>	<b>19</b>	<b>177</b>	<b>177</b>
<b>Commercial mortgage and other loans:</b>				
Transitional real estate loans (floating rate)	4,507	4,543	3,621	3,625
Commercial mortgage loans	1,308	1,319	763	736
Middle market loans (floating rate)	2,141	2,153	1,144	1,146
<b>Other investments</b>	<b>496</b>	<b>496</b>	<b>333</b>	<b>333</b>
<b>Total U.S. Dollar Program</b>	<b>27,160</b>	<b>28,721</b>	<b>24,435</b>	<b>24,258</b>
<b>Available-for-sale securities:</b>				
Fixed maturity securities - economically converted to yen	1,700	2,608	1,679	2,269
<b>Total U.S. dollar-denominated investments in Aflac Japan</b>	<b>\$ 28,860</b>	<b>\$ 31,329</b>	<b>\$ 26,114</b>	<b>\$ 26,527</b>

U.S. Dollar Program includes all U.S. dollar-denominated investments in Aflac Japan other than the investments in certain consolidated VIEs where the instrument is economically converted to yen as a result of a derivative in the consolidated variable interest entity. As of December 31, 2019, Aflac Japan had \$8.8 billion outstanding notional amounts of foreign currency forwards and \$21.1 billion outstanding notional amounts of foreign currency options, of which none were in-the-money, hedging the U.S. dollar-denominated investments. The fair value of Aflac Japan's unhedged U.S. dollar-denominated portfolio was \$19.9 billion (excluding certain U.S. dollar-denominated assets shown in the table above as a result of consolidation that have been economically converted to yen using derivatives).

Foreign exchange derivatives used for hedging are periodically settled, which results in cash receipt or payment at maturity or early termination. The Company had net cash outflows of \$20 million in 2019, net cash inflows of \$272 million in



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2018 and net cash outflows of \$747 million in 2017, associated with the currency derivatives used for hedging Aflac Japan's U.S. dollar-denominated investments.

### [Enterprise Corporate Hedging Program](#)

The Company has designated certain yen-denominated liabilities and foreign currency forwards and options of the Parent Company as accounting hedges of its net investment in Aflac Japan. The Company's consolidated yen-denominated net asset position was partially hedged at \$9.1 billion as of December 31, 2019, compared with \$1.8 billion as of December 31, 2018.

The Company makes its accounting designation of net investment hedge at the beginning of each quarter. If the total of the designated Parent Company non-derivative and derivative notional is equal to or less than the Company's net investment in Aflac Japan, the hedge is deemed to be effective, and the currency exchange effect on the yen-denominated liabilities and the change in estimated fair value of the derivatives are reported in the unrealized foreign currency component of other comprehensive income. The Company's net investment hedge was effective during the years ended December 31, 2019 and 2018, respectively. For additional information on the Company's net investment hedging strategy, see Note 4 of the Notes to the Consolidated Financial Statements.

In order to economically mitigate risks associated with the enterprise-wide exposure to the yen and the level and volatility of hedge costs, the Parent Company enters into foreign exchange forward and option contracts. By buying U.S. dollars and selling yen, the Parent Company is effectively lowering its overall economic exposure to the yen, while Aflac Japan's U.S. dollar exposure remains reduced as a result of Aflac Japan's U.S. dollar-denominated hedge program that economically creates yen assets. Among other objectives, this strategy is intended to offset the enterprise-wide amortized hedge costs by generating amortized hedge income. The portion of the enterprise-wide amortized hedge income contributed by this strategy was \$89 million in 2019 and \$36 million in 2018. This activity is reported in Corporate and Other. As this program evolves, the Company will continue to evaluate the program's efficacy. See the Results of Operations section of this MD&A for the Company's definition of amortized hedge costs/income.

The following table presents metrics related to Aflac Japan amortized hedge costs and the Parent Company amortized hedge income for the years ended December 31.

### **Aflac Japan Hedge Cost Metrics<sup>(1)</sup>**

	2019	2018
<b>Aflac Japan:</b>		
FX forward (sell USD, buy yen) notional at end of period (in billions) <sup>(2)</sup>	\$8.8	\$9.9
Weighted average remaining tenor (in months) <sup>(3)</sup>	8.5	21.4
Amortized hedge income (cost) for period (in millions)	\$(257)	\$(236)
<b>Parent Company:</b>		
FX forward (buy USD, sell yen) notional at end of period (in billions) <sup>(2)</sup>	\$4.9	\$2.5
Weighted average remaining tenor (in months) <sup>(3)</sup>	13.7	16.1
Amortized hedge income (cost) for period (in millions)	\$89	\$36

<sup>(1)</sup> See the Results of Operations section of this MD&A for the Company's definition of amortized hedge costs/income.

<sup>(2)</sup> Notional is reported net of any offsetting positions within Aflac Japan or the Parent Company, respectively.

<sup>(3)</sup> Tenor based on period reporting date to settlement date

### [Interest Rate Risk Hedge Program](#)

Aflac Japan and Aflac U.S. use interest rate swaps to mitigate the risk of investment income volatility for certain variable-rate investments. Additionally, to manage interest rate risk associated with its U.S. dollar-denominated investments held by Aflac Japan, the Company utilizes interest rate swaps.

For additional discussion of the risks associated with the foreign currency exposure refer to the Currency Risk section in Item 1A, specifically to the Risk Factors titled "The Company is exposed to foreign currency fluctuations in the yen/dollar exchange rate" and "Lack of availability of acceptable yen-denominated investments could adversely affect the Company's results of operations, financial position or liquidity."

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See Note 4 of the Notes to the Consolidated Financial Statements for additional information on the Company's hedging activities.

### POLICY LIABILITIES

The following table presents policy liabilities by segment and in total for the years ended December 31.

(In millions)	2019	2018
Japan segment:		
Future policy benefits	\$ 81,462	\$ 77,812
Unpaid policy claims	2,879	2,857
Other policy liabilities	11,452	12,122
Total Japan policy liabilities	95,793	92,791
U.S. segment:		
Future policy benefits	9,405	9,137
Unpaid policy claims	1,779	1,727
Other policy liabilities	111	117
Total U.S. policy liabilities	11,295	10,981
Consolidated:		
Future policy benefits	90,335	86,368
Unpaid policy claims	4,659	4,584
Other policy liabilities	11,560	12,236
Total consolidated policy liabilities <sup>(1)</sup>	\$ 106,554	\$ 103,188

<sup>(1)</sup> The sum of the Japan and U.S. segments exceeds the total due to reinsurance and retrocession activity.

See Note 7 of the Notes to the Consolidated Financial Statements for additional information on the Company's policy liabilities.

### BENEFIT PLANS

Aflac Japan and Aflac U.S. have various benefit plans. For additional information on the Company's Japanese and U.S. plans, see Note 14 of the Notes to the Consolidated Financial Statements.

### POLICYHOLDER PROTECTION

#### [Policyholder Protection Corporation](#)

The Japanese insurance industry has a policyholder protection system that provides funds for the policyholders of insolvent insurers. Legislation enacted regarding the framework of the Life Insurance Policyholder Protection Corporation (LIPPC) included government fiscal measures supporting the LIPPC. In November 2016, Japan's Diet passed legislation that again extends the government's fiscal support of the LIPPC through March 2022. Effective April 2014, the annual LIPPC contribution amount for the total life industry was lowered from ¥40 billion to ¥33 billion. Aflac Japan recognized an expense of ¥1.9 billion and ¥2.0 billion for the years ended December 31, 2019 and 2018, respectively, for LIPPC assessments.

#### [Guaranty Fund Assessments](#)

Under U.S. state guaranty association laws, certain insurance companies can be assessed (up to prescribed limits) for certain obligations to the policyholders and claimants of impaired or insolvent insurance companies that write the same line or similar lines of business. The amount of the guaranty fund assessment that an insurer is assessed is based on its proportionate share of premiums in that state. See Note 15 of the Notes to the Consolidated Financial Statements for further information on the assessment.

### OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2019, the Company had no material letters of credit, standby letters of credit, guarantees or standby repurchase obligations. See Note 15 of the Notes to the Consolidated Financial Statements for information on material unconditional purchase obligations that are not recorded on the Company's balance sheet.

## LIQUIDITY AND CAPITAL RESOURCES

Liquidity refers to the ability to generate sufficient cash resources to meet the payment obligations of the Company. Capital refers to the long-term financial resources available to support the operations of the businesses, fund business growth and provide for an ability to withstand adverse circumstances. Financial leverage (leverage) refers to an investment strategy of using debt to increase the potential return on equity. The Company targets and actively manages liquidity, capital and leverage in the context of a number of considerations, including:

- business investment and growth needs
- strategic growth objectives
- financial flexibility and obligations
- capital support for hedging activity
- a constantly evolving business and economic environment
- a balanced approach to capital allocation and shareholder deployment.

The governance framework supporting liquidity, capital and leverage includes global senior management and board committees that review and approve all significant capital related decisions.

The Company's cash and cash equivalents include unrestricted cash on hand, money market instruments, and other debt instruments with a maturity of 90 days or less when purchased, all of which has minimal market, settlement or other risk exposure. The target minimum amount for the Parent Company's cash and cash equivalents is approximately \$2.0 billion to provide available capital and liquidity support at the holding company. Aflac Japan and Aflac U.S. provide the primary sources of liquidity to the Parent Company through the payment of dividends and management fees. The following table presents the amounts provided to the Parent Company for the years ended December 31.

### Liquidity Provided by Subsidiaries to Parent Company

(In millions)	2019	2018
Dividends declared or paid by subsidiaries	\$ 3,466	\$ 1,817
Management fees paid by subsidiaries	151	204

The decline in dividends during 2018 was driven by a change in the dividend regulatory approval process subsequent to the conversion of Aflac Japan from a branch to a subsidiary on April 1, 2018. The Company resumed dividend payments from Aflac Japan in the fourth quarter of 2018. Management fees decreased during 2019 and 2018, compared to prior years, due to changes in the administration of intercompany expenses between legal entities subsequent to the conversion, as well.

Prior to the Aflac Japan branch conversion, Aflac Japan paid allocated expenses and profit remittances to Aflac U.S. The following table details Aflac Japan remittances for the years ended December 31.

### Aflac Japan Remittances

(In millions of dollars and billions of yen)	2019	2018
Aflac Japan management fees paid to Parent Company	\$ 75	\$ 136
Expenses allocated to Aflac Japan (in dollars)	4	24
Aflac Japan profit remittances to the Parent Company or Aflac U.S. (in dollars)	2,070	808
Aflac Japan profit remittances to the Parent Company or Aflac U.S. (in yen)	¥ 225.2	¥ 89.7

In 2018, the Company announced a change in its internal dividend policy which allows the Company to increase the proportion of regulatory earnings transferred from Aflac U.S. and Aflac Japan to the Parent Company. The Company intends to maintain higher than historical levels of capital and liquidity at the Parent Company with the goals of addressing the Company's hedge costs and related potential need for collateral and mitigating against long-term weakening of the Japanese yen. Further, the Company plans to continue to maintain a portfolio of unhedged U.S. dollar based investments at Aflac Japan and consider whether the amount of such investments should be increased or decreased relative to the Company's view of economic equity surplus in Aflac Japan in light of potentially rising hedge costs and other factors. See the "Hedging Activity" subsection in this MD&A for more information.

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In addition to cash and equivalents, the Company also maintains credit facilities, both intercompany and with external partners, and a number of other available tools to support liquidity needs on a global basis. In September 2018, the Parent Company filed a shelf registration statement with the SEC that allows the Company to issue an indefinite amount of debt securities, in one or more series, from time to time until September 2021. In August 2018, the Parent Company filed a shelf registration with Japanese regulatory authorities that allows the Parent Company to conduct public offerings of bonds in Japan, including yen-denominated Samurai notes, up to ¥200 billion or its equivalent through August 2020. The shelf registration statement is for possible public offerings in Japan, but the bonds issued under the shelf may be transferred by the bondholders to U.S. persons in compliance with U.S. law. The Company believes outside sources for additional debt and equity capital, if needed, will continue to be available. Additionally, as of December 31, 2019, the Parent Company and Aflac had four lines of credit with third parties and three intercompany lines of credit. For additional information, see Note 9 of the Notes to the Consolidated Financial Statements.

The primary uses of cash by the Parent Company are shareholder dividends, the repurchase of its common stock and interest on its outstanding indebtedness and operating expenses.

### Major Contractual Obligations

The following table presents the estimated payments by period of the Company's major contractual obligations as of December 31, 2019. The Company translated its yen-denominated obligations using the December 31, 2019, exchange rate. Actual future payments as reported in dollars will fluctuate with changes in the yen/dollar exchange rate.

#### Distribution of Payments by Period

(In millions)	Total Liability <sup>(1)</sup>	Total Payments	Less Than One Year	One to Three Years	Four to Five Years	After Five Years
Future policy benefits liability (Note 7) <sup>(2)</sup>	\$ 90,335	\$ 244,884	\$ 9,221	\$ 18,151	\$ 18,224	\$ 199,288
Unpaid policy claims liability (Note 7) <sup>(3)</sup>	4,659	4,660	2,985	980	394	301
Other policyholders' funds (Note 7) <sup>(3)</sup>	7,317	9,902	341	389	706	8,466
Long-term debt – principal (Note 9)	6,408	6,458	0	350	1,450	4,658
Long-term debt – interest (Note 9)	44	2,036	171	320	262	1,283
Cash collateral on loaned securities (Note 3)	1,876	1,876	1,876	0	0	0
Operating service agreements (Note 15)	N/A <sup>(4)</sup>	463	179	279	5	0
Operating lease obligations (Note 9)	149	159	49	68	20	22
Finance lease obligations (Note 9)	12	12	4	5	3	0
Total contractual obligations	\$ 110,800	\$ 270,450	\$ 14,826	\$ 20,542	\$ 21,064	\$ 214,018

Liabilities for unrecognized tax benefits in the amount of \$17 have been excluded from the tabular disclosure above because the timing of cash payment is not reasonably estimable.

<sup>(1)</sup>Liability amounts are those reported on the consolidated balance sheet as of December 31, 2019.

<sup>(2)</sup>The estimated payments due by period reflect future estimated cash payments to be made to policyholders and others for future policy benefits. These projected cash outflows are based on assumptions for future policy persistency, mortality, morbidity, and other assumptions comparable with the Company's experience, consider future premium receipts on current policies in force, and assume market growth and interest crediting consistent with assumptions used in amortizing deferred acquisition costs. These cash outflows are undiscounted with respect to interest and, as a result, the sum of the cash outflows shown for all years in the table of \$244,884 exceeds the corresponding liability amount of \$90,335. The Company has made significant assumptions to determine the future estimated cash outflows related to the underlying policies and contracts. Due to the significance of the assumptions used, actual cash outflow amounts and timing will differ, possibly materially, from these estimates.

<sup>(3)</sup>Includes assumptions as to the timing of policyholders reporting claims for prior periods and the amount of those claims. Actual amounts and timing of unpaid policy claims payments may differ significantly from the estimates above.

<sup>(4)</sup>Not applicable

For more information on the Company's major contractual obligations, see the applicable Note in the Notes to the Consolidated Financial Statements as indicated in the line items in the table above.

The Company's financial statements convey its financing arrangements during the periods presented. The Company has not engaged in material intra-period short-term financings during the periods presented that are not otherwise reported in its balance sheet or disclosed therein. The Company was in compliance with all of the covenants of its notes payable and lines of credit at December 31, 2019. The Company has not entered into transactions involving the transfer of financial assets with an obligation to repurchase financial assets that have been accounted for as a sale under applicable accounting standards.

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including securities lending transactions. See Notes 1, 3, and 4 of the Notes to the Consolidated Financial Statements for more information on the Company's securities lending and derivative activities. With the exception of disclosed activities in those referenced footnotes and the Risk Factors entitled, "The Company is exposed to foreign currency fluctuations in the yen/dollar exchange rate" and "Lack of availability of acceptable yen-denominated investments could adversely affect the Company's results of operations, financial position or liquidity," the Company is not aware of a trend, demand, commitment, event or uncertainty that would likely result in its liquidity increasing or decreasing by a material amount.

### Consolidated Cash Flows

The Company translates cash flows for Aflac Japan's yen-denominated items into U.S. dollars using weighted-average exchange rates. In years when the yen weakens, translating yen into dollars causes fewer dollars to be reported. When the yen strengthens, translating yen into dollars causes more dollars to be reported.

The following table summarizes consolidated cash flows by activity for the years ended December 31.

(In millions)	2019	2018
Operating activities	\$ 5,455	\$ 6,014
Investing activities	(3,171)	(3,582)
Financing activities	(1,713)	(1,616)
Exchange effect on cash and cash equivalents	(12)	30
Net change in cash and cash equivalents	\$ 559	\$ 846

### Operating Activities

The principal cash inflows for the Company's insurance activities come from insurance premiums and investment income. The principal cash outflows are the result of policy claims, operating expenses, income tax, as well as interest expense. As a result of policyholder aging, claims payments are expected to gradually increase over the life of a policy. Therefore, future policy benefit reserves are accumulated in the early years of a policy and are designed to help fund future claims payments.

The Company expects its future cash flows from premiums and its investment portfolio to be sufficient to meet its cash needs for benefits and expenses. Consolidated cash flow from operations decreased 9.3% in 2019, compared with 2018.

### Investing Activities

The Company's investment objectives provide for liquidity primarily through the purchase of publicly traded investment-grade debt securities. Prudent portfolio management dictates that the Company attempts to match the duration of its assets with the duration of its liabilities. Currently, when the Company's fixed maturity securities mature, the proceeds may be reinvested at a yield below that required for the accretion of policy benefit liabilities on policies issued in earlier years. However, the long-term nature of the Company's business and its strong cash flows provide the Company with the ability to minimize the effect of mismatched durations and/or yields identified by various asset adequacy analyses. From time to time or when market opportunities arise, the Company disposes of selected fixed maturity securities that are available for sale to improve the duration matching of assets and liabilities, improve future investment yields, and/or re-balance its portfolio. As a result, dispositions before maturity can vary significantly from year to year.

As part of its overall corporate strategy, the Company has announced an increase in its commitment to the Aflac Ventures Fund from \$250 million to \$400 million, as opportunities emerge. These investments are included in equity securities or the other investments line in the consolidated balance sheets. The Aflac Ventures Fund is a subsidiary of Aflac Corporate Ventures which is reported in the Corporate and other segment. The central mission of Aflac Corporate Ventures is to support the organic growth and business development needs of Aflac Japan and Aflac U.S. with emphasis on digital applications designed to improve the customer experience, gain efficiencies, and develop new markets in an effort to enhance and defend long-term shareholder value.

As part of an arrangement with Federal Home Loan Bank of Atlanta (FHLB), Aflac U.S. obtains low-cost funding from FHLB supported by acceptable forms of collateral pledged by Aflac U.S. Aflac U.S. borrowed and repaid \$217 million under this program during 2019. As of December 31, 2019, Aflac U.S. had outstanding borrowings of \$403 million reported in its balance sheet.

See Note 3 of the Notes to the Consolidated Financial Statements for details on certain investment commitments.

### Financing Activities

Consolidated cash used by financing activities was \$1.7 billion in 2019 and \$1.6 billion in 2018.

In December 2019, the Parent Company issued four series of senior notes totaling ¥38.0 billion through a public debt offering under its U.S. shelf registration statement. The first series, which totaled ¥12.6 billion, bears interest at a fixed rate of .500% per annum, payable semi-annually, and will mature in December 2029. The second series, which totaled ¥9.3 billion, bears interest at a fixed rate of .843% per annum, payable semi-annually, and will mature in December 2031. The third series, which totaled ¥9.8 billion, bears interest at a fixed rate of .934% per annum, payable semi-annually, and will mature in December 2034. The fourth series, which totaled ¥6.3 billion, bears interest at a fixed rate of 1.122% per annum, payable semi-annually, and will mature in December 2039. These notes may only be redeemed before maturity, in whole but not in part, upon the occurrence of certain changes affecting U.S. taxation, as specified in the indenture governing the terms of the issuance.

In September 2019, the Parent Company renewed a ¥30.0 billion senior term loan facility. The first tranche of the facility, which totaled ¥5.0 billion, bears interest at a rate per annum equal to the Tokyo interbank market rate (TIBOR), or alternate TIBOR, if applicable, plus the applicable TIBOR margin and will mature in September 2026. The applicable margin ranges between .30% and .70%, depending on the Parent Company's debt ratings as of the date of determination. The second tranche, which totaled ¥25.0 billion, bears interest at a rate per annum equal to the TIBOR, or alternate TIBOR, if applicable, plus the applicable TIBOR margin and will mature in September 2029. The applicable margin ranges between .45% and 1.00%, depending on the Parent Company's debt ratings as of the date of determination.

In April 2019, ALIJ issued ¥30.0 billion (par value) of perpetual subordinated bonds. These bonds bear interest at a fixed rate of .963% per annum and then at six-month Euro Yen LIBOR plus an applicable spread on and after the day immediately following April 18, 2024. The bonds will be callable on each interest payment date on and after April 18, 2024. In November 2019, ALIJ amended the bonds to change their duration from perpetual to a stated maturity date of April 16, 2049 and to remove provisions that permitted ALIJ to defer payments of interest under certain circumstances.

In October 2018, the Parent Company issued \$550 million of senior notes through a U.S. public debt offering. The notes bear interest at a fixed rate of 4.750% per annum, payable semi-annually, and will mature in January 2049. These notes are redeemable at the Parent Company's option in whole at any time or in part from time to time at a redemption price equal to the greater of: (i) the aggregate principal amount of the notes to be redeemed or (ii) the amount equal to the sum of the present values of the remaining scheduled payments for principal of and interest on the notes to be redeemed, not including any portion of the payments of interest accrued as of such redemption date, discounted to such redemption date on a semiannual basis at the yield to maturity for a U.S. Treasury security with a maturity comparable to the remaining term of the notes, plus 25 basis points, plus in each case, accrued and unpaid interest on the principal amount of the notes to be redeemed to, but excluding, such redemption date.

In October 2018, the Parent Company issued three series of senior notes totaling ¥53.4 billion through a public debt offering under its U.S. shelf registration statement. The first series, which totaled ¥29.3 billion, bears interest at a fixed rate of 1.159% per annum, payable semi-annually, and will mature in October 2030. The second series, which totaled ¥15.2 billion, bears interest at a fixed rate of 1.488% per annum, payable semi-annually, and will mature in October 2033. The third series, which totaled ¥8.9 billion, bears interest at a fixed rate of 1.750% per annum, payable semi-annually, and will mature in October 2038. These notes may only be redeemed before maturity, in whole but not in part, upon the occurrence of certain changes affecting U.S. taxation, as specified in the indenture governing the terms of the issuance.

In November 2018, the Parent Company used the net proceeds from the October 2018 issuance of its senior notes to redeem \$550 million of the Parent Company's 2.40% senior notes due in 2020.

See Note 9 of the Notes to the Consolidated Financial Statements for further information on the debt issuances discussed above.

The Company was in compliance with all of the covenants of its notes payable and lines of credit at December 31, 2019.

Cash returned to shareholders through treasury stock purchases and dividends was \$2.4 billion in 2019, compared with \$2.1 billion in 2018.

The following tables present a summary of treasury stock activity during the years ended December 31.



### Treasury Stock Purchased

(In millions of dollars and thousands of shares)	2019	2018
Treasury stock purchases	\$ 1,627	\$ 1,301
Number of shares purchased:		
Share repurchase program	31,994	28,949
Other	592	392
Total shares purchased	32,586	29,341

### Treasury Stock Issued

(In millions of dollars and thousands of shares)	2019	2018
Stock issued from treasury:		
Cash financing	\$ 49	\$ 58
Noncash financing	50	17
Total stock issued from treasury	\$ 99	\$ 75
Number of shares issued	2,324	1,939

Under share repurchase authorizations from the Company's board of directors, the Company purchased 32.0 million shares of its common stock in 2019, compared with 28.9 million shares in 2018. As of December 31, 2019, a remaining balance of 37.1 million shares of the Company's common stock was available for purchase under share repurchase authorizations by its board of directors. The Company currently plans to repurchase \$1.3 billion to \$1.7 billion of its common stock in 2020, assuming stable capital conditions and absent compelling alternatives. See Note 11 of the Notes to the Consolidated Financial Statements for additional information.

Cash dividends paid to shareholders in 2019 of \$1.08 per share increased 3.8% over 2018. The following table presents the dividend activity for the years ended December 31.

### Dividends Paid to Shareholders

(In millions)	2019	2018
Dividends paid in cash	\$ 771	\$ 793
Dividends through issuance of treasury shares	30	8
Total dividends to shareholders	\$ 801	\$ 801

In January 2020, the board of directors announced a 3.7% increase in the quarterly cash dividend, effective with the first quarter of 2020. The first quarter 2020 cash dividend of \$.28 per share is payable on March 2, 2020, to shareholders of record at the close of business on February 19, 2020.

### Regulatory Restrictions

Aflac, CAIC and TOIC are domiciled in Nebraska and are subject to its regulations. Subsequent to the Japan branch conversion to a subsidiary, Aflac Japan is domiciled in Japan and subject to local regulations. The Nebraska Department of Insurance imposes certain limitations and restrictions on payments of dividends, management fees, loans and advances to the Parent Company. Under Nebraska insurance law, prior approval of the Nebraska Department of Insurance is required for dividend distributions that exceed the greater of the net income from operations, which excludes net realized investment gains, for the previous year determined under statutory accounting principles, or 10% of statutory capital and surplus as of the previous year-end. In addition, the Nebraska insurance department must approve service arrangements and other transactions within the affiliated group of companies. These regulatory limitations are not expected to affect the level of management fees or dividends paid to the Parent Company. (See below for discussion of restrictions imposed by Japanese insurance regulators.) A life insurance company's statutory capital and surplus is determined according to rules prescribed by the NAIC, as modified by the insurance department in the insurance company's state of domicile. Statutory accounting rules are different from U.S. GAAP and are intended to emphasize policyholder protection and company solvency. Similar laws apply in New York, the domiciliary jurisdiction of Aflac New York.



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The continued long-term growth of the Company's business may require increases in the statutory capital and surplus of its insurance operations. Aflac's insurance operations may secure additional statutory capital through various sources, such as internally generated statutory earnings, capital contributions by the Parent Company from funds generated through debt or equity offerings, or reinsurance transactions. The NAIC's RBC formula is used by insurance regulators to help identify inadequately capitalized insurance companies. The RBC formula quantifies insurance risk, business risk, asset risk and interest rate risk by weighing the types and mixtures of risks inherent in the insurer's operations.

Aflac's company action level RBC ratio was 539% as of December 31, 2019, compared with 560% at December 31, 2018. Aflac's RBC ratio remains high and reflects a strong capital and surplus position. As of December 31, 2019, Aflac's total adjusted capital of \$2.2 billion exceeded the company action level required capital and surplus of \$4 billion by \$1.8 billion. With the announcement of the Japan branch conversion to a subsidiary, we had announced our intention to remove excess capital out of Aflac, targeting a 500% RBC by the end of 2019. As of December 31, 2019, the Company has completed the RBC drawdown plan and has moved \$1.75 billion of capital from Aflac to the Parent Company, supporting the Company's capital deployment and risk management activities.

The maximum amount of dividends that can be paid to the Parent Company by Aflac, CAIC and TOIC without prior approval of Nebraska's director of insurance is the greater of the net income from operations, which excludes net realized investment gains, for the previous year determined under statutory accounting principles, or 10% of statutory capital and surplus as of the previous year-end. Dividends declared by Aflac during 2020 in excess of \$864 million would be considered extraordinary and require such approval. Following the Japan branch conversion to a subsidiary, the Company used extraordinary dividends as needed to actively manage to appropriate RBC levels that are lower yet sufficient to maintain ratings and support prudent capital management. Similar laws apply in New York, the domiciliary jurisdiction of Aflac New York. See Note 13 of the Notes to the Consolidated Financial Statements for information regarding the impact of permitted practices by the Nebraska Department of Insurance on the Company's statutory capital and surplus.

The NAIC considers its Solvency Modernization Initiative (SMI) process relating to updating the U.S. insurance solvency regulation framework to be ongoing. The SMI has focused on key issues such as capital requirements, governance and risk management, group supervision, reinsurance, statutory accounting and financial reporting matters. Many of these key issues have been finalized and/or are near completion; however, the NAIC still has some ongoing initiatives related to SMI, such as monitoring the international efforts on group capital requirements as well as RBC. In addition, the NAIC is also considering changes to investment risk factors. Any negative developments by the NAIC in these areas could result in increased capital requirements for the Company.

Aflac is subject to the NAIC's Own Risk and Solvency Assessment (ORSA). Through the ORSA requirements, Aflac is expected to regularly, no less than annually, conduct an ORSA to assess the adequacy of its risk management framework, and its current and estimated projected future solvency position; internally document the process and results of the assessment; and provide a confidential high-level ORSA Summary Report annually to the lead state commissioner if the insurer is a member of an insurance group. In November 2019, Aflac filed its ORSA report with the Nebraska Department of Insurance.

In addition to limitations and restrictions imposed by U.S. insurance regulators, after the Japan branch conversion on April 1, 2018, the new Japan subsidiary is required to meet certain financial criteria as governed by Japanese corporate law in order to provide dividends to the Parent Company. Under these criteria, dividend capacity at the Japan subsidiary is basically defined as total equity excluding common stock, accumulated other comprehensive income amounts, capital reserves (representing statutorily required amounts in Japan) but reduced for net after-tax unrealized losses on available-for-sale securities. These dividend capacity requirements are generally aligned with the SMR. Japan's FSA maintains its own solvency standard which is quantified through the SMR. Aflac Japan's SMR is sensitive to interest rate, credit spread, and foreign exchange rate changes, therefore the Company continues to evaluate alternatives for reducing this sensitivity. In the event of a rapid change in market risk conditions causing SMR to decline, the Company has one senior unsecured revolving credit facility in the amount of ¥100 billion and a committed reinsurance facility in the amount of approximately ¥110 billion as a capital contingency plan. Additionally, the Company could take action to enter into derivatives on unhedged U.S. dollar-denominated investments with foreign currency options or forwards. See Notes 8 and 9 of the Notes to the Consolidated Financial Statements for additional information.

The Company has already undertaken various measures to mitigate the sensitivity of Aflac Japan's SMR. For example, the Company employs policy reserve matching (PRM) investment strategies, which is a Japan-specific accounting treatment that reduces SMR interest rate sensitivity since PRM-designated investments are carried at amortized cost consistent with corresponding liabilities. In order for a PRM-designated asset to be held at amortized cost, there are certain criteria that must be maintained. The primary criteria relates to maintaining the duration of designated assets and liabilities within a specified tolerance range. If the duration difference is not maintained within the specified range without rebalancing, then a certain

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portion of the assets must be re-classified as available for sale and held at fair value with any associated unrealized gain or loss recorded in surplus. To rebalance, assets may need to be sold in order to maintain the duration with the specified range, resulting in realizing a gain or loss from the sale. For U.S. GAAP, PRM investments are categorized as available for sale. The Company also uses foreign currency derivatives to hedge a portion of its U.S. dollar-denominated investments. (See Notes 3, 4 and 8 of the Notes to the Consolidated Financial Statements for additional information on the Company's investment strategies, hedging activities, and reinsurance, respectively.)

Aflac's SMR ratio remains high and reflects a strong capital and surplus position. As of December 31, 2019, Aflac Japan's SMR was 1,043%, compared with 965% at December 31, 2018. As part of the conversion of Aflac Japan from a branch to a subsidiary on April 1, 2018, the Company experienced an accounting-driven decline in the SMR of approximately 130 points, compared with the SMR as of December 31, 2017. The Company expects to be able to pay dividends out of certain accounts, thus restoring this accounting impact over an estimated three-year period.

The FSA has been conducting field testing with the insurance industry concerning the introduction of an economic value-based solvency regime. The field testing will assist the FSA in determining if an economic value-based solvency regime in Japan will be appropriate for the insurance industry.

### **Privacy and Cybersecurity Governance**

The Company's Board of Directors has adopted an information security policy directing management to establish and operate a global information security program with the goals of monitoring existing and emerging threats and ensuring that the Company's information assets and data, and the data of its customers, are appropriately protected from loss or theft. The Board has delegated oversight of the Company's information security program to the Audit and Risk Committee. The Company's senior officers, including its Global Security and Chief Information Security Officer, are responsible for the operation of the global information security program and regularly communicate with the Audit and Risk Committee on the program, including with respect to the state of the program, compliance with applicable regulations, current and evolving threats, and recommendations for changes in the information security program. The global information security program also includes a cybersecurity incident response plan that is designed to provide a management framework across Company functions for a coordinated assessment and response to potential security incidents. This framework establishes a protocol to report certain incidents to the Global Security and Chief Information Security Officer and other senior officers, with the goal of timely assessing such incidents, determining applicable disclosure requirements and communicating with the Audit and Risk Committee. The incident response plan directs the executive officers to report certain incidents immediately and directly to the Lead Non-Management Director.

### **Other**

For information regarding commitments and contingent liabilities, see Note 15 of the Notes to the Consolidated Financial Statements.

### **Additional Information**

Investors should note that the Company announces material financial information in its SEC filings, press releases and public conference calls. In accordance with SEC guidance, the Company may also use the Investor Relations section of the Company's website (<http://investors.aflac.com>) to communicate with investors about the Company. It is possible that the financial and other information the Company posts there could be deemed to be material information. The information on the Company's website is not part of this document. Further, the Company's references to website URLs are intended to be inactive textual references only.

### **CRITICAL ACCOUNTING ESTIMATES**

The Company prepares its financial statements in accordance with U.S. GAAP. These principles are established primarily by the FASB. In this MD&A, references to U.S. GAAP issued by the FASB are derived from the FASB Accounting Standards Codification™ (ASC). The preparation of financial statements in conformity with U.S. GAAP requires the Company to make estimates based on currently available information when recording transactions resulting from business operations. The estimates that the Company deems to be most critical to an understanding of Aflac's results of operations and financial condition are those related to the valuation of investments and derivatives, DAC, liabilities for future policy benefits and unpaid policy claims, and income taxes. The preparation and evaluation of these critical accounting estimates involve the use of various assumptions developed from management's analyses and judgments. The application of these critical accounting estimates determines the values at which 94% of the Company's assets and 81% of its liabilities are reported as

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of December 31, 2019, and thus has a direct effect on net earnings and shareholders' equity. Subsequent experience or use of other assumptions could produce significantly different results.

### **Valuation of Investments, Including Derivatives, and Recognition of Other-than-Temporary Impairments**

Aflac's investments, primarily consisting of debt and equity securities, include both publicly issued and privately issued securities. For publicly issued securities, the Company determines the fair values from quoted market prices readily available from public exchange markets and price quotes and valuations from third party pricing vendors. For the majority of privately issued securities within the Company's investment portfolio, a third party pricing vendor has developed valuation models that the Company utilizes to determine fair values. For the remaining privately issued securities, the Company uses non-binding price quotes from outside brokers.

The Company estimates the fair values of its securities on a monthly basis. The Company monitors the estimated fair values obtained from its pricing vendors and brokers for consistency from month to month, while considering current market conditions. The Company also periodically discusses with its pricing brokers and vendors the pricing techniques they use to monitor the consistency of their approach and periodically assess the appropriateness of the valuation level assigned to the values obtained from them. If a fair value appears unreasonable, the Company will re-examine the inputs and assess the reasonableness of the pricing data with the vendor. Additionally, the Company may compare the inputs to relevant market indices and other performance measurements. Based on management's analysis, the valuation is confirmed or may be revised if there is evidence of a more appropriate estimate of fair value based on available market data. The Company has performed verification of the inputs and calculations in any valuation models to confirm that the valuations represent reasonable estimates of fair value. Inputs used to value derivatives include, but are not limited to, interest rates, credit spreads, foreign currency forward and spot rates, and interest volatility.

The Company routinely reviews its investments that have experienced declines in fair value to determine if the decline is other than temporary. The identification of distressed investments, the determination of fair value if not publicly traded and the assessment of whether a decline is other than temporary involve significant management judgment. The Company must apply considerable judgment in determining the likelihood of the security recovering in value while the Company owns it. Factors that may influence this include the Company's assessment of the issuer's ability to continue making timely payments of interest and principal, the overall level of interest rates and credit spreads, and other factors. This process requires consideration of risks, which can be controlled to a certain extent, such as credit risk, and risks which cannot be controlled, such as interest rate risk. Management updates its evaluations regularly and reflects impairment losses in the Company's net earnings or other comprehensive income, depending on the nature of the loss, as such evaluations are revised.

See Notes 1, 3, 4 and 5 of the Notes to the Consolidated Financial Statements for additional information.

### **Deferred Policy Acquisition Costs and Policy Liabilities**

Insurance premiums for most of the Company's health and life policies, including cancer, accident, hospital, critical illness, dental, vision, term life, whole life, long-term care and disability, are recognized as revenue over the premium-paying periods of the contracts when due from policyholders. When revenues are reported, the related amounts of benefits and expenses are charged against such revenues, so that profits are recognized in proportion to premium revenues during the period the policies are expected to remain in force. This association is accomplished by means of annual additions to the liability for future policy benefits and the deferral and subsequent amortization of policy acquisition costs.

Premiums from the Company's products with limited-pay features, including term life, whole life, WAYS, and child endowment, are collected over a significantly shorter period than the period over which benefits are provided. Premiums for these products are recognized as revenue over the premium-paying periods of the contracts when due from policyholders. Any gross premium in excess of the net premium is deferred and recorded in earnings, such that profits are recognized in a constant relationship with insurance in force. Benefits are recorded as an expense when they are incurred. A liability for future policy benefits is recorded when premiums are recognized using the net premium method.

#### [Deferred Policy Acquisition Costs](#)

The calculation of DAC and the liability for future policy benefits requires the use of estimates based on sound actuarial valuation techniques. For new policy issues, the Company reviews its actuarial assumptions and deferrable acquisition costs each year and revise them when necessary to more closely reflect recent experience and studies of actual acquisition costs. For policies in force, the Company evaluates DAC by major product groupings to determine that they are recoverable from future revenues, and any amounts determined not to be recoverable are charged against net earnings. See Note 6 of the Notes to the Consolidated Financial Statements for a detail of the DAC activity for the past two years.

[Policy Liabilities](#)

The Company's policy liabilities, which are determined in accordance with applicable guidelines as defined under U.S. GAAP and Actuarial Standards of Practice, include two components that involve analysis and judgment: future policy benefits and unpaid policy claims, which accounted for 85% and 4% of total policy liabilities as of December 31, 2019, respectively.

Future policy benefits provide for claims that will occur in the future and are generally calculated as the present value of future expected benefits to be incurred less the present value of future expected net benefit premiums. The Company calculates future policy benefits based on assumptions of morbidity, mortality, persistency and interest. These assumptions are generally established at the time a policy is issued. The assumptions used in the calculations are closely related to those used in developing the gross premiums for a policy. As required by U.S. GAAP, the Company also includes a provision for adverse deviation, which is intended to accommodate adverse fluctuations in actual experience.

Unpaid policy claims include those claims that have been incurred and are in the process of payment as well as an estimate of those claims that have been incurred but have not yet been reported to the Company. The Company computes unpaid policy claims on a non-discounted basis using statistical analyses of historical claims payments, adjusted for current trends and changed conditions. The Company updates the assumptions underlying the estimate of unpaid policy claims regularly and incorporates its historical experience as well as other data that provides information regarding the Company's outstanding liability.

The Company's insurance products provide fixed-benefit amounts per occurrence that are not subject to medical-cost inflation. Furthermore, the Company's business is widely dispersed in both the U.S. and Japan. This geographic dispersion and the nature of the Company's benefit structure mitigate the risk of a significant unexpected increase in claims payments due to epidemics and events of a catastrophic nature. Claims incurred under Aflac's policies are generally reported and paid in a relatively short time frame. The unpaid claims liability is sensitive to morbidity assumptions, in particular, severity and frequency of claims. Severity is the ultimate size of a claim, and frequency is the number of claims incurred. The Company's claims experience is primarily related to the demographics of its policyholders.

As a part of its established financial reporting and accounting practices and controls, the Company performs detailed annual actuarial reviews of its policyholder liabilities (gross premium valuation analysis) and reflects the results of those reviews in its results of operations and financial condition as required by U.S. GAAP. For Aflac Japan, the Company's annual reviews in 2019 and 2018 indicated no need to strengthen liabilities associated with policies in Japan. For Aflac U.S., the Company's annual reviews in 2019 and 2018 indicated no need to strengthen liabilities associated with policies in the U.S.

The table below reflects the growth of the future policy benefits liability for the years ended December 31.

**Future Policy Benefits**

(In millions of dollars and billions of yen)	2019	2018
Aflac U.S.	\$ 9,405	\$ 9,137
Growth rate	2.9%	3.8%
Aflac Japan	\$ 81,462	\$ 77,812
Growth rate	4.7%	5.6%
Consolidated	\$ 90,335	\$ 86,368
Growth rate	4.6%	5.5%
Yen/dollar exchange rate (end of period)	109.56	111.00
Aflac Japan	¥ 8,925	¥ 8,637
Growth rate	3.3%	3.8%

The growth of the future policy benefits liability in yen for Aflac Japan and in dollars for Aflac U.S. has been due to the aging of the Company's in-force block of business and the addition of new business.

In computing the estimate of unpaid policy claims, the Company considers many factors, including the benefits and amounts available under the policy; the volume and demographics of the policies exposed to claims; and internal business practices, such as incurred date assignment and current claim administrative practices. The Company monitors these conditions closely and make adjustments to the liability as actual experience emerges. Claim levels are generally stable from period to period; however, fluctuations in claim levels may occur. In calculating the unpaid policy claim liability, the Company

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does not calculate a range of estimates. The following table shows the expected sensitivity of the unpaid policy claims liability as of December 31, 2019, to changes in severity and frequency of claims.

### Sensitivity of Unpaid Policy Claims Liability

(In millions)	Total Severity				
	Decrease by 2%	Decrease by 1%	Unchanged	Increase by 1%	Increase by 2%
<b>Total Frequency</b>					
Increase by 2%	\$ 0	\$ 25	\$ 50	\$ 76	\$ 101
Increase by 1%	(25)	0	25	50	76
Unchanged	(49)	(25)	0	25	50
Decrease by 1%	(73)	(49)	(25)	0	25
Decrease by 2%	(97)	(73)	(49)	(25)	0

Other policy liabilities, which accounted for 11% of total policy liabilities as of December 31, 2019, consisted primarily of annuity and unearned premium reserves, and discounted advance premiums on deposit from policyholders in conjunction with their purchase of certain Aflac Japan insurance products. These advanced premiums are deferred upon collection and recognized as premium revenue over the contractual premium payment period. Advanced premiums represented 24% and 29% of the December 31, 2019 and 2018 other policy liabilities balances, respectively. See the Aflac Japan segment subsection of this MD&A for further information.

### Income Taxes

Income tax provisions are generally based on pretax earnings reported for financial statement purposes, which differ from those amounts used in preparing the Company's income tax returns. Deferred income taxes are recognized for temporary differences between the financial reporting basis and income tax basis of assets and liabilities, based on enacted tax laws and statutory tax rates applicable to the periods in which the Company expects the temporary differences to reverse. The evaluation of a tax position in accordance with U.S. GAAP is a two-step process. Under the first step, the enterprise determines whether it is more likely than not that a tax position will be sustained upon examination by taxing authorities. The second step is measurement, whereby a tax position that meets the more-likely-than-not recognition threshold is measured to determine the amount of benefit to recognize in the financial statements. A valuation allowance is established for deferred tax assets when it is more likely than not that an amount will not be realized. The determination of a valuation allowance for deferred tax assets requires management to make certain judgments and assumptions.

In evaluating the ability to recover deferred tax assets, the Company's management considers all available evidence, including taxable income in open carry back years, the existence of cumulative losses in the most recent years, forecasted earnings, future taxable income exclusive of reversing temporary differences and carryforwards, future taxable temporary difference reversals, and prudent and feasible tax planning strategies. In the event the Company determines it is not more likely than not that it will be able to realize all or part of its deferred tax assets in the future, a valuation allowance would be charged to earnings in the period such determination is made. Likewise, if it is later determined that it is more likely than not that those deferred tax assets would be realized, the previously provided valuation allowance would be reversed. Future economic conditions and market volatility, including increases in interest rates or widening credit spreads, can adversely impact the Company's tax planning strategies and in particular the Company's ability to utilize tax benefits on previously recognized capital losses. The Company's judgments and assumptions are subject to change given the inherent uncertainty in predicting future performance and specific industry and investment market conditions.

For additional information on income tax, see Note 10 of the Notes to the Consolidated Financial Statements presented in this report.

### Future Adoption of Accounting Standard for Long-Duration Insurance Contracts

In August 2018, the FASB issued ASU 2018-12, "*Financial Services - Insurance, Targeted Improvements to the Accounting for Long-Duration Contracts*." The update, which is expected to significantly change how insurers account for long-duration contracts, amends existing recognition, measurement, presentation, and disclosure requirements applicable to the Company. Issues addressed in the new guidance include: 1) a requirement to review and, if there is a change, update cash flow assumptions for the liability for future policy benefits at least annually, and to update the discount rate assumption quarterly, 2) accounting for market risk benefits at fair value, 3) simplified amortization for deferred acquisition costs, and 4) enhanced financial statement presentation and disclosures. In November 2019, the FASB issued ASU 2019-09, "*Financial Services - Insurance (Topic 944): Effective Date*", which defers the effective date of ASU 2018-12 for all entities. The amendments are effective for public business entities that meet the definition of an SEC filer, excluding entities eligible to be smaller reporting companies as defined by the SEC, for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. Early application of the amendments is permitted, however, the Company does not expect to early adopt the updated standard.

The Company is thoroughly evaluating the impact of ASU 2018-12 adoption and expects it will have a significant impact on the Company's reported financial position, results of operations, and disclosures under U.S. GAAP accounting. The Company anticipates that the requirement to update assumptions for liability for future policy benefits will have a significant impact on its results of operations, systems, processes and controls while the requirement to update the discount rate will have a significant impact on its AOCI and equity. The Company currently has no products with market risk benefits.

There are two permitted transition methods upon adoption. The default transition method is a modified retrospective approach or companies may elect to apply the amendments using a full retrospective approach.

Under the modified retrospective method, the opening reserve balance at the transition date, January 1, 2020, would generally be the same as the closing balance before transition; however, it would be updated for changes in the discount rate required under the new guidance.

Regardless of the transition method selected, the new guidance requires that discount rates used for discounting of insurance liabilities be initially adjusted on the adoption date and subsequently at each reporting period to the market levels for the upper-medium-grade (low credit risk) fixed income instrument yields (single-A in the currency of the underlying insurance contract) reflecting the duration of the company's insurance liabilities. Long duration of the Company's third-sector insurance liabilities in Japan coupled with limited-to-no-liquidity of the Japanese long-dated fixed-income market creates challenges in application of the market-based discount rate guidance and will require the Company to apply significant judgments in designing discount rate methodologies for its Japanese third-sector liabilities. The update of the discount rate would be recognized in AOCI under both transition methods.

Under the full retrospective method, the Company would restate all historical periods based upon actual historical experience as of contract inception and its updated view of the contractual cash flow projections at transition. A cumulative catch-up adjustment to opening retained earnings would be recognized to reflect the actual experience and updated projections. Companies are permitted to apply a full retrospective transition approach if actual historical information is available for all contracts that will be affected by the new guidance.

The Company has selected the modified retrospective transition method.

The Company expects that under either transition method, the impact to its reported financial statements under U.S. GAAP will be greatly influenced by the nature of the Company's business model. Adoption of the new guidance will reflect the Company's concentration in Japan third-sector business, in particular cancer insurance, with respect to which the duration of liabilities is materially longer than asset durations, while Japan's aggregate block of business continues to see favorable experience from mortality, morbidity, and expenses. Under the modified retrospective method, the impact of a low discount rate applied to long-duration third sector liabilities is recognized at adoption, while associated favorable morbidity margins are recognized over time thus driving a pronounced timing impact to U.S. GAAP equity. In addition, with respect to the Japan segment, the Company maintains a large portfolio of assets designated as held-to-maturity (HTM) as a strategy to reduce capital (solvency margin ratio or SMR) volatility. In a low interest rate environment, such as presently exists in Japan, assets designated as HTM that were purchased in a higher interest rate environment have significant embedded gains not reflected in AOCI (HTM securities are carried at amortized cost under U.S. GAAP), which serves as an economic offset to a low discount rate applied to policy liabilities. At December 31, 2019, the Company's HTM portfolio was \$30.1 billion at amortized cost and had \$7.5 billion in net unrealized gains. Pursuant to the implementation of ASU 2019-04, "*Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial*



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*Instruments*" (see Note 1 for additional details of this ASU), effective on January 1, 2020, the Company anticipates the reclassification of approximately \$6.9 billion (at amortized cost) of pre-payable fixed maturity securities from the HTM to the available-for-sale (AFS) category. This reclassification is expected to result in recording in AOCI a net unrealized gain of approximately \$800 million on an after-tax basis based on the securities' fair values on the reclassification date. After adoption of ASU 2018-12, the Company also expects net earnings and net earnings per share (which were \$3.3 billion and \$4.43 per diluted share, respectively, in 2019) to reflect larger quarterly fluctuations due to the new requirement to update assumptions for liability for future policy benefits.

As an example of the potential impact of the new guidance, and for illustrative purposes only, under the modified retrospective method and in a low interest rate environment, the Company would expect AOCI (which was \$6.6 billion at December 31, 2019) to significantly decline upon adoption and to thereafter reflect larger quarterly fluctuations due to the new requirement to quarterly adjust discount rates. Conversely, in a higher interest rate environment, and assuming adoption of the modified retrospective method, the Company would expect AOCI to decline less or even increase (depending on the specifics of the interest rate environment), as well as to reflect quarterly fluctuations. Under the full retrospective method, the Company would expect lesser declines or increases in total equity upon adoption compared to the modified retrospective method due to the potential offsetting effect from updating experience and cash flow projections.

The ultimate impact on these items from the Company's implementation of the updated standard is subject to assessments that are dependent on many variables, including but not limited to (i) the transition method selected by the Company, (ii) how certain aspects of the new standard will be interpreted and implemented by the Company and other similar companies, such as (but not limited to) amortization of deferred acquisition costs and selection of discounting methodologies and inputs, as well as establishment of policies, processes and controls for setting, monitoring and periodically updating reserve assumptions, and (iii) changes in the interest rate environment in the US and Japan. The impact on transition under the modified retrospective method will be driven by updating discount rates that will increase reserves and lower AOCI by the corresponding amount.

The Company expects that while the adoption of this new accounting guidance will affect the Company's financial statements under U.S. GAAP, it will not impact financial statements for Aflac Japan under FSA requirements or for Aflac U.S. under applicable statutory requirements. Therefore, the Company does not expect adoption of the updated standard to impact its overall cash flows, subsidiaries' dividend capacity or their ability to meet applicable regulatory capital standards, nor does the Company anticipate adoption to affect its existing debt covenants or strategies for capital deployment.

### **New Accounting Pronouncements**

During the last three years, various accounting standard-setting bodies have been active in soliciting comments and issuing statements, interpretations and exposure drafts. For information on new accounting pronouncements and the impact, if any, on the Company's financial position or results of operations, see Note 1 of the Notes to the Consolidated Financial Statements.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company is exposed primarily to the following types of market risks: currency risk, interest rate risk, credit risk and equity risk. Fluctuations in these factors could impact the Company's consolidated results of operations or financial condition. The Company regularly monitors its market risks and uses a variety of strategies to manage its exposure to these market risks.

### **Currency Risk**

#### **Aflac Japan**

The functional currency of Aflac Japan's insurance operations is the Japanese yen. Aflac Japan's premiums and a significant portion of its investment income are received in yen, and its claims and most expenses are paid in yen. Aflac Japan purchases yen-denominated assets and U.S. dollar-denominated assets, which may be hedged to yen, to support yen-denominated policy liabilities. These and other yen-denominated financial statement items are, however, translated into U.S. dollars for financial reporting purposes. Most of Aflac Japan's cash and liabilities are yen-denominated.

The Company engages in hedging activities to mitigate certain currency risks from holding U.S. dollar-denominated investments in Aflac Japan. However, this hedging program in turn poses a countervailing long-term risk of loss on hedging currency derivatives under the long-term scenario of weakening yen, and related derivative rollover risk that could amplify hedge cost in unfavorable market conditions and significantly increase liquidity requirements to support negative derivative



## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

settlements. Additionally, as discussed in detail in the Risk Factors section titled "Lack of availability of acceptable yen-denominated investments could adversely affect the Company's results of operations, financial position or liquidity," there is a risk that losses realized on derivative settlements during periods of weakening yen may not be recouped through realization of the corresponding holding currency gains on the hedged U.S. dollar-denominated investments if these investments are not ultimately converted to yen.

The Company has taken steps to refine the strategy to mitigate currency exposure of Aflac Japan from U.S. dollar-denominated investments while balancing the consideration of the economic equity surplus in Aflac Japan. This refinement in strategy resulted in an increased amount of the unhedged U.S. dollar-denominated investments held in Aflac Japan while at the same time mitigating hedge cost increases. Generally, Aflac Japan's exposure to the currency risk increases when its portfolio of unhedged U.S. dollar-denominated investments increases. As the value of the U.S. dollar-denominated investment portfolio in Aflac Japan fluctuates and the Company's business model evolves, the Company periodically reevaluates this size of the unhedged portfolio and may accordingly adjust up or down its currency hedging targets. See additional discussion in the Risk Factors section titled "The Company is exposed to foreign currency fluctuations in the yen/dollar exchange rate."

### *The Parent Company*

The Company is exposed to currency risk as an economic event when yen funds are actually converted into U.S. dollars. This occurs when yen-denominated funds are paid as dividends and management fees from Aflac Japan to the Parent Company and with quarterly settlements of its reinsurance retrocession transactions. The exchange rates prevailing at the time of yen payments will differ from the exchange rates prevailing at the time the yen profits were earned. A portion of the yen dividend and management fee payments may be used to service Aflac Incorporated's yen-denominated notes payable with the remainder converted into U.S. dollars.

In addition to yen payments and the reinsurance retrocessions, certain investment activities for Aflac Japan expose the Company to economic currency risk when yen are converted into U.S. dollars. As noted above, the Company invests a portion of its yen cash flows in U.S. dollar-denominated assets. This requires that the Company convert the yen cash flows to U.S. dollars before investing. As previously discussed, for certain of its U.S. dollar-denominated securities, the Company enters into foreign currency forward and option contracts to hedge the currency risk on the fair value of hedged investments. In 2018, the Parent Company entered into forward contracts to accomplish a dual objective of hedging foreign currency rate risk to dividend payments by Aflac Japan, and reducing enterprise-wide hedge costs. If the markets experience a significant strengthening of yen, this could cause cash strain at the Parent Company as a result of cash collateral and potentially cash settlement requirements. Based on the timing and severity of exchange rate fluctuations combined with the level of outstanding activity in this program, the cash strain at the Parent Company could be significant.

Aside from the activities discussed above, the Company generally does not convert yen into U.S. dollars; however, it does translate financial statement amounts from yen into U.S. dollars for financial reporting purposes. Therefore, reported amounts are affected by foreign currency fluctuations. The Company reports unrealized foreign currency translation gains and losses in AOCI. In periods when the yen weakens against the dollar, translating yen into dollars causes fewer dollars to be reported. When the yen strengthens, translating yen into U.S. dollars causes more U.S. dollars to be reported. The weakening of the yen relative to the U.S. dollar will generally adversely affect the value of the Company's yen-denominated investments in U.S. dollar terms. The Company also considers the economic equity surplus in Aflac Japan and related exposure to foreign currency. The Company manages this currency risk by investing a portion of Aflac Japan's investment portfolio in U.S. dollar-denominated securities and by the Parent Company's issuance of yen-denominated debt. As a result, the effect of currency fluctuations on the Company's net assets is reduced.

The following table demonstrates the effect of foreign currency fluctuations by presenting the dollar values of the Company's yen-denominated assets and liabilities, and its consolidated yen-denominated net asset exposure at selected exchange rates as of December 31.

**Dollar Value of Yen-Denominated Assets and Liabilities  
at Selected Exchange Rates**

(In millions)	2019			2018		
<b>Yen/dollar exchange rates</b>	<b>94.56</b>	<b>109.56<sup>(1)</sup></b>	<b>124.56</b>	96.00	111.00 <sup>(1)</sup>	126.00
<b>Yen-denominated financial instruments:</b>						
<b>Assets:</b>						
Securities available for sale:						
Fixed maturity securities <sup>(2)</sup>	\$ 60,391	\$ 52,123	\$ 45,846	\$ 55,600	\$ 48,086	\$ 42,362
Fixed maturity securities - consolidated variable interest entities <sup>(3)</sup>	995	858	755	941	814	717
Securities held to maturity:						
Fixed maturity securities	34,858	30,085	26,462	35,055	30,318	26,709
Equity securities	763	658	579	742	641	565
Cash and cash equivalents	1,296	1,119	984	988	855	753
Derivatives	2,718	482	2,457	2,712	417	949
Other financial instruments	271	234	205	253	219	192
Subtotal	101,292	85,559	77,288	96,291	81,350	72,247
<b>Liabilities:</b>						
Notes payable	2,968	2,558	2,253	2,120	1,831	1,615
Derivatives	1,807	586	3,463	1,318	387	2,138
Subtotal	4,775	3,144	5,716	3,438	2,218	3,753
Net yen-denominated financial instruments	96,517	82,415	71,572	92,853	79,132	68,494
Other yen-denominated assets	10,304	8,893	7,822	10,795	9,336	8,225
Other yen-denominated liabilities	118,869	102,595	90,240	113,994	98,590	86,853
Consolidated yen-denominated net assets (liabilities) subject to foreign currency fluctuation <sup>(2)</sup>	\$ (12,048)	\$ (11,287)	\$ (10,846)	\$ (10,346)	\$ (10,122)	\$ (10,134)

<sup>(1)</sup> Actual period-end exchange rate

<sup>(2)</sup> Does not include the U.S. dollar-denominated corporate bonds for which the Company has entered into foreign currency derivatives as discussed in the Aflac Japan Investment subsection of MD&A

<sup>(3)</sup> Does not include U.S. dollar-denominated bonds that have corresponding cross-currency swaps in consolidated VIEs

The Company is required to consolidate certain VIEs. Some of the consolidated VIEs in Aflac Japan's portfolio use foreign currency swaps to convert foreign denominated cash flows to yen, the functional currency of Aflac Japan, in order to minimize cash flow fluctuations. Foreign currency swaps exchange an initial principal amount in two currencies, agreeing to re-exchange the currencies at a future date, at an agreed upon exchange rate. There may also be periodic exchanges of payments at specified intervals based on the agreed upon rates and notional amounts. Prior to consolidation, the Company's beneficial interest in these VIEs was a yen-denominated available-for-sale fixed maturity security. Upon consolidation, the original yen-denominated investment was derecognized and the underlying fixed maturity securities and cross-currency swaps were recognized. The combination of a U.S. dollar-denominated investment and cross-currency swap economically creates a yen-denominated investment and has no impact on the Company's net investment hedge position.

Similarly, the combination of the U.S. corporate bonds and the foreign currency forwards and options that the Company has entered into, as discussed in the Aflac Japan Investment subsection of MD&A, economically creates a yen-denominated investment that qualifies for inclusion as a component of the Company's investment in Aflac Japan for net investment hedge purposes.

For additional information regarding the Company's Aflac Japan net investment hedge, see the Hedging Activities subsection of MD&A.

[Item 7A. Quantitative and Qualitative Disclosures About Market Risk](#)

[Interest Rate Risk](#)

The Company's primary interest rate exposure is to the impact of changes in interest rates on the fair value of its investments in debt securities. The Company monitors its investment portfolio on a quarterly basis utilizing a full valuation methodology, measuring price volatility, and sensitivity of the fair values of its investments to interest rate changes on the debt securities the Company owns. For example, if the current duration of a debt security is 10 years, then the fair value of that security will increase by approximately 10% if market interest rates decrease by 100 basis points, assuming all other factors remain constant. Likewise, the fair value of the debt security will decrease by approximately 10% if market interest rates increase by 100 basis points, assuming all other factors remain constant.

The estimated effect of potential increases in interest rates on the fair values of debt securities the Company owns; derivatives, excluding credit default swaps, and notes payable as of December 31 follows:

**Sensitivity of Fair Values of Financial Instruments  
to Interest Rate Changes**

(In millions)	2019		2018	
	Fair Value	+100 Basis Points	Fair Value	+100 Basis Points
<b>Assets:</b>				
Debt securities:				
Fixed maturity securities:				
Yen-denominated	\$ 90,575	\$ 78,193	\$ 85,622	\$ 73,673
Dollar-denominated	38,281	35,013	33,995	31,327
Total debt securities	\$ 128,856	\$ 113,206	\$ 119,617	\$ 105,000
Commercial mortgage and other loans	\$ 9,648	\$ 9,540	\$ 6,893	\$ 6,834
Derivatives	\$ 482	\$ 527	\$ 417	\$ 614
<b>Liabilities:</b>				
Notes payable <sup>(1)</sup>	\$ 6,935	\$ 6,065	\$ 5,876	\$ 5,415
Derivatives	586	463	387	422

<sup>(1)</sup> Excludes lease obligations

There are various factors that affect the fair value of the Company's investment in debt securities. Included in those factors are changes in the prevailing interest rate environment, which directly affect the balance of unrealized gains or losses for a given period in relation to a prior period. Decreases in market yields generally improve the fair value of debt securities, while increases in market yields generally have a negative impact on the fair value of the Company's debt securities. However, the Company does not expect to realize a majority of any unrealized gains or losses. For additional information on unrealized losses on debt securities, see Note 3 of the Notes to the Consolidated Financial Statements.

The Company attempts to match the duration of its assets with the duration of its liabilities. The following table presents the approximate duration of Aflac Japan's yen-denominated assets and liabilities, along with premiums, as of December 31.

(In years)	2019	2018
Yen-denominated debt securities	15	16
Policy benefits and related expenses to be paid in future years	14	15
Premiums to be received in future years on policies in force	10	10

The following table presents the approximate duration of Aflac U.S. dollar-denominated assets and liabilities, along with premiums, as of December 31.

(In years)	2019	2018
Dollar-denominated debt securities	9	9
Policy benefits and related expenses to be paid in future years	8	8
Premiums to be received in future years on policies in force	6	6

## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The following table shows a comparison of average required interest rates for future policy benefits and investment yields, based on amortized cost, for the years ended December 31.

### Comparison of Interest Rates for Future Policy Benefits and Investment Yields (Net of Investment Expenses)

	2019		2018	
	U.S.	Japan	U.S.	Japan
<b>Policies issued during year:</b>				
Required interest on policy reserves	3.68%	.96% <sup>(1)</sup>	3.69%	1.00% <sup>(1)</sup>
New money yield on investments	4.33	3.70	4.44	2.94
<b>Policies in force at year-end:</b>				
Required interest on policy reserves	5.26	3.20 <sup>(1)</sup>	5.34	3.29 <sup>(1)</sup>
Portfolio book yield, end of period	5.22	2.51	5.44	2.49

<sup>(1)</sup>Represents investments for Aflac Japan that support policy obligations and therefore excludes Aflac Japan's annuity products

Aflac Japan investment yields above includes U.S. dollar-denominated investment yields prior to factoring in amortized hedge costs. The Company continues to monitor the spread between its new money yield and the required interest assumption for newly issued products in both the U.S. and Japan and will re-evaluate those assumptions as necessary. Currently, when investments the Company owns mature, the proceeds may be reinvested at a yield below that of the interest required for the accretion of policy benefit liabilities on policies issued in earlier years. Overall, adequate profit margins exist in Aflac Japan's aggregate block of business because of changes in the mix of business and favorable experience from mortality, morbidity and expenses.

The Company holds investments and has issued debt with interest rates based on LIBOR, and also holds derivatives that reference LIBOR. Regulatory and industry initiatives to eliminate LIBOR as an interest rate benchmark may create uncertainty in the valuation of LIBOR-based loans, as well as for other LIBOR-based derivatives and assets. This may adversely impact both pricing and liquidity in such instruments. The Company is preparing for the expected discontinuation of LIBOR by identifying, assessing and monitoring risks associated with LIBOR transition. Preparation includes taking steps to update operational processes (including to support alternative reference rates) and models, as well as evaluating legacy contracts for any changes that may be required, including the determination of applicable fallbacks.

Periodically, the Company may enter into derivative transactions to hedge interest rate risk, depending on general economic conditions. For additional information on interest rate derivatives, see the Hedging Activities subsection of MD&A and Note 4 of the accompanying Notes to the Consolidated Financial Statements.

### Credit Risk

A significant portion of the Company's investment portfolio consists of debt securities and loans that expose it to the credit risk of the underlying issuer or borrower. The Company carefully evaluates this risk on every new investment and closely monitors the credit risk of its existing investment portfolio. The Company incorporates the needs of its products and liabilities, the overall requirements of the business, and other factors in addition to its underwriting of the credit risk for each investment in the portfolio.

Evaluating the underlying risks in the Company's credit portfolio involves a multitude of factors including but not limited to its assessment of the issuer's or borrower's business activities, assets, products, market position, financial condition, and future prospects. The Company incorporates the assessment of the NRSROs in assigning credit ratings and incorporates the rating methodologies of its external managers in assigning loan ratings to portfolio holdings. The Company performs extensive internal assessments of the credit risks for all its portfolio holdings and potential new investments, which includes using analyses provided by the Company's specialist external managers. For assets managed by external asset managers, the Company provides investment and credit risk parameters that must be used when making investment decisions and requires ongoing monitoring and reporting from the asset managers on significant changes in credit risks within the portfolio.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Investment Concentrations

The Company's 15 largest global investment exposures were as follows:

**Largest Global Investment Positions**  
(In millions)  
December 31, 2019

No.	Consolidated Corporate/Sovereign Exposure	Total Consolidated Book Value	% of Total Fixed Maturity Securities	Credit Rating
1	Japan National Government <sup>(1)</sup>	\$ 51,726	47.26%	A+
2	Bank of America NA	416	.38	
	Bank of America Corp.	233	.21	A
	Bank of America Corp.	183	.17	BBB+
3	Bank of Tokyo-Mitsubishi UFJ Ltd.	411	.38	A-
4	Investcorp SA	388	.35	BB
5	Republic of South Africa	365	.33	BB+
6	Banobras	338	.31	BBB+
7	Walt Disney Co.	330	.30	A
8	Nordea Bank AB	306	.28	
	Nordea Bank AB	234	.21	A-
	Nordea Bank AB	72	.07	BBB+
9	AXA	296	.27	BBB+
10	Japan Expswy Hld and Debt	295	.27	A+
11	Deutsche Telekom AG	295	.27	BBB+
12	AT&T Inc.	293	.27	BBB
13	CFE	291	.27	BBB+
14	Petroleos Mexicanos (Pemex)	274	.25	BBB-
15	Czech Republic	274	.25	AA-
	<b>Subtotal</b>	<b>\$ 56,298</b>	<b>51.44%</b>	
	<b>Total fixed maturity securities</b>	<b>\$ 109,456</b>	<b>100.00%</b>	

<sup>(1)</sup>JGBs or JGB-backed securities

As previously disclosed, the Company owns long-dated debt instruments in support of its long-dated policyholder obligations. Some of the Company's largest global investment holdings are positions that were purchased many years ago and increased in size due to merger and consolidation activity among the issuing entities. In addition, many of the Company's largest holdings are yen-denominated, therefore strengthening of the yen can increase its position in dollars, and weakening of the yen can decrease its position in dollars. The Company's global investment guidelines establish concentration limits for its investment portfolios.

Geographical Exposure

The following table indicates the geographic exposure of the Company's debt securities as of December 31.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

(In millions)	2019		2018	
	Amortized Cost	% of Total	Amortized Cost	% of Total
<b>Japan</b>	\$ 56,020	51.2%	\$ 55,486	51.8%
<b>United States and Canada <sup>(1)</sup></b>	<b>30,321</b>	<b>27.7</b>	<b>29,371</b>	<b>27.4</b>
<b>United Kingdom</b>	<b>3,371</b>	<b>3.1</b>	<b>3,038</b>	<b>2.8</b>
<b>Germany</b>	<b>2,441</b>	<b>2.2</b>	<b>2,179</b>	<b>2.0</b>
<b>France</b>	<b>2,261</b>	<b>2.1</b>	<b>2,030</b>	<b>1.9</b>
<b>Peripheral Eurozone</b>	<b>1,788</b>	<b>1.6</b>	<b>2,165</b>	<b>2.0</b>
Portugal	91	.1	215	.2
Italy	1,108	1.0	1,261	1.2
Ireland	12	.0	29	.0
Spain	577	.5	660	.6
<b>Nordic Region</b>	<b>1,878</b>	<b>1.7</b>	<b>1,615</b>	<b>1.6</b>
Sweden	972	.9	779	.7
Norway	383	.3	378	.4
Denmark	333	.3	270	.3
Finland	190	.2	188	.2
<b>Other Europe</b>	<b>2,699</b>	<b>2.5</b>	<b>2,425</b>	<b>2.3</b>
Netherlands	1,276	1.2	1,206	1.1
Switzerland	417	.4	258	.2
Czech Republic	484	.4	451	.5
Austria	127	.1	125	.1
Belgium	189	.2	178	.2
Poland	183	.2	180	.2
Luxembourg	23	.0	27	.0
<b>Asia excluding Japan</b>	<b>2,671</b>	<b>2.5</b>	<b>2,722</b>	<b>2.5</b>
<b>Africa and Middle East</b>	<b>1,801</b>	<b>1.6</b>	<b>2,018</b>	<b>1.9</b>
<b>Latin America</b>	<b>2,183</b>	<b>2.0</b>	<b>2,153</b>	<b>2.0</b>
<b>Australia</b>	<b>1,774</b>	<b>1.6</b>	<b>1,620</b>	<b>1.5</b>
<b>All Others</b>	<b>248</b>	<b>.2</b>	<b>352</b>	<b>.3</b>
<b>Total fixed maturity securities</b>	<b>\$ 109,456</b>	<b>100.0%</b>	<b>\$ 107,174</b>	<b>100.0%</b>

<sup>(1)</sup> Includes total exposure to Puerto Rico of \$1 million of deposits at both December 31, 2019 and 2018, respectively, of which 100% had principal and interest insurance at both December 31, 2019 and 2018, respectively.

The primary factor considered when determining the domicile of investment exposure is the legal country risk location of the issuer. However, other factors such as the location of the parent guarantor, the location of the company's headquarters or major business operations (including location of major assets), location of primary market (including location of revenue generation) and specific country risk publicly recognized by rating agencies can influence the assignment of the country (or geographic) risk location. When the issuer is a special financing vehicle or a branch or subsidiary of a global company, then the Company considers any guarantees and/or legal, regulatory and corporate relationships of the issuer relative to its ultimate parent in determining the proper assignment of country risk.

## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

### *Derivative Counterparties*

The Company is a direct counterparty to the majority of derivative instruments and is exposed to credit risk in the event of nonperformance by the counterparties in those contracts. For the foreign currency swaps associated with the Company's VIE investments for which it is the primary beneficiary, the Company bears the risk of foreign exchange and/or credit loss due to counterparty default even though it is not a direct counterparty to those contracts. The risk of counterparty default for the Company's VIE and senior note and subordinated debenture swaps, foreign currency swaps, certain foreign currency forwards, foreign currency options and interest rate swaptions is mitigated by collateral posting requirements that counterparties to those transactions must meet. If collateral posting agreements are not in place, the counterparty risk associated with foreign currency forwards and foreign currency options is the risk that at expiry of the contract, the counterparty is unable to deliver the agreed upon amount of yen at the agreed upon price or delivery date, thus exposing the Company to additional unhedged exposure to U.S. dollars in the Aflac Japan investment portfolio. See Note 4 of the accompanying Notes to the Consolidated Financial Statements for more information.

### *Equity Risk*

Market prices for equity securities are subject to fluctuation and consequently the amount realized in the subsequent sale of an investment may significantly differ from the reported market value. Fluctuation in the market price of a security may result from the relative price of alternative investments and general market conditions. If equity prices experienced a hypothetical broad-based decline of 10%, the fair value of the Company's equity investments would decline by approximately \$80 million.



**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

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**Management's Annual Report on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Under the supervision and with the participation of the Company's management, including its principal executive officer and principal financial officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. Based on the Company's evaluation under this framework, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2019.

KPMG LLP, an independent registered public accounting firm, has issued an attestation report on the effectiveness of internal control over financial reporting as of December 31, 2019, which is included herein.

**Report of Independent Registered Public Accounting Firm**

To the Shareholders and Board of Directors  
Aflac Incorporated:

*Opinion on Internal Control Over Financial Reporting*

We have audited Aflac Incorporated and subsidiaries' (the Company) internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of earnings, comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes and financial statement schedules II, III, and IV (collectively, the consolidated financial statements), and our report dated February 21, 2020 expressed an unqualified opinion on those consolidated financial statements.

*Basis for Opinion*

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

*Definition and Limitations of Internal Control Over Financial Reporting*

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Atlanta, Georgia  
February 21, 2020

**Report of Independent Registered Public Accounting Firm**

To the Shareholders and Board of Directors  
Aflac Incorporated:

*Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of Aflac Incorporated and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of earnings, comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes and financial statement schedules II, III, and IV (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013, and our report dated February 21, 2020 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

*Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

*Critical Audit Matters*

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

*Assessment of the measurement of fair value of certain investments and derivatives*

As discussed in Note 5 to the consolidated financial statements, the Company has certain privately issued securities and derivative instruments associated with variable interest entities (VIEs) that require significant judgment in the estimation of fair value. The fair value of privately issued securities are estimated using valuation models developed by a third party pricing vendor and require judgment to determine the inputs and assumptions used in the valuation models, such as credit default swap (CDS) spreads and the selection of comparable securities, when appropriate. The fair value of the Company's derivatives associated with VIEs are also estimated using valuation models developed by a third party pricing vendor. Given the long duration of derivatives associated with VIEs, the estimate of the fair value requires judgment to extrapolate short-term observable data into long-term inputs for use in the valuation models. As of December 31, 2019, the value of privately issued securities are included within the financial statement captions of fixed maturity securities available for sale, at fair value; fixed maturity securities available for sale - consolidated variable interest entities, at fair value; and, fixed maturity securities held to maturity, at amortized cost, which totaled \$86,950 million, \$4,312 million, and \$30,085 million, respectively. As of December 31, 2019, the fair value of derivatives associated with VIEs are included within the financial statement captions of other assets and other liabilities, which totaled \$2,368 million and \$3,440 million, respectively.

We identified the assessment of the measurement of fair value of certain privately issued securities and derivative instruments associated with VIEs as a critical audit matter. Due to the complexity of the valuation models, specialized valuation skills and knowledge and subjective auditor judgment were needed to evaluate the valuation models and the inputs and assumptions used in the models to estimate fair value.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls, with the involvement of valuation professionals when appropriate, over the Company's process to estimate the fair value of such securities and derivative instruments, including controls over the Company's evaluation of the inputs, assumptions and estimates of fair value obtained from its third party pricing vendor. We involved valuation professionals with specialized skills and knowledge to assist in assessing the estimated fair values of such securities and derivative instruments, which included:

- Evaluating the inputs and assumptions used in the models to estimate the fair value of the privately issued securities, including an assessment of the determination of comparable securities and/or CDS spreads used by the third party pricing vendor for a selection of privately issued securities.
- Assessing the internal models used by the Company to evaluate the fair values for privately issued securities and derivatives associated with VIEs obtained from the third party pricing vendor. We observed that differences, if any, in fair value between the Company and the third party pricing vendor above pre-established tolerances were investigated by the Company.
- Developing an independent estimate of the fair value for a selection of privately issued securities and derivative instruments associated with VIEs and comparing our independent estimate to the fair value measurement recorded by the Company.

*Assessment of the estimate of unpaid policy claims*

As discussed in Note 1 to the consolidated financial statements, unpaid policy claims are estimates computed primarily on an undiscounted basis using statistical analyses of historical claims experience adjusted for current trends and changed conditions. The estimates are evaluated by the Company and, as new claim experience emerges, the estimates are adjusted as necessary. As of December 31, 2019, the Company recorded a liability for unpaid policy claims of \$4,659 million.

We identified the assessment of the estimate of unpaid policy claims as a critical audit matter. Specialized actuarial skills and knowledge and subjective auditor judgment were needed to evaluate the actuarial methodologies and assumptions used to estimate the unpaid policy claims liability and determine that the Company's methodologies are consistent with generally accepted actuarial methodologies.

The primary procedures we performed to address this critical audit matter included the following. We tested, with the involvement of actuarial professionals when appropriate, certain internal controls over the Company's process to estimate the unpaid policy claims liability, including controls related to the evaluation of the actuarial methodologies and assumptions used in the calculation of the unpaid policy claims liability. We involved actuarial professionals with specialized skills and knowledge to assist in assessing the unpaid policy claims liability, which included:

- Assessing the actuarial methodologies and assumptions utilized by the Company by comparing them to generally accepted actuarial methodologies and historical results.
- Evaluating the Company's estimate of the unpaid policy claims liability by comparing to historical results and our expectations of changes in the estimate.
- Developing an independent range for the estimate of unpaid policy claims for certain products to evaluate the Company's recorded liability and assessing any movement of the recorded liability within our range.
- Evaluating the Company's historical ability to estimate unpaid policy claims by comparing the unpaid policy claims liability for certain products recorded by the Company at various historical periods to an independent range developed using claims paid through December 31, 2019.

/s/ KPMG LLP

We have served as the Company's auditor since 1963.

Atlanta, Georgia  
February 21, 2020

**Aflac Incorporated and Subsidiaries**  
**Consolidated Statements of Earnings**  
Years Ended December 31,

(In millions, except for share and per-share amounts)	2019	2018	2017
<b>Revenues:</b>			
Net premiums, principally supplemental health insurance	\$ 18,780	\$ 18,677	\$ 18,531
Net investment income	3,578	3,442	3,220
Realized investment gains (losses):			
Other-than-temporary impairment losses realized and loan loss reserves	(31)	(81)	(37)
Other gains (losses)	(104)	(349)	(114)
Total realized investment gains (losses)	(135)	(430)	(151)
Other income (loss)	84	69	67
Total revenues	22,307	21,758	21,667
<b>Benefits and expenses:</b>			
Benefits and claims, net	11,942	12,000	12,181
Acquisition and operating expenses:			
Amortization of deferred policy acquisition costs	1,282	1,245	1,132
Insurance commissions	1,321	1,320	1,316
Insurance and other expenses <sup>(1)</sup>	3,089	2,988	2,780
Interest expense	228	222	240
Total acquisition and operating expenses	5,920	5,775	5,468
Total benefits and expenses	17,862	17,775	17,649
Earnings before income taxes	4,445	3,983	4,018
<b>Income tax expense:</b>			
Current	806	1,379	631
Deferred	335	(316)	(1,217)
Income taxes	1,141	1,063	(586)
Net earnings	\$ 3,304	\$ 2,920	\$ 4,604
<b>Net earnings per share:</b>			
Basic	\$ 4.45	\$ 3.79	\$ 5.81
Diluted	4.43	3.77	5.77
<b>Weighted-average outstanding common shares used in computing earnings per share (In thousands):</b>			
Basic	742,414	769,588	792,042
Diluted	746,430	774,650	797,861

<sup>(1)</sup> Includes expense of \$13 in 2017 for the early extinguishment of debt  
See the accompanying Notes to the Consolidated Financial Statements.

**Aflac Incorporated and Subsidiaries**  
**Consolidated Statements of Comprehensive Income (Loss)**  
Years Ended December 31,

(In millions)	2019	2018	2017
Net earnings	\$ 3,304	\$ 2,920	\$ 4,604
<b>Other comprehensive income (loss) before income taxes:</b>			
Unrealized foreign currency translation gains (losses) during period	252	232	286
Unrealized gains (losses) on fixed maturity securities:			
Unrealized holding gains (losses) on fixed maturity securities during period	5,870	(3,155)	1,731
Reclassification adjustment for realized (gains) losses on fixed maturity securities included in net earnings	(18)	46	2
Unrealized gains (losses) on derivatives during period	(12)	2	1
Pension liability adjustment during period	(85)	(25)	9
Total other comprehensive income (loss) before income taxes	6,007	(2,900)	2,029
Income tax expense (benefit) related to items of other comprehensive income (loss)	1,543	(797)	631
Other comprehensive income (loss), net of income taxes	4,464	(2,103)	1,398
Total comprehensive income (loss)	\$ 7,768	\$ 817	\$ 6,002

See the accompanying Notes to the Consolidated Financial Statements.



**Aflac Incorporated and Subsidiaries**  
**Consolidated Balance Sheets**  
December 31,

(In millions, except for share and per-share amounts)	2019	2018
<b>Assets:</b>		
Investments and cash:		
Fixed maturity securities available for sale, at fair value (amortized cost \$76,063 in 2019 and \$73,007 in 2018)	\$ 86,950	\$ 78,429
Fixed maturity securities available for sale - consolidated variable interest entities, at fair value (amortized cost \$3,308 in 2019 and \$3,849 in 2018)	4,312	4,466
Fixed maturity securities held to maturity, at amortized cost (fair value \$37,594 in 2019 and \$36,722 in 2018)	30,085	30,318
Equity securities, at fair value	802	987
Commercial mortgage and other loans (includes \$7,956 in 2019 and \$5,528 in 2018 of consolidated variable interest entities)	9,569	6,919
Other investments (includes \$494 in 2019 and \$328 in 2018 of consolidated variable interest entities)	1,477	787
Cash and cash equivalents	4,896	4,337
<b>Total investments and cash</b>	<b>138,091</b>	<b>126,243</b>
Receivables	828	851
Accrued investment income	772	773
Deferred policy acquisition costs	10,128	9,875
Property and equipment, at cost less accumulated depreciation <sup>(1)</sup>	581	443
Other	2,368	2,221
<b>Total assets</b>	<b>\$ 152,768</b>	<b>\$ 140,406</b>
<b>Liabilities and shareholders' equity:</b>		
Liabilities:		
Policy liabilities:		
Future policy benefits	\$ 90,335	\$ 86,368
Unpaid policy claims	4,659	4,584
Unearned premiums	4,243	5,090
Other policyholders' funds	7,317	7,146
<b>Total policy liabilities</b>	<b>106,554</b>	<b>103,188</b>
Income taxes	5,370	4,020
Payables for return of cash collateral on loaned securities	1,876	1,052
Notes payable and lease obligations <sup>(1)</sup>	6,569	5,778
Other	3,440	2,906
<b>Total liabilities</b>	<b>123,809</b>	<b>116,944</b>
Commitments and contingent liabilities (Note 15)		
Shareholders' equity:		
Common stock of \$.10 par value. In thousands: authorized 1,900,000 shares in 2019 and 2018; issued 1,349,309 shares in 2019 and 1,347,540 shares in 2018	135	135
Additional paid-in capital	2,313	2,177
Retained earnings	34,291	31,788
Accumulated other comprehensive income (loss):		
Unrealized foreign currency translation gains (losses)	(1,623)	(1,847)
Unrealized gains (losses) on fixed maturity securities	8,548	4,234
Unrealized gains (losses) on derivatives	(33)	(24)
Pension liability adjustment	(277)	(212)
Treasury stock, at average cost	(14,395)	(12,789)
<b>Total shareholders' equity</b>	<b>28,959</b>	<b>23,462</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 152,768</b>	<b>\$ 140,406</b>

<sup>(1)</sup> See Note 1 of the Notes to the Consolidated Financial Statements for the adoption of accounting guidance on January 1, 2019 related to leases. See the accompanying Notes to the Consolidated Financial Statements.



**Aflac Incorporated and Subsidiaries**  
**Consolidated Statements of Shareholders' Equity**

(In millions, except for per share amounts)	Common Stock	Additional Paid- in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
<b>Balance at December 31, 2016</b>	\$ 135	\$ 1,908	\$ 25,981	\$ 2,630	\$ (10,172)	\$ 20,482
Net earnings	0	0	4,604	0	0	4,604
Unrealized foreign currency translation gains (losses) during period, net of income tax	0	0	0	233	0	233
Unrealized gains (losses) on fixed maturity securities during period, net of income taxes and reclassification adjustments	0	0	0	1,159	0	1,159
Unrealized gains (losses) on derivatives during period, net of income taxes	0	0	0	1	0	1
Pension liability adjustment during period, net of income taxes	0	0	0	5	0	5
Dividends to shareholders (\$ .87 per share)	0	0	(690)	0	0	(690)
Exercise of stock options	0	38	0	0	0	38
Share-based compensation	0	51	0	0	0	51
Purchases of treasury stock	0	0	0	0	(1,391)	(1,391)
Treasury stock reissued	0	55	0	0	51	106
<b>Balance at December 31, 2017</b>	135	2,052	29,895	4,028	(11,512)	24,598
Cumulative effect of change in accounting principles, net of income tax <sup>(1)</sup>	0	0	(226)	226	0	0
Net earnings	0	0	2,920	0	0	2,920
Unrealized foreign currency translation gains (losses) during period, net of income tax	0	0	0	228	0	228
Unrealized gains (losses) on fixed maturity securities during period, net of income taxes and reclassification adjustments	0	0	0	(2,316)	0	(2,316)
Unrealized gains (losses) on derivatives during period, net of income taxes	0	0	0	2	0	2
Pension liability adjustment during period, net of income taxes	0	0	0	(17)	0	(17)
Dividends to shareholders (\$1.04 per share)	0	0	(801)	0	0	(801)
Exercise of stock options	0	34	0	0	0	34
Share-based compensation	0	54	0	0	0	54
Purchases of treasury stock	0	0	0	0	(1,317)	(1,317)
Treasury stock reissued	0	37	0	0	40	77
<b>Balance at December 31, 2018</b>	135	2,177	31,788	2,151	(12,789)	23,462
Net earnings	0	0	3,304	0	0	3,304
Unrealized foreign currency translation gains (losses) during period, net of income tax	0	0	0	224	0	224
Unrealized gains (losses) on fixed maturity securities during period, net of income taxes and reclassification adjustments	0	0	0	4,314	0	4,314
Unrealized gains (losses) on derivatives during period, net of income taxes	0	0	0	(9)	0	(9)
Pension liability adjustment during period, net of income taxes	0	0	0	(65)	0	(65)
Dividends to shareholders (\$1.08 per share)	0	0	(801)	0	0	(801)
Exercise of stock options	0	29	0	0	0	29
Share-based compensation	0	54	0	0	0	54
Purchases of treasury stock	0	0	0	0	(1,656)	(1,656)
Treasury stock reissued	0	53	0	0	50	103
<b>Balance at December 31, 2019</b>	\$ 135	\$ 2,313	\$ 34,291	\$ 6,615	\$ (14,395)	\$ 28,959

<sup>(1)</sup> See Note 1 of the Notes to the Consolidated Financial Statements for the adoption of accounting guidance on January 1, 2018. See the accompanying Notes to the Consolidated Financial Statements.

Item 8. Financial Statements and Supplementary Data

**Aflac Incorporated and Subsidiaries**  
**Consolidated Statements of Cash Flows**  
Years Ended December 31,

(In millions)	2019	2018	2017
<b>Cash flows from operating activities:</b>			
Net earnings	\$ 3,304	\$ 2,920	\$ 4,604
Adjustments to reconcile net earnings to net cash provided (used) by operating activities:			
Change in receivables and advance premiums	(32)	(55)	(91)
Capitalization of deferred policy acquisition costs	(1,452)	(1,504)	(1,468)
Amortization of deferred policy acquisition costs	1,282	1,245	1,132
Increase in policy liabilities	2,104	2,343	2,890
Change in income tax liabilities	(244)	64	(1,240)
Realized investment (gains) losses	135	430	151
Other, net	358	571	150
Net cash provided (used) by operating activities	5,455	6,014	6,128
<b>Cash flows from investing activities:</b>			
Proceeds from investments sold or matured:			
Available-for-sale fixed maturity securities	5,284	7,888	4,680
Equity securities	650	429	902
Held-to-maturity fixed maturity securities	622	1,670	2,212
Commercial mortgage and other loans	1,814	936	303
Costs of investments acquired:			
Available-for-sale fixed maturity securities	(6,934)	(9,086)	(9,867)
Equity securities	(347)	(440)	(446)
Commercial mortgage and other loans	(4,401)	(4,848)	(2,115)
Other investments, net	(653)	(414)	(206)
Settlement of derivatives, net	(9)	(241)	(621)
Cash received (pledged or returned) as collateral, net	926	348	(205)
Other, net	(123)	176	(68)
Net cash provided (used) by investing activities	(3,171)	(3,582)	(5,431)
<b>Cash flows from financing activities:</b>			
Purchases of treasury stock	(1,627)	(1,301)	(1,351)
Proceeds from borrowings	615	1,020	1,040
Principal payments under debt obligations	0	(550)	(1,161)
Dividends paid to shareholders	(771)	(793)	(661)
Change in investment-type contracts, net	(1)	(31)	35
Treasury stock reissued	49	58	33
Other, net	22	(19)	0
Net cash provided (used) by financing activities	(1,713)	(1,616)	(2,065)
Effect of exchange rate changes on cash and cash equivalents	(12)	30	0
Net change in cash and cash equivalents	559	846	(1,368)
Cash and cash equivalents, beginning of period	4,337	3,491	4,859
Cash and cash equivalents, end of period	\$ 4,896	\$ 4,337	\$ 3,491
<b>Supplemental disclosures of cash flow information:</b>			
Income taxes paid	\$ 1,384	\$ 998	\$ 780
Interest paid	190	181	196
Noncash interest	37	41	44
Impairment losses and loan loss reserves included in realized investment losses	31	81	37
<b>Noncash financing activities:</b>			
Lease obligations	132	11	12
Treasury stock issued for:			
Associate stock bonus	15	7	29
Shareholder dividend reinvestment	30	8	29

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*See the accompanying Notes to the Consolidated Financial Statements.*

**Aflac Incorporated and Subsidiaries**  
**Notes to the Consolidated Financial Statements**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of Business**

Aflac Incorporated (the Parent Company) and its subsidiaries (collectively, the Company) primarily sell supplemental health and life insurance in the United States (U.S.) and Japan. The Company's insurance business is marketed and administered through American Family Life Assurance Company of Columbus (Aflac) in the U.S. and, effective April 1, 2018, through Aflac Life Insurance Japan Ltd. (ALIJ) in Japan. Prior to April 1, 2018, the Company's insurance business was marketed in Japan as a branch of Aflac. The Company's operations consist of two reportable business segments: Aflac U.S., which includes Aflac, and Aflac Japan, which includes ALIJ. American Family Life Assurance Company of New York (Aflac New York) is a wholly owned subsidiary of Aflac. Most of Aflac's policies are individually underwritten and marketed through independent agents. Additionally, Aflac U.S. markets and administers group products through Continental American Insurance Company (CAIC), branded as Aflac Group Insurance. The Company's insurance operations in the U.S. and Japan service the two markets for the Company's insurance business. Aflac Japan's revenues, including realized gains and losses on its investment portfolio, accounted for 69% of the Company's total revenues in 2019, compared with 70% in both 2018 and 2017. The percentage of the Company's total assets attributable to Aflac Japan was 83% at December 31, 2019, compared with 84% at December 31, 2018.

In November 2019, the Company acquired Argus Holdings, LLC and its subsidiary Argus Dental & Vision, Inc. (Argus), a benefits management organization and national network dental and vision company, which provides a platform for Aflac Dental and Vision. The Company paid \$75 million at closing and made an additional commitment of up to \$21 million in contingent consideration payable over three years based on the achievement by Argus of certain performance targets. Argus is an addition to the Aflac U.S. segment.

**Basis of Presentation**

The Company prepares its financial statements in accordance with U.S. generally accepted accounting principles (U.S. GAAP). These principles are established primarily by the Financial Accounting Standards Board (FASB). In these Notes to the Consolidated Financial Statements, references to U.S. GAAP issued by the FASB are derived from the FASB Accounting Standards Codification™ (ASC). The preparation of financial statements in conformity with U.S. GAAP requires the Company to make estimates based on currently available information when recording transactions resulting from business operations. The most significant items on the Company's balance sheet that involve a greater degree of accounting estimates and actuarial determinations subject to changes in the future are the valuation of investments and derivatives, deferred policy acquisition costs (DAC), liabilities for future policy benefits and unpaid policy claims, and income taxes. These accounting estimates and actuarial determinations are sensitive to market conditions, investment yields, mortality, morbidity, commission and other acquisition expenses, and terminations by policyholders. As additional information becomes available, or actual amounts are determinable, the recorded estimates will be revised and reflected in operating results. Although some variability is inherent in these estimates, the Company believes the amounts provided are adequate.

The consolidated financial statements include the accounts of the Parent Company, its subsidiaries, and those entities required to be consolidated under applicable accounting standards. All material intercompany accounts and transactions have been eliminated.

**Significant Accounting Policies**

**Foreign Currency Translation:** The functional currency of Aflac Japan is the Japanese yen. The Company translates its yen-denominated financial statement accounts into U.S. dollars as follows. Assets and liabilities are translated at end-of-period exchange rates. Realized gains and losses on security transactions are translated at the exchange rate on the trade date of each transaction. Other revenues, expenses, and cash flows are translated using average exchange rates for the period. The resulting currency translation adjustments are reported in accumulated other comprehensive income. The Company includes in earnings the realized currency exchange gains and losses resulting from foreign currency transactions.

The Parent Company has designated a majority of its yen-denominated liabilities (notes payable and yen-denominated loans) as non-derivative hedges and from time-to-time may designate certain foreign currency forwards and options as derivative hedges of the foreign currency exposure of the Company's net investment in Aflac Japan. Outstanding principal and related accrued interest on these Parent Company liabilities and the fair value of these derivatives are translated into U.S. dollars at end-of-period exchange rates. Currency translation adjustments and changes in the fair value of these

derivatives are recorded as unrealized foreign currency translation gains (losses) in other comprehensive income and are included in accumulated other comprehensive income.

**Insurance Revenue and Expense Recognition:** Substantially all of the supplemental health and life insurance policies the Company issues are classified as long-duration contracts. The contract provisions generally cannot be changed or canceled during the contract period; however, the Company may adjust premiums for supplemental health policies issued in the U.S. within prescribed guidelines and with the approval of state insurance regulatory authorities.

Insurance premiums for most of the Company's health and life policies, including cancer, accident, hospital, critical illness, dental, vision, term life, whole life, long-term care and disability, are recognized as revenue over the premium-paying periods of the contracts when due from policyholders. When revenues are reported, the related amounts of benefits and expenses are charged against such revenues, so that profits are recognized in proportion to premium revenues during the period the policies are expected to remain in force. This association is accomplished by means of annual additions to the liability for future policy benefits and the deferral and subsequent amortization of policy acquisition costs.

Premiums from the Company's products with limited-pay features, including term life, whole life, WAYS, and child endowment, are collected over a significantly shorter period than the period over which benefits are provided. Premiums for these products are recognized as revenue over the premium-paying periods of the contracts when due from policyholders. Any gross premium in excess of the net premium is deferred and recorded in earnings, such that profits are recognized in a constant relationship with insurance in force. Benefits are recorded as an expense when they are incurred. A liability for future policy benefits is recorded when premiums are recognized using the net premium method.

At the policyholder's option, customers can also pay discounted advanced premiums for certain of the Company's products. Advanced premiums are deferred and recognized when due from policyholders over the regularly scheduled premium payment period.

The calculation of DAC and the liability for future policy benefits requires the use of estimates based on sound actuarial valuation techniques. For new policy issues, the Company reviews its actuarial assumptions and deferrable acquisition costs each year and revises them when necessary to more closely reflect recent experience and studies of actual acquisition costs. For policies in force, the Company evaluates DAC by major product groupings to determine that they are recoverable from future revenues, and any amounts determined not to be recoverable are charged against net earnings. The Company has not had any material charges to earnings for DAC that was determined not to be recoverable in any of the years presented in this Form 10-K.

Advertising expense is reported as incurred in insurance expenses in the consolidated statements of earnings.

**Cash and Cash Equivalents:** Cash and cash equivalents include cash on hand, money market instruments, and other debt instruments with a maturity of 90 days or less when purchased.

**Investments:** The Company's debt securities consist of fixed maturity securities, which are classified as either held to maturity or available for sale. Securities classified as held to maturity are securities that the Company has the ability and intent to hold to maturity or redemption and are carried at amortized cost. All other fixed maturity debt securities are classified as available for sale and are carried at fair value. If the fair value is higher than the amortized cost for debt securities, the excess is an unrealized gain, and if lower than cost, the difference is an unrealized loss. The net unrealized gains and losses on securities available for sale, less related deferred income taxes, are recorded through other comprehensive income and included in accumulated other comprehensive income.

Amortized cost of debt securities is based on the Company's purchase price adjusted for accrual of discount, or amortization of premium, and recognition of impairment charges, if any. The amortized cost of debt securities the Company purchases at a discount or premium will equal the face or par value at maturity or the call date, if applicable. Interest is reported as income when earned and is adjusted for amortization of any premium or discount.

The Company has investments in marketable equity securities which are carried at fair value. Changes in the fair value of equity securities are recorded in earnings as a component of realized investment gains and losses.

The Company has investments in variable interest entities (VIEs). Criteria for evaluating VIEs for consolidation focuses on identifying which enterprise has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. The Company is the primary beneficiary of certain VIEs, and therefore consolidates these entities in its financial statements. While the consolidated VIEs generally operate within a defined set of contractual terms, there are certain powers



that are retained by the Company that are considered significant in the conclusion that the Company is the primary beneficiary. These powers vary by structure but generally include the initial selection of the underlying collateral; the ability to obtain the underlying collateral in the event of default; and, the ability to appoint or dismiss key parties in the structure. In particular, the Company's powers surrounding the underlying collateral were considered to be the most significant powers because those most significantly impact the economics of the VIE. The Company has no obligation to provide any continuing financial support to any of the entities in which it is the primary beneficiary. The Company's maximum loss is limited to its original investment. Neither the Company nor any of its creditors have the ability to obtain the underlying collateral, nor does the Company have control over the instruments held in the VIEs, unless there is an event of default. For those entities where the Company is the primary beneficiary, the consolidated entity's assets are segregated on the balance sheet by the caption "consolidated variable interest entities," and consist of fixed maturity securities, equity securities, loan receivables, limited partnerships and derivative instruments.

For the mortgage- and asset-backed securities held in the Company's fixed maturity portfolio, the Company recognizes income using a constant effective yield, which is based on anticipated prepayments and the estimated economic life of the securities. When estimates of prepayments change, the effective yield is recalculated to reflect actual payments to date and anticipated future payments. The net investment in mortgage- and asset-backed securities is adjusted to the amount that would have existed had the new effective yield been applied at the time of acquisition. This adjustment is reflected in net investment income.

The Company uses the specific identification method to determine the gain or loss from securities transactions and report the realized gain or loss in the consolidated statements of earnings. Securities transactions are accounted for based on values as of the trade date of the transaction.

An investment in a fixed maturity security is impaired if the fair value falls below amortized cost. The Company regularly reviews its fixed maturity security investments portfolio for declines in fair value. The Company's fixed maturity security investments are evaluated for other-than-temporary impairment using its debt impairment model. The Company's debt impairment model focuses on the ultimate collection of the cash flows from its investments and whether the Company has the intent to sell or if it is more likely than not the Company would be required to sell the security prior to recovery of its amortized cost. The determination of the amount of impairments under this model is based upon the Company's periodic evaluation and assessment of known and inherent risks associated with the respective securities. Such evaluations and assessments are revised as conditions change and new information becomes available.

When determining the Company's intention to sell a security prior to recovery of its fair value to amortized cost, the Company evaluates facts and circumstances such as, but not limited to, future cash flow needs, decisions to reposition its security portfolio, and risk profile of individual investment holdings. The Company performs ongoing analyses of its liquidity needs, which includes cash flow testing of its policy liabilities, debt maturities, projected dividend payments, and other cash flow and liquidity needs.

The determination of whether an impairment in value of the Company's fixed maturity securities is other than temporary is based largely on the Company's evaluation of the issuer's creditworthiness. The Company must apply considerable judgment in determining the likelihood of its fixed maturity securities recovering in value. Factors that may influence this include the overall level of interest rates, credit spreads, the credit quality of the underlying issuer, and other factors. This process requires consideration of risks which can be controlled to a certain extent, such as credit risk, and risks which cannot be controlled, such as interest rate risk and foreign currency risk.

If, after monitoring and analyses, management believes that fair value will not recover to amortized cost, the Company recognizes an other-than-temporary impairment of the security. Once a security is considered to be other-than-temporarily impaired, the impairment loss is separated into two components: the portion of the impairment related to credit and the portion of the impairment related to factors other than credit. The Company recognizes a charge to earnings for the credit-related portion of other-than-temporary impairments. Impairments related to factors other than credit are charged to earnings in the event the Company intends to sell the security prior to the recovery of its amortized cost or if it is more likely than not that the Company would be required to dispose of the security prior to recovery of its amortized cost; otherwise, non-credit-related other-than-temporary impairments are charged to other comprehensive income.

The Company lends fixed maturity and public equity securities to financial institutions in short-term security-lending transactions. These securities continue to be carried as investment assets on the Company's balance sheet during the terms of the loans and are not reported as sales. The Company receives cash or other securities as collateral for such loans. For loans involving unrestricted cash or securities as collateral, the collateral is reported as an asset with a corresponding liability for the return of the collateral. For loans where the Company receives as collateral securities that the Company is not permitted to sell or repledge, the collateral is not reported as an asset.

Commercial mortgage and other loans include transitional real estate loans (TREs), commercial mortgage loans (CMLs) and middle market loans (MMLs). The Company's investments in TREs, CMLs, and MMLs are accounted for as loan receivables and are recorded at amortized cost on the acquisition date. The Company has the intent and ability to hold these loan receivables for the foreseeable future or until they mature and therefore, they are considered held for investment and are carried at amortized cost in the commercial mortgage and other loans line in its consolidated balance sheets. The amortized cost of the loan receivables reflects allowances for expected incurred losses estimated based on past events and current economic conditions as of each reporting date.

Other investments include policy loans, limited partnerships, and short-term investments with maturities at the time of purchase of one year or less, but greater than 90 days. Limited partnerships are accounted for using the equity method of accounting. Under the equity method of accounting, the Company reports its portion of partnership earnings as a component of net investment income in its consolidated statements of earnings. The underlying investments held by the Company's limited partnerships primarily consist of private equity and real estate. Short-term investments are stated at amortized cost, which approximates fair value.

**Derivatives and Hedging:** Freestanding derivative instruments are reported in the consolidated balance sheet at fair value and are reported in other assets and other liabilities, with changes in value reported in earnings and/or other comprehensive income. These freestanding derivatives are foreign currency forwards, foreign currency options, foreign currency swaps, interest rate swaps, interest rate swaptions, and, in prior year periods, credit default swaps (CDSs). The Company does not use derivatives for trading purposes, nor does the Company engage in leveraged derivative transactions.

From time to time, the Company purchases certain investments that contain an embedded derivative. The Company assesses whether this embedded derivative is clearly and closely related to the asset that serves as its host contract. If the Company deems that the embedded derivative's terms are not clearly and closely related to the host contract, and a separate instrument with the same terms would qualify as a derivative instrument, the derivative is separated from that contract, held at fair value, and reported with the host instrument in the consolidated balance sheet, with changes in fair value reported in earnings. If the Company has elected the fair value option, the embedded derivative is not bifurcated, and the entire investment is held at fair value with changes in fair value reported in earnings.

See Note 5 for a discussion on how the Company determines the fair value of its derivatives. Accruals on derivatives are typically recorded in other assets or within other liabilities in the consolidated balance sheets.

To qualify for hedge accounting treatment, a derivative must be highly effective in mitigating the designated risk attributable to the hedged item. At the inception of hedging relationships the Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objectives and strategies for undertaking the respective hedging relationship, and the methodology that will be used to assess the effectiveness of the hedge relationship at and subsequent to hedge inception. The Company documents the designation of each hedge as either (i) a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability or the hedge of a forecasted transaction ("cash flow hedge"); (ii) a hedge of the estimated fair value of a recognized asset or liability ("fair value hedge"); or (iii) a hedge of a net investment in a foreign operation. The documentation process includes linking derivatives and non-derivative financial instruments that are designated as hedges to specific assets or groups of assets or liabilities in the statement of financial position or to specific forecasted transactions and defining the effectiveness testing methods to be used. At the hedge inception and on an ongoing quarterly basis, the Company also formally assesses whether the derivatives and non-derivative financial instruments used in hedging activities have been, and are expected to continue to be, highly effective in offsetting their designated risk. Hedge effectiveness is assessed using qualitative and quantitative methods. The assessment of hedge effectiveness determines the accounting treatment of changes in fair value.

For assessing hedge effectiveness, qualitative methods may include the comparison of critical terms of the derivative to the hedged item, and quantitative methods may include regression, dollar offset, or other statistical analysis of changes in fair value or cash flows associated with the hedge relationship.

For derivative instruments that are designated and qualify as cash flow hedges, the gain or loss on the derivative is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. In cash flow hedges, all components of each derivative's gain or loss are included in the assessment of hedge effectiveness.

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the hedged item and the portion of the hedging instrument included in the assessment of effectiveness are recorded in the line item of the consolidated statements of earnings in which gain or loss on the hedged item is recorded. When assessing the effectiveness

of the Company's fair value hedges, the Company excludes the changes in fair value related to the difference between the spot and the forward rate on its foreign currency forwards and the time value of money of foreign exchange options and interest rate swaptions. For interest rate swaptions designated under fair value hedges of interest rate risk, the change in the time value of money is recognized in other comprehensive income (loss) and amortized into earnings (net investment income) over its legal term.

As discussed in Note 4, from time to time the Company designates net investment hedges of its net investment in Aflac Japan. The Company makes its net investment hedge designation at the beginning of each quarter. For derivative hedging instruments designated as net investment hedges, Aflac follows the spot-rate method. According to that method, the change in fair value of the hedging instrument due to fluctuations in the spot exchange rate is recorded in the unrealized foreign currency component of other comprehensive income and reclassified to earnings only when the hedged net investment is sold, or when a liquidation of the respective net investment in the foreign entity is substantially completed. If and when a sale or liquidation occurs, the changes in fair value of the derivative deferred in the unrealized foreign currency component of other comprehensive income will be released in the same income statement line item where the gain (loss) on the hedged net investment would be recorded upon sale. All other changes in fair value of the hedging instrument are considered the "excluded component" and are accounted for in realized investment gains (losses). Should these designated net investment hedge positions exceed the Company's net investment in Aflac Japan, the foreign exchange effect on the portion that exceeds its investment in Aflac Japan would be recognized in current earnings within realized investment gains (losses).

The Company discontinues hedge accounting prospectively when (1) it is determined that the derivative is no longer highly effective in offsetting changes in the estimated cash flows or fair value of a hedged item; (2) the derivative is de-designated as a hedging instrument; or (3) the derivative expires or is sold, terminated or exercised.

When hedge accounting is discontinued on a cash flow hedge or fair value hedge, the derivative is carried in the consolidated balance sheets at its estimated fair value, with changes in estimated fair value recognized in current period earnings. For discontinued cash flow hedges, including those where the derivative is sold, terminated or exercised, amounts previously deferred in other comprehensive income (loss) are reclassified into earnings when earnings are impacted by the cash flow of the hedged item.

If a derivative is not designated as an accounting hedge or its use in managing risk does not qualify for hedge accounting, changes in the estimated fair value of the derivative are generally reported within other gains (losses), which is a component of realized investment gains (losses). The fluctuations in estimated fair value of derivatives that have not been designated for hedge accounting can result in volatility in net earnings.

The Company receives and pledges cash or other securities as collateral on open derivative positions. Cash received as collateral is reported as an asset with a corresponding liability for the return of the collateral. Cash pledged as collateral is recorded as a reduction to cash, and a corresponding receivable is recognized for the return of the cash collateral. The Company generally can repledge or resell collateral obtained from counterparties, although the Company does not typically exercise such rights. Securities received as collateral are not recognized unless the Company was to exercise its right to sell that collateral or exercise remedies on that collateral upon a counterparty default. Securities that the Company has pledged as collateral continue to be carried as investment assets on its balance sheet.

**Deferred Policy Acquisition Costs:** Certain direct and incremental costs of acquiring new business are deferred and amortized with interest over the premium payment periods in proportion to the ratio of annual premium income to total anticipated premium income. Anticipated premium income is estimated by using the same mortality, persistency and interest assumptions used in computing liabilities for future policy benefits. In this manner, the related acquisition expenses are matched with revenues. Deferred costs include the excess of current-year commissions over ultimate renewal-year commissions and certain incremental direct policy issue, underwriting and sales expenses. All of these incremental costs are directly related to successful policy acquisition.

For some products, policyholders can elect to modify product benefits, features, rights or coverages by exchanging a contract for a new contract or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. These transactions are known as internal replacements. The Company performs a two-stage analysis of the internal replacements to determine if the modification is substantive to the base policy. The stages of evaluation are as follows: 1) determine if the modification is integrated with the base policy, and 2) if it is integrated, determine if the resulting contract is substantially changed.

For internal replacement transactions where the resulting contract is substantially unchanged, the policy is accounted for as a continuation of the replaced contract. Unamortized deferred acquisition costs from the original policy continue to be amortized over the expected life of the new policy, and the costs of replacing the policy are accounted for as policy maintenance

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costs and expensed as incurred. Examples include conversions of same age bands, certain family coverage changes, pricing era changes (decrease), and ordinary life becomes reduced paid-up and certain reinstatements.

An internal replacement transaction that results in a policy that is substantially changed is accounted for as an extinguishment of the original policy and the issuance of a new policy. Unamortized deferred acquisition costs on the original policy are immediately expensed, and the costs of acquiring the new policy are capitalized and amortized in accordance with the Company's accounting policies for deferred acquisition costs. Further, the policy reserves are evaluated based on the new policy features, and any change (up or down) necessary is recognized at the date of contract change/modification. Examples include conversions to higher age bands, certain family coverage changes, pricing era changes (increase), lapse & re-issue, certain reinstatements and certain other contract conversions.

Riders can be considered internal replacements that are either integrated or non-integrated resulting in either substantially changed or substantially unchanged treatment. Riders are evaluated based on the specific facts and circumstances of the rider and are considered an expansion of the existing benefits with additional premium required. Non-integrated riders to existing contracts do not change the Company's profit expectations for the related products and are treated as a new policy establishment for incremental coverage.

The Company measures the recoverability of DAC and the adequacy of its policy reserves annually by performing gross premium valuations on its business. (See the following discussion for further information regarding policy reserves.)

**Policy Liabilities:** Future policy benefits represent claims that are expected to occur in the future and are computed following a net level premium method using estimated future investment yields, persistency and recognized morbidity and mortality tables modified to reflect the Company's experience, including a provision for adverse deviation. These assumptions are generally established and considered locked at policy inception. These assumptions may only be unlocked in certain circumstances based on the results of periodic DAC recoverability and premium deficiency testing.

Unpaid policy claims are estimates computed primarily on an undiscounted basis using statistical analyses of historical claims experience adjusted for current trends and changed conditions. The ultimate liability may vary significantly from such estimates. The Company regularly adjusts these estimates as new claims experience emerges and reflects the changes in operating results in the year such adjustments are made.

Unearned premiums consist primarily of discounted advance premiums on deposit from policyholders in conjunction with their purchase of certain Aflac Japan limited-pay insurance products. These advanced premiums are deferred upon collection and recognized as premium revenue over the contractual premium payment period.

Other policyholders' funds liability consists primarily of the fixed annuity line of business in Aflac Japan which has fixed benefits and premiums.

For internal replacements that are determined to not be substantially unchanged, policy liabilities related to the original policy that was replaced are immediately released, and policy liabilities are established for the new insurance contract; however, for internal replacements that are considered substantially unchanged, no changes to the reserves are recognized.

**Reinsurance:** The Company enters into reinsurance agreements with other companies in the normal course of business. For each reinsurance agreement, the Company determines if the agreement provides indemnification against loss or liability relating to insurance risk in accordance with applicable accounting standards. Reinsurance premiums and benefits paid or provided are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums, benefits and DAC are reported net of insurance ceded.

**Income Taxes:** Income tax provisions are generally based on pretax earnings reported for financial statement purposes, which differ from those amounts used in preparing the Company's income tax returns. Deferred income taxes are recognized for temporary differences between the financial reporting basis and income tax basis of assets and liabilities, based on enacted tax laws and statutory tax rates applicable to the periods in which the Company expects the temporary differences to reverse. The Company records deferred tax assets for tax positions taken based on its assessment of whether the tax position is more likely than not to be sustained upon examination by taxing authorities. A valuation allowance is established for deferred tax assets when it is more likely than not that an amount will not be realized.

**Policyholder Protection Corporation and State Guaranty Association Assessments:** In Japan, the government has required the insurance industry to contribute to a policyholder protection corporation. The Company recognizes a charge for

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its estimated share of the industry's obligation once it is determinable. The Company reviews the estimated liability for policyholder protection corporation contributions on an annual basis and reports any adjustments in Aflac Japan's expenses.

In the U.S., each state has a guaranty association that supports insolvent insurers operating in those states. The Company's policy is to accrue assessments when the entity for which the insolvency relates has met its state of domicile's statutory definition of insolvency, the amount of the loss is reasonably estimable and the related premium upon which the assessment is based is written. See Note 15 of the Notes to the Consolidated Financial Statements for further discussion of the guaranty fund assessments charged to the Company.

**Treasury Stock:** Treasury stock is reflected as a reduction of shareholders' equity at cost. The Company uses the weighted-average purchase cost to determine the cost of treasury stock that is reissued. The Company includes any gains and losses in additional paid-in capital when treasury stock is reissued.

**Share-Based Compensation:** The Company measures compensation cost related to its share-based payment transactions at fair value on the grant date, and the Company recognizes those costs in the financial statements over the vesting period during which the employee provides service in exchange for the award. The Company has formalized its entity-wide accounting policy election to estimate the number of awards that are expected to vest and the corresponding forfeitures.

**Earnings Per Share:** The Company computes basic earnings per share (EPS) by dividing net earnings by the weighted-average number of unrestricted shares outstanding for the period. Diluted EPS is computed by dividing net earnings by the weighted-average number of shares outstanding for the period plus the shares representing the dilutive effect of share-based awards.

**Reclassifications:** Certain reclassifications have been made to prior-year amounts to conform to current-year reporting classifications. These reclassifications had no impact on net earnings or total shareholders' equity.

### New Accounting Pronouncements

#### [Recently Adopted Accounting Pronouncements](#)

Standard	Description	Date of Adoption	Effect on Financial Statements or Other Significant Matters
<b>Accounting Standard Update (ASU) 2018-16</b> Derivatives and Hedging Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes	In October 2018, the FASB issued amendments to permit use of the Overnight Index Swap (OIS) rate based on the Secured Overnight Financing Rate (SOFR) as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815 in addition to the Treasury obligations of the U.S. government (UST), the London Interbank Offered Rate (LIBOR) swap rate, the OIS rate based on the Fed Funds Effective Rate, and the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Rate.	Early adopted as of October 1, 2018	The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations or disclosures.
<b>ASU 2018-15</b> Intangibles - Goodwill and Other - Internal-Use Software, Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract	In August 2018, the FASB issued amendments to align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software.	Early adopted as of January 1, 2019	The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations or disclosures.

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Standard	Description	Date of Adoption	Effect on Financial Statements or Other Significant Matters
<b>ASU 2018-14</b> Compensation - Retirement Benefits - Defined Benefit Plans - General, Disclosure Framework - Changes to the Disclosure Requirements for Defined Benefit Plans	In August 2018, the FASB issued amendments to modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. Accordingly, six disclosures requirements were removed, two added and two clarified.	Early adopted as of December 31, 2019	The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations or disclosures.
<b>ASU 2018-03</b> Technical Corrections and Improvements to Financial Instruments - Overall Recognition and Measurement of Financial Assets and Financial Liabilities	In February 2018, the FASB issued amendments to clarify certain aspects of the guidance issued in the original <i>Financial Instruments - Overall - Recognition and Measurement</i> pronouncement summarized below. Specifically, for entities who have chosen the measurement alternative approach for equity securities without readily determinable fair values, the amendments clarify that entities may change from a measurement alternative approach to a fair value method through an irrevocable election that would apply to a specific equity security and all identical or similar investments of the same issuer; entities should use an observable price at the date of the transaction rather than reporting date for the measurement alternative calculation; and insurance companies should use a prospective transition method when applying the measurement alternative.	Early adopted as of January 1, 2018	The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, or disclosures.
<b>ASU 2018-02</b> Income Statement - Reporting Comprehensive Income: Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income	In February 2018, the FASB issued amendments which allow a reclassification from accumulated other comprehensive income (AOCI) to retained earnings of the effects of the change in the U.S. federal income tax rate resulting from the Tax Cuts and Jobs Act (Tax Act) on the gross deferred tax amounts and the corresponding valuation allowances related to items remaining in AOCI. The amendments eliminate the stranded tax effects resulting from the Tax Act and also require certain disclosures about the reclassified tax effects.	Early adopted as of January 1, 2018	The amounts reclassified from AOCI to retained earnings include the income tax effects of the change in the federal corporate tax rate enacted by the Tax Act. The Company's policy is to follow the portfolio approach for releasing income tax effects from AOCI. The adoption of this guidance resulted in an increase to beginning 2018 AOCI of \$374 million with a corresponding decrease to beginning 2018 retained earnings as of January 1, 2018.
<b>ASU 2017-12</b> Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities	In August 2017, the FASB issued guidance which improves and simplifies the accounting rules around hedge accounting and creates more transparency around how economic results are presented in financial statements. Issues addressed in this new guidance include: 1) risk component hedging, 2) accounting for the hedged item in fair value hedges of interest rate risk, 3) recognition and presentation of the effects of hedging instruments, and 4) amounts excluded from the assessment of hedge effectiveness.	Early adopted as of October 1, 2018	The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, or disclosures.



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Standard	Description	Date of Adoption	Effect on Financial Statements or Other Significant Matters
<b>ASU 2017-09</b> Compensation - Stock Compensation: Scope of Modification Accounting	In May 2017, the FASB issued amendments to provide guidance clarifying when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. An entity should apply modification accounting if the fair value, vesting conditions or classification of the award (as an equity instrument or liability instrument) changes as a result of the change in terms or conditions of the award.	January 1, 2018	The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, or disclosures.
<b>ASU 2017-08</b> Receivables - Nonrefundable Fees and Other Costs: Premium Amortization on Purchased Callable Debt Securities	In March 2017, the FASB issued amendments to shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount.	Early adopted as of July 1, 2018	The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, or disclosures.
<b>ASU 2017-07</b> Compensation - Retirement Benefits: Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost	In March 2017, the FASB issued amendments requiring that an employer report the service cost component of net periodic pension cost and net periodic postretirement benefit cost in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic pension cost and net periodic postretirement benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. If a separate line item or items are used to present the other components of net benefit cost, that line item or items must be appropriately described. If a separate line item or items are not used, the line item or items used in the income statement to present the other components of net benefit cost must be disclosed. The amendments in this update also allow only the service cost component to be eligible for capitalization when applicable.	January 1, 2018	The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, or disclosures.
<b>ASU 2017-05</b> Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets: Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets	In February 2017, the FASB issued amendments that clarify the scope and accounting guidance for the derecognition of a nonfinancial asset or a financial asset that meets the definition of an "in substance nonfinancial asset." The amendments define an "in substance nonfinancial asset" and provide additional accounting guidance for partial sales of nonfinancial assets.	January 1, 2018	The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, or disclosures.
<b>ASU 2017-01</b> Business Combinations: Clarifying the Definition of a Business	In January 2017, the FASB issued amendments clarifying when a set of assets and activities is a business. The amendments provide a screen to exclude transactions where substantially all the fair value of the transferred set is concentrated in a single asset, or group of similar assets, from being evaluated as a business.	January 1, 2018	The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, or disclosures.



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Standard	Description	Date of Adoption	Effect on Financial Statements or Other Significant Matters
<b>ASU 2016-18</b> Statement of Cash Flows: Restricted Cash	In November 2016, the FASB issued amendments requiring that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents.	January 1, 2018	The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, statements of cash flows, or disclosures.
<b>ASU 2016-17</b> Consolidation - Interests Held through Related Parties That Are under Common Control	In October 2016, the FASB issued amendments which clarify the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity (VIE) should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE.	January 1, 2017	The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, or disclosures.
<b>ASU 2016-16</b> Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory	In October 2016, the FASB issued amendments that require an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs.	January 1, 2018	The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, or disclosures.
<b>ASU 2016-15</b> Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments	In August 2016, the FASB issued amendments that provide guidance on eight specific statement of cash flow classification issues, including distributions received from equity method investees.	January 1, 2018	The Company elected nature of distribution for distributions received from equity method investees. The adoption of this guidance did not have a significant impact on the Company's financial position, statement of cash flows, results of operations, or disclosures.
<b>ASU 2016-09</b> Compensation - Stock Compensation: Improvements to Employee Share-Based Payment Accounting	In March 2016, the FASB issued amendments which simplify several aspects for share-based payment award transactions, including the income tax consequences, classification of awards as either liability or equity, classification of taxes paid on the statement of cash flows and treatment of forfeitures.	January 1, 2017	As a result of applying this requirement, the Company believes that recognition of excess tax benefits will increase volatility in its statement of operations and the Company made an entity-wide accounting policy election to estimate the number of awards that are expected to vest (consistent with the Company's prior policy), but the adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, statements of cash flows, or disclosures.
<b>ASU 2016-07</b> Investments - Equity Method and Joint Ventures - Simplifying the Transition to the Equity Method of Accounting	In March 2016, the FASB issued amendments which eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. Per the amendments, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required.	January 1, 2017	The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, or disclosures.

Standard	Description	Date of Adoption	Effect on Financial Statements or Other Significant Matters
<b>ASU 2016-06</b> Derivatives and Hedging - Contingent Put and Call Options in Debt Instruments	In March 2016, the FASB issued amendments which clarify what steps are required when assessing whether the economic characteristics and risks of call (put) options are clearly and closely related to the economic characteristics and risks of their debt hosts, which is one of the criteria for bifurcating an embedded derivative. Consequently, when a call (put) option is contingently exercisable, an entity does not have to assess whether the event that triggers the ability to exercise a call (put) option is related to interest rates or credit risks.	January 1, 2017	The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, or disclosures.
<b>ASU 2016-05</b> Derivatives and Hedging - Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships	In March 2016, the FASB issued amendments which clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria remain intact.	January 1, 2017	The adoption of this guidance did not have a significant impact on the Company's financial position, results of operations, or disclosures.

Standard	Description	Date of Adoption	Effect on Financial Statements or Other Significant Matters
<p><b>ASU 2016-02</b> Leases</p> <p>as clarified and amended by:  <b>ASU 2018-01, Leases: Land Easement Practical Expedient for Transition to Topic 842,</b>  <b>ASU 2018-10, Codification Improvements to Topic 842, Leases,</b>  <b>ASU 2018-11, Leases, Targeted Improvements, and</b>  <b>ASU 2018-20, Leases: Narrow-Scope Improvements for Lessors</b></p>	<p>In February 2016, the FASB issued updated guidance for accounting for leases ("Leases Update"). Per the Leases Update, lessees are required to recognize all leases on the balance sheet with the exception of short-term leases. A lease liability will be recorded for the obligation of a lessee to make lease payments arising from a lease. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. The Leases Update provided a number of optional practical expedients. The Company elected the "package of practical expedients," which permits the Company not to reassess under the new standard its prior conclusions about lease identification, lease classification and initial direct costs. Under the Leases Update, lessor accounting is largely unchanged.</p> <p>In January 2018, an amendment was issued to the Leases Update which provided an entity with the option to elect a transition practical expedient to not evaluate land easements that exist or expired before the entity's adoption of the Leases Update and that were not previously accounted for as leases.</p> <p>In July 2018, the FASB issued two amendments to the Leases Update which clarified, corrected errors in, or made minor improvements to the Leases Update and provided entities with an optional transition method to adopt the Leases Update by recording a cumulative-effect adjustment to beginning retained earnings. Additionally, the amendments provided lessors with a practical expedient to not separate nonlease components from associated lease components and instead account for those components as a single component under certain conditions.</p> <p>In December 2018, an amendment to the Leases Update was issued to clarify: 1) lessor accounting for all sales (and other similar) taxes; 2) the handling of certain lessor costs when the amount of those costs is not readily determinable; and 3) lessor allocation of certain variable payments to the lease and non-lease components.</p>	<p>January 1, 2019</p>	<p>The Company has operating and finance leases for office space and equipment. The Company elected the short-term lease exemption for all classes of leases which allows the Company to not recognize right-of-use assets and lease liabilities on the consolidated balance sheet and allows the Company to recognize the lease expense for short-term leases on a straight-line basis over the lease term. The Company elected the practical expedient to not separate lease and non-lease components and applied it to all classes of leases where the non-lease components are not significant. Some of the Company's leases include options to extend or terminate the lease and the lease terms may include such options when it is reasonably certain that the Company will exercise that option. Certain leases also include options to purchase the leased property. The leases within scope of the leases update increased the Company's right-of-use assets and lease liabilities recorded in its consolidated balance sheet by \$134 million.</p> <p>As of January 1, 2019, the Company did not have land easements, but has elected the practical expedient as a safe harbor.</p> <p>The Company elected the optional transition method and as a safe harbor, the practical expedient provided to lessors.</p> <p>The Company has made an accounting policy election to exclude amounts collected from customers for all sales (and other similar) taxes from the transaction price.</p> <p>The adoption of the Leases Update and related amendments did not have a significant impact on the Company's financial position, results of operations, or disclosures.</p>

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Standard	Description	Date of Adoption	Effect on Financial Statements or Other Significant Matters
<p><b>ASU 2016-01</b> Financial Instruments - Overall: Recognition and Measurement of Financial Assets and Financial Liabilities</p>	<p>In January 2016, the FASB issued guidance to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The main provisions of this guidance require certain equity investments to be measured at fair value with changes in fair value recognized in net earnings; separate presentation in other comprehensive income for changes in fair value of financial liabilities measured under the fair value option that are due to instrument-specific credit risk; and changes in disclosures associated with the fair value of financial instruments. The guidance also clarifies that entities should evaluate the need for a valuation allowance on a deferred tax asset (DTA) related to available-for-sale (AFS) securities in combination with the entity's other DTAs.</p>	<p>January 1, 2018</p>	<p>The Company recorded a cumulative effect adjustment with an increase to beginning 2018 retained earnings and a decrease to beginning 2018 AOCI of \$148 million, net of taxes.</p>

[Accounting Pronouncements Pending Adoption](#)

Standard	Description	Effect on Financial Statements or Other Significant Matters
<p><b>ASU 2020-01</b> Clarifying the interactions between Topic 321, Topic 323, and Topic 815</p>	<p>In January 2020, the FASB issued amendments clarifying that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting for the purposes of applying the measurement alternative in accordance with Topic 321 immediately before applying or upon discontinuing the equity method.</p> <p>In addition, the amendments clarify that for the purpose of applying certain derivative guidance in Topic 815, an entity should not consider whether, upon the settlement of the forward contract or exercise of the purchased option, individually or with existing investments, the underlying securities would be accounted for under the equity method in Topic 323 or the fair value option in accordance with the financial instruments guidance in Topic 825. An entity also would evaluate the remaining characteristics in Topic 815 to determine the accounting for those forward contracts and purchased options.</p> <p>The amendments are effective for public business entities for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted.</p>	<p>The adoption of this guidance is not expected to have a significant impact on the Company's financial position, results of operations, or disclosures.</p>

Standard	Description	Effect on Financial Statements or Other Significant Matters
<p><b>ASU 2019-04</b> Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments</p>	<p>In April 2019, the FASB issued Codification improvements to clarify and correct certain areas of guidance amended as part of ASU 2016-01, <i>Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities</i>; ASU 2016-13, <i>Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments</i>; and ASU 2017-12, <i>Derivative and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities</i>.</p> <p>The most significant of these improvements to the Company was related to the Codification improvement to ASU 2017-12 and the clarification that a one-time reclassification of assets that are eligible to be hedged under the last-of-layer method (i.e., certain pre-payable securities) from held-to-maturity to available-for-sale is allowed under the new hedge accounting guidance and would not impact the Company's ability to continue to classify other bonds as held-to-maturity. This clarification is effective for the Company beginning January 1, 2020, with early adoption permitted. If a reclassification is elected, it must be reflected as of the date of adoption of this update.</p> <p>The other amendments related to ASU 2017-12 and 2016-01 are either not significant, or were previously implemented as part of the related ASU adoptions.</p> <p>Applicable amendments related to ASU 2016-13 are discussed within the pending adoption of that update below.</p>	<p>The Company did not reclassify any assets from held-to-maturity to available-for-sale as part of its implementation of ASU 2017-12, and is therefore eligible to reclassify qualifying securities as a result of these clarifications. Effective on January 1, 2020, the Company anticipates the reclassification of approximately \$6.9 billion (at amortized cost) of pre-payable fixed-maturity securities from the held-to-maturity to the available-for-sale category. This reclassification is expected to result in recording in accumulated other comprehensive income a net unrealized gain of approximately \$800 million on an after-tax basis, based on the securities' fair values on the reclassification date. The reclassification will impact the adoption of ASU 2016-13 which will be effective January 1, 2020 (see ASU 2016-13 below for additional details).</p>
<p><b>ASU 2018-17</b> Consolidation: Targeted Improvements to Related Party Guidance for Variable Interest Entities</p>	<p>In October 2018, the FASB issued targeted improvements which provide that indirect interests held through related parties under common control should be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests. The amendments are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted.</p>	<p>The adoption of this guidance is not expected to have a significant impact on the Company's financial position, results of operations or disclosures.</p>
<p><b>ASU 2018-13</b> Fair Value Measurement, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement</p>	<p>In August 2018, the FASB issued amendments to the disclosure requirements on fair value measurements. The amendments remove, modify, and add certain disclosures. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. Further, an entity is permitted to early adopt any removed or modified disclosures upon issuance of this update and delay adoption of the additional disclosures until their effective date.</p>	<p>The adoption of this guidance is not expected to have a significant impact on the Company's financial position, results of operations, or disclosures.</p>

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Standard	Description	Effect on Financial Statements or Other Significant Matters
<p><b>ASU 2018-12</b> Financial Services - Insurance, Targeted Improvements to the Accounting for Long-Duration Contracts as clarified and amended by: <b>ASU No. 2019-09, Financial Services Insurance (Topic 944)- Effective Date</b></p>	<p>In August 2018, the FASB issued amendments that will significantly change how insurers account for long-duration contracts. The amendments will change existing recognition, measurement, presentation, and disclosure requirements. Issues addressed in the new guidance include: 1) a requirement to review and, if there is a change, update assumptions for the liability for future policy benefits at least annually, and to update the discount rate assumption quarterly, 2) accounting for market risk benefits at fair value, 3) simplified amortization for deferred acquisition costs, and 4) enhanced financial statement presentation and disclosures.</p> <p>In November 2019, the FASB issued an amendment extending the effective date for public business entities that meet the definition of an SEC filer, excluding entities eligible to be small reporting companies as defined by the SEC, by one year. The amendments are now effective for the Company for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. Early application of the amendments is permitted.</p>	<p>The Company is thoroughly evaluating the impact of adoption and expects that the adoption will have a significant impact on the Company's financial position, results of operations, and disclosures. The Company anticipates that the requirement to update assumptions for liability for future policy benefits will have a significant impact on its results of operations, systems, processes and controls while the requirement to update the discount rate will have a significant impact on its equity. The Company has no products with market risk benefits. The Company does not expect to early adopt the updated standard and has tentatively selected a modified retrospective transition method.</p>
<p><b>ASU 2017-04</b> Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment</p>	<p>In January 2017, the FASB issued amendments simplifying the subsequent measurement of goodwill. An entity, under this update, is no longer required to perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, the entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The amendments are effective for public business entities that are SEC filers for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for any goodwill impairment tests performed on testing dates after January 1, 2017.</p>	<p>The adoption of this guidance is not expected to have a significant impact on the Company's financial position, results of operations, or disclosures.</p>

Standard	Description	Effect on Financial Statements or Other Significant Matters
<p><b>ASU 2016-13</b> Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments</p> <p>as clarified and amended by: <b>ASU 2019-04</b>, <i>Codification Improvements to Topic 326, Financial Instruments - Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments</i>, <b>ASU 2019-05</b>, <i>Financial Instruments - Credit Losses (Topic 326), Targeted Transition Relief</i> and <b>ASU 2019-11</b>, <i>Codification Improvements to Topic 326, Financial Instruments- Credit Losses</i></p>	<p>In June 2016, the FASB issued amendments that require a financial asset (or a group of financial assets) measured at amortized cost to be presented net of an allowance for credit losses (Credit Losses ASU) in order to reflect the amount expected to be collected on the financial asset(s). The measurement of expected credit losses is amended by replacing the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information. Credit losses on available-for-sale debt securities will be measured in a manner similar to current U.S. GAAP; however, the amendments require that credit losses be presented as an allowance rather than as a write-down. Other amendments include changes to the balance sheet presentation and interest income recognition of purchased financial assets with a more-than-insignificant credit deterioration since origination (PCD financial assets).</p> <p>The Credit Losses ASU is effective for public companies for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Companies may early adopt this guidance as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The amendments will be adopted following a modified-retrospective approach resulting in a cumulative effect adjustment in retained earnings as of the beginning of the year of adoption. Two exceptions to this adoption method are for PCD financial assets and debt securities for which other-than-temporary impairment (OTTI) will have been recognized before the effective date. Loans purchased with credit deterioration accounted for under current U.S. GAAP as "purchased credit impaired" (PCI) financial assets will be classified as PCD financial assets at transition and PCD guidance will be applied prospectively. Debt securities that have experienced OTTI before the effective date will follow a prospective adoption method which allows an entity to maintain the same amortized cost basis before and after the effective date.</p> <p>In April 2019, the Credit Losses ASU was amended to allow entities to make a policy election about presentation and disclosure of accrued interest receivable and the related credit losses, whereby entities that write off uncollectible accrued interest receivable in a timely manner can make a policy election not to measure an allowance on the accrued interest receivable. Other amendments made within this Update clarify and address stakeholders' specific issues about certain aspects of the Credit Losses ASU.</p> <p>In May 2019, the FASB granted a targeted transition relief by allowing to irrevocably elect the fair value option for certain financial assets previously measured at amortized cost.</p> <p>These amendments will be effective upon adoption of the Credit Losses ASU.</p>	<p>The Company has identified the following financial instruments in scope of the new guidance: certain fixed maturity securities, loans and loan receivables, reinsurance recoverable, as well as certain other receivable balances and off-balance sheet arrangements.</p> <p>The Company has concluded that of the held-to-maturity fixed maturity securities, Japanese government and agency securities and certain Japanese government-guaranteed mortgage backed securities meet the requirements for a zero-loss expectation and therefore will not be included in the current expected credit loss measurement process upon adoption of the new standard.</p> <p>The Company has substantially completed the review and validation of credit models, methodologies and inputs for all asset classes. The Company performed parallel runs during the second, third and fourth quarters and refined its estimation process with additional parallel testing throughout 2019. The Company has estimated the adoption-date net after-tax impact at a \$56 million decrease to retained earnings. As noted above relative to ASU 2019-04, the Company is planning a one-time reclassification as of January 1, 2020 of approximately \$6.9 billion (amortized cost as of December 31, 2019) of its eligible fixed-maturity securities from held-to-maturity to available-for-sale category. The aforementioned reclassification has been reflected in the expected impact estimate from adoption of ASU 2016-13. The Company plans to adopt this ASU on January 1, 2020.</p>

Recent accounting guidance not discussed above is not applicable, did not have, or is not expected to have a material impact to the Company's business.



**2. BUSINESS SEGMENT AND FOREIGN INFORMATION**

The Company consists of two reportable insurance business segments: Aflac Japan and Aflac U.S., both of which sell supplemental health and life insurance. In addition, operating business units that are not individually reportable and business activities, including reinsurance retrocession activities, not included in Aflac Japan or Aflac U.S. are included in Corporate and other.

The Company does not allocate corporate overhead expenses to business segments. Consistent with U.S. GAAP accounting guidance for segment reporting, the Company evaluates and manages its business segments using a financial performance measure called pretax adjusted 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 Aflac's underlying business performance. The Company excludes income taxes related to operations to arrive at pretax adjusted earnings. Information regarding operations by reportable segment and Corporate and other for the years ended December 31 follows:

(In millions)	2019	2018	2017
<b>Revenues:</b>			
Aflac Japan:			
Net earned premiums:			
Cancer	\$ 6,031	\$ 5,849	\$ 5,612
Medical and other health	3,582	3,516	3,379
Life insurance	3,159	3,397	3,761
Net investment income, less amortized hedge costs <sup>(1),(2)</sup>	2,496	2,403	2,235
Other income	45	41	41
Total Aflac Japan	15,313	15,206	15,028
Aflac U.S.:			
Net earned premiums:			
Accident/disability	2,665	2,611	2,537
Cancer	1,309	1,311	1,308
Other health	1,548	1,508	1,445
Life insurance	286	278	273
Net investment income	720	727	721
Other income	22	8	5
Total Aflac U.S.	6,550	6,443	6,289
Corporate and other <sup>(3)</sup>	393	339	272
Total adjusted revenues	22,256	21,988	21,589
Realized investment gains (losses) <sup>(1),(2),(3)</sup>	51	(230)	78
Total revenues	\$ 22,307	\$ 21,758	\$ 21,667

<sup>(1)</sup> Amortized hedge costs of \$257, \$236 and \$228 in 2019, 2018 and 2017, respectively, related to certain foreign currency exposure management strategies have been reclassified from realized investment gains (losses) and reported as a deduction from net investment income when analyzing operations.

<sup>(2)</sup> Net interest cash flows from derivatives associated with certain investment strategies of \$(17) in 2019 and an immaterial amount in 2018 have been reclassified from realized investment gains (losses) and included in adjusted earnings as a component of net investment income.

<sup>(3)</sup> Amortized hedge income of \$89 in 2019 and \$36 in 2018 related to certain foreign currency exposure management strategies has been reclassified from realized investment gains (losses) and reported as an increase to net investment income when analyzing operations.

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(In millions)	2019	2018	2017
<b>Pretax earnings:</b>			
Aflac Japan <sup>(1),(2)</sup>	\$ 3,261	\$ 3,208	\$ 3,054
Aflac U.S.	1,272	1,285	1,245
Corporate and other <sup>(3),(4)</sup>	(72)	(139)	(212)
Pretax adjusted earnings <sup>(5)</sup>	4,461	4,354	4,087
Realized investment gains (losses) <sup>(1),(2),(3),(4)</sup>	(15)	(297)	0
Other income (loss) <sup>(6)</sup>	(1)	(74)	(69)
Total earnings before income taxes	\$ 4,445	\$ 3,983	\$ 4,018
Income taxes applicable to pretax adjusted earnings	\$ 1,147	\$ 1,129	\$ 1,370
Effect of foreign currency translation on after-tax adjusted earnings	15	28	(41)

<sup>(1)</sup> Amortized hedge costs of \$257, \$236 and \$228 in 2019, 2018 and 2017, respectively, related to certain foreign currency exposure management strategies have been reclassified from realized investment gains (losses) and reported as a deduction from net investment income when analyzing operations.

<sup>(2)</sup> Net interest cash flows from derivatives associated with certain investment strategies of \$(17) in 2019 and an immaterial amount in 2018 have been reclassified from realized investment gains (losses) and included in adjusted earnings as a component of net investment income.

<sup>(3)</sup> Amortized hedge income of \$89 in 2019 and \$36 in 2018 related to certain foreign currency exposure management strategies has been reclassified from realized investment gains (losses) and reported as an increase to net investment income when analyzing operations.

<sup>(4)</sup> A gain of \$66 in 2019, \$67 in 2018 and \$77 in 2017, related to the interest rate component of the change in fair value of foreign currency swaps on notes payable have been reclassified from realized investment gains (losses) and included in adjusted earnings when analyzing operations.

<sup>(5)</sup> Includes \$135, \$122 and \$122 of interest expense on debt in 2019, 2018 and 2017

<sup>(6)</sup> Includes expense of \$13 in 2017 for the early extinguishment of debt

Assets as of December 31 were as follows:

(In millions)	2019	2018
<b>Assets:</b>		
Aflac Japan	\$ 127,523	\$ 118,342
Aflac U.S.	20,945	19,100
Corporate and other	4,300	2,964
Total assets	\$ 152,768	\$ 140,406

**Yen-Translation Effects:** The following table shows the yen/dollar exchange rates used for or during the periods ended December 31. Exchange effects were calculated using the same yen/dollar exchange rate for the current year as for each respective prior year.

	2019	2018	2017
<b>Statements of Earnings:</b>			
Weighted-average yen/dollar exchange rate <sup>(1)</sup>	109.07	110.39	112.16
Yen percent strengthening (weakening)	1.2%	1.6%	(3.1)%
Exchange effect on pretax adjusted earnings (in millions)	\$ 20	\$ 38	\$ (63)

	2019	2018
<b>Balance Sheets:</b>		
Yen/dollar exchange rate at December 31 <sup>(1)</sup>	109.56	111.00
Yen percent strengthening (weakening)	1.3%	1.8%
Exchange effect on total assets (in millions)	\$ 1,225	\$ 1,362
Exchange effect on total liabilities (in millions)	1,533	1,270

<sup>(1)</sup> Rates are based on the published MUFG Bank, Ltd. telegraphic transfer middle rate (TTM)

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**Transfers of funds from Aflac Japan:** Aflac Japan makes payments to the Parent Company for management fees, allocated expenses and remittances of earnings. Prior to the Aflac Japan branch conversion on April 1, 2018, Aflac Japan paid allocated expenses and profit remittances to Aflac U.S. Information on transfers for each of the years ended December 31 is shown below. See Note 13 for information concerning restrictions on transfers from Aflac Japan.

(In millions)	2019	2018	2017
Management fees	\$ 75	\$ 136	\$ 93
Allocated expenses	4	24	109
Profit remittances	2,070	808	1,150
Total transfers from Aflac Japan	\$ 2,149	\$ 968	\$ 1,352

**Property and Equipment:** The costs of buildings, furniture and equipment are depreciated principally on a straight-line basis over their estimated useful lives (maximum of 50 years for buildings and 20 years for furniture and equipment). Expenditures for maintenance and repairs are expensed as incurred; expenditures for betterments are capitalized and depreciated. Classes of property and equipment as of December 31 were as follows:

(In millions)	2019	2018
<b>Property and equipment:</b>		
Land	\$ 168	\$ 168
Buildings	473	456
Equipment and furniture	549	400
Total property and equipment	1,190	1,024
Less accumulated depreciation	609	581
Net property and equipment	\$ 581	\$ 443

**Receivables:** Receivables consist primarily of monthly insurance premiums due from individual policyholders or their employers for payroll deduction of premiums, net of an allowance for doubtful accounts. At December 31, 2019, \$258 million, or 31.2% of total receivables, were related to Aflac Japan's operations, compared with \$334 million, or 39.2%, at December 31, 2018.

### 3. INVESTMENTS

#### Net Investment Income

The components of net investment income for the years ended December 31 were as follows:

(In millions)	2019	2018	2017
Fixed maturity securities	\$ 3,141	\$ 3,142	\$ 3,173
Equity securities	37	38	42
Commercial mortgage and other loans	468	333	86
Other investments	53	36	8
Short-term investments and cash equivalents	56	41	25
Gross investment income	3,755	3,590	3,334
Less investment expenses	177	148	114
Net investment income	\$ 3,578	\$ 3,442	\$ 3,220

**Investment Holdings**

The amortized cost for the Company's investments in fixed maturity securities, the cost for equity securities and the fair values of these investments at December 31 are shown in the following tables.

	2019			
(In millions)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Securities available for sale, carried at fair value through other comprehensive income:</b>				
Fixed maturity securities:				
Yen-denominated:				
Japan government and agencies	\$ 30,929	\$ 5,169	\$ 0	\$ 36,098
Municipalities	516	116	3	629
Mortgage- and asset-backed securities	229	25	0	254
Public utilities	1,855	406	0	2,261
Sovereign and supranational	680	50	0	730
Banks/financial institutions	6,152	700	86	6,766
Other corporate	5,323	944	24	6,243
Total yen-denominated	45,684	7,410	113	52,981
U.S. dollar-denominated:				
U.S. government and agencies	293	9	0	302
Municipalities	1,077	141	0	1,218
Mortgage- and asset-backed securities	149	7	0	156
Public utilities	3,804	725	10	4,519
Sovereign and supranational	239	73	0	312
Banks/financial institutions	2,879	646	4	3,521
Other corporate	25,246	3,255	248	28,253
Total U.S. dollar-denominated	33,687	4,856	262	38,281
Total securities available for sale	\$ 79,371	\$ 12,266	\$ 375	\$ 91,262

2018				
(In millions)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Securities available for sale, carried at fair value through other comprehensive income:</b>				
Fixed maturity securities:				
Yen-denominated:				
Japan government and agencies	\$ 30,637	\$ 3,700	\$ 140	\$ 34,197
Municipalities	385	32	9	408
Mortgage- and asset-backed securities	155	22	0	177
Public utilities	1,732	280	4	2,008
Sovereign and supranational	826	123	0	949
Banks/financial institutions	5,440	502	238	5,704
Other corporate	4,852	649	44	5,457
Total yen-denominated	44,027	5,308	435	48,900
U.S dollar-denominated:				
U.S. government and agencies	137	9	1	145
Municipalities	1,343	120	8	1,455
Mortgage- and asset-backed securities	155	8	1	162
Public utilities	4,772	496	105	5,163
Sovereign and supranational	251	60	0	311
Banks/financial institutions	2,860	389	35	3,214
Other corporate	23,311	1,343	1,109	23,545
Total U.S. dollar-denominated	32,829	2,425	1,259	33,995
Total securities available for sale	\$ 76,856	\$ 7,733	\$ 1,694	\$ 82,895

2019				
(In millions)	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Securities held to maturity, carried at amortized cost:</b>				
Fixed maturity securities:				
Yen-denominated:				
Japan government and agencies	\$ 22,241	\$ 6,050	\$ 0	\$ 28,291
Municipalities	821	262	0	1,083
Mortgage- and asset-backed securities	16	1	0	17
Public utilities	2,535	419	0	2,954
Sovereign and supranational	1,123	197	0	1,320
Banks/financial institutions	916	105	3	1,018
Other corporate	2,433	485	7	2,911
Total yen-denominated	30,085	7,519	10	37,594
Total securities held to maturity	\$ 30,085	\$ 7,519	\$ 10	\$ 37,594

(In millions)	2018			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Securities held to maturity, carried at amortized cost:</b>				
Fixed maturity securities:				
Yen-denominated:				
Japan government and agencies	\$ 21,712	\$ 5,326	\$ 0	\$ 27,038
Municipalities	359	110	0	469
Mortgage- and asset-backed securities	14	1	0	15
Public utilities	2,727	254	8	2,973
Sovereign and supranational	1,551	289	0	1,840
Banks/financial institutions	1,445	158	20	1,583
Other corporate	2,510	332	38	2,804
Total yen-denominated	30,318	6,470	66	36,722
Total securities held to maturity	\$ 30,318	\$ 6,470	\$ 66	\$ 36,722

(In millions)	2019	2018
	Fair Value	Fair Value
<b>Equity securities, carried at fair value through net earnings:</b>		
Equity securities:		
Yen-denominated	\$ 658	\$ 641
U.S. dollar-denominated	144	346
Total equity securities	\$ 802	\$ 987

The methods of determining the fair values of the Company's investments in fixed maturity securities and equity securities are described in Note 5.

During 2019 and 2018, the Company did not reclassify any investments from the held-to-maturity category to the available-for-sale category. During 2017, the Company reclassified three investments from the held-to-maturity category to the available-for-sale category as a result of the issuers' credit rating being downgraded to below investment grade. At the time of the transfer, the securities had an aggregate amortized cost of \$773 million and an aggregate unrealized gain of \$47 million.

### Contractual and Economic Maturities

The contractual and economic maturities of the Company's investments in fixed maturity securities at December 31, 2019, were as follows:

(In millions)	Amortized Cost	Fair Value
<b>Available for sale:</b>		
Due in one year or less	\$ 583	\$ 612
Due after one year through five years	7,933	8,122
Due after five years through 10 years	11,347	12,819
Due after 10 years	59,130	69,299
Mortgage- and asset-backed securities	378	410
Total fixed maturity securities available for sale	\$ 79,371	\$ 91,262
<b>Held to maturity:</b>		
Due in one year or less	\$ 265	\$ 270
Due after one year through five years	1,227	1,330
Due after five years through 10 years	532	599
Due after 10 years	28,045	35,378
Mortgage- and asset-backed securities	16	17
Total fixed maturity securities held to maturity	\$ 30,085	\$ 37,594

Economic maturities are used for certain debt instruments with no stated maturity where the expected maturity date is based on the combination of features in the financial instrument such as the right to call or prepay obligations or changes in coupon rates.

### Investment Concentrations

The Company's process for investing in credit-related investments begins with an independent approach to underwriting each issuer's fundamental credit quality. The Company evaluates independently those factors that it believes could influence an issuer's ability to make payments under the contractual terms of the Company's instruments. This includes a thorough analysis of a variety of items including the issuer's country of domicile (including political, legal, and financial considerations); the industry in which the issuer competes (with an analysis of industry structure, end-market dynamics, and regulation); company specific issues (such as management, assets, earnings, cash generation, and capital needs); and contractual provisions of the instrument (such as financial covenants and position in the capital structure). The Company further evaluates the investment considering broad business and portfolio management objectives, including asset/liability needs, portfolio diversification, and expected income.

Investment exposures that individually exceeded 10% of shareholders' equity as of December 31 were as follows:

(In millions)	2019			2018		
	Credit Rating	Amortized Cost	Fair Value	Credit Rating	Amortized Cost	Fair Value
Japan National Government <sup>(1)</sup>	A+	\$51,726	\$62,584	A+	\$51,207	\$59,945

<sup>(1)</sup>Japan Government Bonds (JGBs) or JGB-backed securities

### Realized Investment Gains and Losses

Information regarding pretax realized gains and losses from investments for the years ended December 31 follows:



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(In millions)	2019	2018	2017
<b>Realized investment gains (losses):</b>			
Fixed maturity securities:			
Available for sale:			
Gross gains from sales	\$ 115	\$ 101	\$ 51
Gross losses from sales	(68)	(156)	(68)
Foreign currency gains (losses) on sales and redemptions	(16)	73	(48)
Other-than-temporary impairment losses	(13)	(64)	(7)
Total fixed maturity securities	18	(46)	(72)
Equity securities	101	(131)	71 <sup>(1)</sup>
Loan receivables:			
Loan loss reserves	(18)	(19)	(8)
Total loan receivables	(18)	(19)	(8)
Derivatives and other:			
Derivative gains (losses)	(174)	(224)	(109)
Foreign currency gains (losses)	(62)	(10)	(33)
Total derivatives and other	(236)	(234)	(142)
Total realized investment gains (losses)	\$ (135)	\$ (430)	\$ (151)

<sup>(1)</sup> Includes impairments of \$22 in 2017

The unrealized holding gains, net of losses, recorded as a component of realized investment gains and losses for the year ended December 31, 2019, that relates to equity securities still held at the December 31, 2019, reporting date was \$64 million.

### Unrealized Investment Gains and Losses

Information regarding changes in unrealized gains and losses from investments recorded in AOCI for the years ended December 31 follows:

(In millions)	2019	2018	2017
<b>Changes in unrealized gains (losses):</b>			
Fixed maturity securities, available for sale	\$ 5,852	\$ (3,142)	\$ 1,657
Equity securities	0	0	71
Total change in unrealized gains (losses)	\$ 5,852	\$ (3,142)	\$ 1,728

### Effect on Shareholders' Equity

The net effect on shareholders' equity of unrealized gains and losses from fixed maturity securities at December 31 was as follows:

(In millions)	2019	2018
Unrealized gains (losses) on securities available for sale	\$ 11,891	\$ 6,039
Deferred income taxes	(3,343)	(1,805)
Shareholders' equity, unrealized gains (losses) on fixed maturity securities	\$ 8,548	\$ 4,234

### Gross Unrealized Loss Aging

The following tables show the fair values and gross unrealized losses of the Company's available-for-sale and held-to-maturity investments that were in an unrealized loss position, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31.

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2019						
(In millions)	Total		Less than 12 months		12 months or longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Fixed maturity securities:</b>						
Municipalities:						
Yen-denominated	\$ 80	\$ 3	\$ 80	\$ 3	\$ 0	\$ 0
Public utilities:						
U.S. dollar-denominated	306	10	69	2	237	8
Banks/financial institutions:						
U.S. dollar-denominated	79	4	18	0	61	4
Yen-denominated	1,828	89	1,828	89	0	0
Other corporate:						
U.S. dollar-denominated	4,261	248	792	53	3,469	195
Yen-denominated	636	31	636	31	0	0
Total	\$ 7,190	\$ 385	\$ 3,423	\$ 178	\$ 3,767	\$ 207

2018						
(In millions)	Total		Less than 12 months		12 months or longer	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>Fixed maturity securities:</b>						
U.S. government and agencies:						
U.S. dollar-denominated	\$ 67	\$ 1	\$ 67	\$ 1	\$ 0	\$ 0
Japan government and agencies:						
Yen-denominated	3,604	140	3,604	140	0	0
Municipalities:						
U.S. dollar-denominated	515	8	515	8	0	0
Yen-denominated	148	9	148	9	0	0
Mortgage- and asset-backed securities:						
U.S. dollar-denominated	74	1	74	1	0	0
Public utilities:						
U.S. dollar-denominated	1,585	105	892	48	693	57
Yen-denominated	604	12	604	12	0	0
Banks/financial institutions:						
U.S. dollar-denominated	625	35	340	19	285	16
Yen-denominated	3,057	258	3,057	258	0	0
Other corporate:						
U.S. dollar-denominated	12,899	1,109	5,782	407	7,117	702
Yen-denominated	1,306	82	1,306	82	0	0
Total	\$ 24,484	\$ 1,760	\$ 16,389	\$ 985	\$ 8,095	\$ 775

[Analysis of Securities in Unrealized Loss Positions](#)

The unrealized losses on the Company's fixed maturity securities investments have been primarily related to general market changes in interest rates, foreign exchange rates, and/or the levels of credit spreads rather than specific concerns with the issuer's ability to pay interest and repay principal.



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For any significant declines in fair value of its fixed maturity securities, the Company performs a more focused review of the related issuers' credit profile. For corporate issuers, the Company evaluates their assets, business profile including industry dynamics and competitive positioning, financial statements and other available financial data. For non-corporate issuers, the Company analyzes all sources of credit support, including issuer-specific factors. The Company utilizes information available in the public domain and, for certain private placement issuers, from consultations with the issuers directly. The Company also considers ratings from Nationally Recognized Statistical Rating Organizations (NRSROs), as well as the specific characteristics of the security it owns including seniority in the issuer's capital structure, covenant protections, or other relevant features. From these reviews, the Company evaluates the issuers' continued ability to service the Company's investment through payment of interest and principal.

Assuming no credit-related factors develop, unrealized gains and losses on fixed maturity securities are expected to diminish as investments near maturity. Based on its credit analysis, the Company believes that the issuers of its fixed maturity investments in the sectors shown in the table above have the ability to service their obligations to the Company.

### Commercial Mortgage and Other Loans

The Company classifies its TREs, CMLs and MMLs as held-for-investment and includes them in the commercial mortgage and other loans line on the consolidated balance sheets. The Company carries them on the balance sheet at amortized cost less an estimated allowance for loan losses.

The table below reflects the composition of the carrying value for commercial mortgage and other loans by property type as of December 31.

(In millions)	2019		2018	
	Amortized Cost	% of Total	Amortized Cost	% of Total
<b>Commercial Mortgage and other loans</b>				
<b>Transitional real estate loans:</b>				
Office	\$ 1,800	18.7%	\$ 1,621	23.3%
Retail	131	1.4	147	2.1
Apartments/Multi-Family	2,085	21.7	1,706	24.6
Industrial	256	2.7	250	3.6
Hospitality	1,036	10.8	531	7.6
Other	164	1.7	139	2.0
<b>Total transitional real estate loans</b>	<b>5,472</b>	<b>57.0</b>	<b>4,394</b>	<b>63.2</b>
<b>Commercial mortgage loans:</b>				
Office	410	4.3	281	4.1
Retail	348	3.5	316	4.6
Apartments/Multi-Family	569	5.9	369	5.3
Industrial	383	4.0	99	1.4
<b>Total commercial mortgage loans</b>	<b>1,710</b>	<b>17.7</b>	<b>1,065</b>	<b>15.4</b>
<b>Middle market loans</b>	<b>2,432</b>	<b>25.3</b>	<b>1,487</b>	<b>21.4</b>
<b>Total commercial mortgage and other loans</b>	<b>\$ 9,614</b>	<b>100.0%</b>	<b>\$ 6,946</b>	<b>100.0%</b>
<b>Allowance for Loan Losses</b>	<b>(45)</b>		<b>(27)</b>	
<b>Total net commercial mortgage and other loans</b>	<b>\$ 9,569</b>		<b>\$ 6,919</b>	

Commercial mortgage and transitional real estate loans were secured by properties entirely within the U.S. (with the largest concentrations in California (20%), Texas (15%) and Florida (10%)). Middle market loans are issued only to companies domiciled within the U.S. and Canada.

*Transitional Real Estate Loans*

Transitional real estate loans are commercial mortgage loans that are typically relatively short-term floating rate instruments secured by a first lien on the property. These loans provide funding for properties undergoing a change in their physical characteristics and/or economic profile and do not typically require any principal repayment prior to the maturity date. This loan portfolio is generally considered to be investment grade. As of December 31, 2019, the Company had \$875 million in outstanding commitments to fund transitional real estate loans. These commitments are contingent on the final underwriting and due diligence to be performed.

*Commercial Mortgage Loans*

Commercial mortgage loans are typically fixed rate loans on commercial real estate with partial repayment of principal over the life of the loan with the remaining outstanding principal being repaid upon maturity. This loan portfolio is generally considered higher quality investment grade loans. As of December 31, 2019, the Company had \$27 million of outstanding commitments to fund commercial mortgage loans. These commitments are contingent on the final underwriting and due diligence to be performed.

*Middle Market Loans*

Middle market loans are typically first lien senior secured cash flow loans to small to mid-size companies for working capital, refinancing, acquisition, and recapitalization. These loans are generally considered to be below investment grade. The carrying value for middle market loans included \$99 million and \$56 million for a short term credit facility that is reflected in other liabilities on the consolidated balance sheets, as of December 31, 2019, and 2018, respectively.

As of December 31, 2019, the Company had commitments of approximately \$502 million to fund potential future loan originations related to this investment program. These commitments are contingent upon the availability of middle market loans that meet the Company's underwriting criteria.

*Allowance for Loan Losses*

The Company's allowance for loan losses is established using both general and specific allowances. The general allowance is used for loans grouped by similar risk characteristics where a loan-specific or market-specific risk has not been identified, but for which the Company estimates probable incurred losses. The specific allowance is used on an individual loan basis when it is probable that a loss has been incurred. As of December 31, 2019, the Company had loan loss reserves of \$6 million related to two specific middle market loans. There was no specific loan loss reserve as of December 31, 2018. The following table presents the rollforward of the Company's allowance for loan losses by portfolio segment during the year ended December 31.

(In millions)	<b>Commercial Mortgage Loans</b>	<b>Transitional Real Estate Loans</b>	<b>Middle Market Loans</b>	<b>Total</b>
Allowance for loan losses at December 31, 2018	\$ (1)	\$ (17)	\$ (9)	\$ (27)
Addition to (release of) allowance for credit losses	(2)	(5)	(11)	(18)
Allowance for loan losses at December 31, 2019	\$ (3)	\$ (22)	\$ (20)	\$ (45)

As of December 31, 2019 and 2018, the Company had no loans that were past due in regards to principal and/or interest payments. Additionally, the Company held no loans that were on nonaccrual status or considered impaired as of December 31, 2019 and 2018. The Company had no troubled debt restructurings during the years ended December 31, 2019 and 2018.

*Credit Quality Indicators*

The key credit quality indicators used by the Company in establishing the general and specific loan loss reserves, as well as in determining whether or not a loan should be impaired, include loan-to-value and debt service coverage ratios for CMLs and TREs and ratings for its middle market loan portfolio. Given that transitional real estate loans involve properties undergoing renovation or construction, loan-to-value provides the most insight on the credit risk of the property. Middle market loans generally have below-investment-grade ratings. The performance of the loans are monitored and reviewed periodically, but not less than quarterly.

The table below summarizes key credit quality information by carrying value for CMLs and TREs as of December 31.

(In millions)	2019		
	Transitional Real Estate Loans	Commercial Mortgage Loans	Total
<b>Loan-to-Value Ratio:</b>			
0%-59.99%	\$ 1,424	\$ 1,390	\$ 2,814
60%-69.99%	1,927	297	2,224
70%-79.99%	2,085	23	2,108
80% or greater	36	0	36
<b>Total</b>	<b>\$ 5,472</b>	<b>\$ 1,710</b>	<b>\$ 7,182</b>
Weighted Average Debt-Service Coverage Ratio	2.38		

(In millions)	2018		
	Transitional Real Estate Loans	Commercial Mortgage Loans	Total
<b>Loan-to-Value Ratio:</b>			
0%-59.99%	\$ 819	\$ 877	\$ 1,696
60%-69.99%	1,681	165	1,846
70%-79.99%	1,558	23	1,581
80% or greater	336	0	336
<b>Total</b>	<b>\$ 4,394</b>	<b>\$ 1,065</b>	<b>\$ 5,459</b>
Weighted Average Debt-Service Coverage Ratio	2.45		

### Other Investments

The table below reflects the composition of the carrying value for other investments as of December 31.

(In millions)	2019	2018
<b>Other investments:</b>		
Policy loans	\$ 250	\$ 232
Short-term investments <sup>(1)</sup>	628	152
Limited partnerships	569	377
Other	30	26
Total other investments	\$ 1,477	\$ 787

<sup>(1)</sup> Includes securities lending collateral

As of December 31, 2019, the Company had \$1.3 billion in outstanding commitments to fund alternative investments in limited partnerships.

### Variable Interest Entities (VIEs)

As a condition of its involvement or investment in a VIE, the Company enters into certain protective rights and covenants that preclude changes in the structure of the VIE that would alter the creditworthiness of the Company's investment or its beneficial interest in the VIE.

For those VIEs other than certain unit trust structures, the Company's involvement is passive in nature. The Company has not, nor has it been, required to purchase any securities issued in the future by these VIEs.

The Company's ownership interest in VIEs is limited to holding the obligations issued by them. The Company has no direct or contingent obligations to fund the limited activities of these VIEs, nor does it have any direct or indirect financial guarantees related to the limited activities of these VIEs. The Company has not provided any assistance or any other type of financing support to any of the VIEs it invests in, nor does it have any intention to do so in the future. For those VIEs in

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which the Company holds debt obligations, the weighted-average lives of the Company's notes are very similar to the underlying collateral held by these VIEs where applicable.

The Company's risk of loss related to its interests in any of its VIEs is limited to the carrying value of the related investments held in the VIE.

[VIEs - Consolidated](#)

The following table presents the cost or amortized cost, fair value and balance sheet caption in which the assets and liabilities of consolidated VIEs are reported as of December 31.

**Investments in Consolidated Variable Interest Entities**

(In millions)	2019		2018	
	Cost or Amortized Cost	Fair Value	Cost or Amortized Cost	Fair Value
<b>Assets:</b>				
Fixed maturity securities, available for sale	\$ 3,308	\$ 4,312	\$ 3,849	\$ 4,466
Equity securities	0	0	160	160
Commercial mortgage and other loans	7,956	8,015	5,528	5,506
Other investments <sup>(1)</sup>	494	494	328	328
Other assets <sup>(2)</sup>	169	169	182	182
Total assets of consolidated VIEs	\$ 11,927	\$ 12,990	\$ 10,047	\$ 10,642
<b>Liabilities:</b>				
Other liabilities <sup>(2)</sup>	\$ 126	\$ 126	\$ 102	\$ 102
Total liabilities of consolidated VIEs	\$ 126	\$ 126	\$ 102	\$ 102

<sup>(1)</sup> Consists entirely of alternative investments in limited partnerships

<sup>(2)</sup> Consists entirely of derivatives

The Company is substantively the only investor in the consolidated VIEs listed in the table above. As the sole investor in these VIEs, the Company has the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and is therefore considered to be the primary beneficiary of the VIEs that it consolidates. The Company also participates in substantially all of the variability created by these VIEs. The activities of these VIEs are limited to holding invested assets and foreign currency swaps, as appropriate, and utilizing the cash flows from these securities to service its investment. Neither the Company nor any of its creditors are able to obtain the underlying collateral of the VIEs unless there is an event of default or other specified event. For those VIEs that contain a swap, the Company is not a direct counterparty to the swap contracts and has no control over them. The Company's loss exposure to these VIEs is limited to its original investment. The Company's consolidated VIEs do not rely on outside or ongoing sources of funding to support their activities beyond the underlying collateral and swap contracts, if applicable. With the exception of its investment in unit trust structures, the underlying collateral assets and funding of the Company's consolidated VIEs are generally static in nature.

[Investments in Unit Trust Structures](#)

The Company also utilizes unit trust structures in its Aflac Japan segment to invest in various asset classes. As the sole investor of these VIEs, the Company is required to consolidate these trusts under U.S. GAAP.

[VIEs - Not Consolidated](#)

The table below reflects the amortized cost, fair value and balance sheet caption in which the Company's investment in VIEs not consolidated are reported as of December 31.



## Investments in Variable Interest Entities Not Consolidated

(In millions)	2019		2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<b>Assets:</b>				
Fixed maturity securities, available for sale	\$ 4,129	\$ 4,884	\$ 4,575	\$ 4,982
Fixed maturity securities, held to maturity	1,848	2,236	2,007	2,254
Other investments <sup>(1)</sup>	75	74	49	49
<b>Total investments in VIEs not consolidated</b>	<b>\$ 6,052</b>	<b>\$ 7,194</b>	<b>\$ 6,631</b>	<b>\$ 7,285</b>

<sup>(1)</sup> Consists entirely of alternative investments in limited partnerships

The Company holds alternative investments in limited partnerships that have been determined to be VIEs. These partnerships invest in private equity and structured investments. The Company's maximum exposure to loss on these investments is limited to the amount of its investment. The Company is not the primary beneficiary of these VIEs and is therefore not required to consolidate them. The Company classifies these investments as Other investments in the consolidated balance sheets.

Certain investments in VIEs that the Company is not required to consolidate are investments that are in the form of debt obligations from the VIEs that are irrevocably and unconditionally guaranteed by their corporate parents or sponsors. These VIEs are the primary financing vehicles used by their corporate sponsors to raise financing in the capital markets. The variable interests created by these VIEs are principally or solely a result of the debt instruments issued by them. The Company does not have the power to direct the activities that most significantly impact the entity's economic performance, nor does it have the obligation to absorb losses of the entity or the right to receive benefits from the entity. As such, the Company is not the primary beneficiary of these VIEs and is therefore not required to consolidate them.

## Securities Lending and Pledged Securities

The Company lends fixed maturity and public equity securities to financial institutions in short-term security-lending transactions. These short-term security-lending arrangements increase investment income with minimal risk. The Company receives cash or other securities as collateral for such loans. The Company's security lending policy requires that the fair value of the securities received as collateral be 102% or more of the fair value of the loaned securities and that unrestricted cash received as collateral be 100% or more of the fair value of the loaned securities. The securities loaned continue to be carried as investment assets on the Company's balance sheet during the terms of the loans and are not reported as sales. For loans involving unrestricted cash or securities as collateral, the collateral is reported as an asset with a corresponding liability for the return of the collateral. For loans where the Company receives as collateral securities that the Company is not permitted to sell or repledge, the collateral is not reflected on the consolidated financial statements.

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Details of collateral by loaned security type and remaining maturity of the agreements as of December 31 were as follows:

<b>Securities Lending Transactions Accounted for as Secured Borrowings</b>				
<b>2019</b>				
<b>Remaining Contractual Maturity of the Agreements</b>				
(In millions)	<b>Overnight and Continuous<sup>(1)</sup></b>	<b>Up to 30 days</b>	<b>Greater than 90 days</b>	<b>Total</b>
<b>Securities lending transactions:</b>				
Fixed maturity securities:				
Japan government and agencies	\$ 0	\$ 1,013	\$ 4,759	\$ 5,772
Public utilities	35	0	0	35
Sovereign and supranational	2	0	0	2
Banks/financial institutions	48	0	0	48
Other corporate	778	0	0	778
Equity securities	0	0	0	0
<b>Total borrowings</b>	<b>\$ 863</b>	<b>\$ 1,013</b>	<b>\$ 4,759</b>	<b>\$ 6,635</b>
Gross amount of recognized liabilities for securities lending transactions				\$ 1,876
Amounts related to agreements not included in offsetting disclosure in Note 4				\$ 4,759

<sup>(1)</sup> The related loaned security, under the Company's Aflac U.S. securities lending program, can be returned to the Company at the transferee's discretion; therefore, they are classified as Overnight and Continuous.

<b>Securities Lending Transactions Accounted for as Secured Borrowings</b>				
<b>2018</b>				
<b>Remaining Contractual Maturity of the Agreements</b>				
(In millions)	<b>Overnight and Continuous<sup>(1)</sup></b>	<b>Up to 30 days</b>	<b>Greater than 90 days</b>	<b>Total</b>
<b>Securities lending transactions:</b>				
Fixed maturity securities:				
Japan government and agencies	\$ 0	\$ 387	1,190	\$ 1,577
Municipalities	5	0	0	5
Public utilities	27	0	0	27
Banks/financial institutions	74	0	0	74
Other corporate	549	0	0	549
Equity securities	10	0	0	10
<b>Total borrowings</b>	<b>\$ 665</b>	<b>\$ 387</b>	<b>\$ 1,190</b>	<b>\$ 2,242</b>
Gross amount of recognized liabilities for securities lending transactions				\$ 1,052
Amounts related to agreements not included in offsetting disclosure in Note 4				\$ 1,190

<sup>(1)</sup> The related loaned security, under the Company's Aflac U.S. securities lending program, can be returned to the Company at the transferee's discretion; therefore, they are classified as Overnight and Continuous.

The Company did not have any repurchase agreements or repurchase-to-maturity transactions outstanding as of December 31, 2019 and 2018, respectively.

Certain fixed maturity securities can be pledged as collateral as part of derivative transactions, or pledged to support state deposit requirements on certain investment programs. For additional information regarding pledged securities related to derivative transactions, see Note 4.

At December 31, 2019, debt securities with a fair value of \$18 million were on deposit with regulatory authorities in the U.S. (including U.S. territories). The Company retains ownership of all securities on deposit and receives the related investment income.

For general information regarding the Company's investment accounting policies, see Note 1.

#### 4. DERIVATIVE INSTRUMENTS

The Company's freestanding derivative financial instruments have historically consisted of:

- foreign currency forwards and options used in hedging foreign exchange risk on U.S. dollar-denominated investments in Aflac Japan's portfolio
- foreign currency forwards and options used to economically hedge certain portions of forecasted cash flows denominated in yen and hedge the Company's long term exposure to a weakening yen
- cross-currency interest rate swaps, also referred to as foreign currency swaps, associated with certain senior notes and subordinated debentures
- foreign currency swaps and, in prior periods, credit default swaps that are associated with investments in special-purpose entities, including VIEs where the Company is the primary beneficiary
- interest rate swaps used to economically hedge interest rate fluctuations in certain variable-rate investments
- interest rate swaptions used to hedge changes in the fair value associated with interest rate fluctuations for certain U.S. dollar-denominated available-for-sale fixed-maturity securities.

Some of the Company's derivatives are designated as cash flow hedges, fair value hedges or net investment hedges; however, other derivatives do not qualify for hedge accounting or the Company elects not to designate them as accounting hedges.

##### Derivative Types

Foreign currency forwards and options are executed for the Aflac Japan segment in order to hedge the currency risk on the carrying value of certain U.S. dollar-denominated investments. The average maturity of these forwards and options can change depending on factors such as market conditions and types of investments being held. In situations where the maturity of the forwards and options is shorter than the underlying investment being hedged, the Company may enter into new forwards and options near maturity of the existing derivative in order to continue hedging the underlying investment. In forward transactions, Aflac Japan agrees with another party to buy a fixed amount of yen and sell a corresponding amount of U.S. dollars at a specified future date. Aflac Japan also executes foreign currency option transactions in a collar strategy, where Aflac Japan agrees with another party to simultaneously purchase put options and sell call options. In the purchased put transactions, Aflac Japan obtains the option to buy a fixed amount of yen and sell a corresponding amount of U.S. dollars at a specified future date. In the sold call transaction, Aflac Japan agrees to sell a fixed amount of yen and buy a corresponding amount of U.S. dollars at a specified future date. The combination of purchasing the put option and selling the call option results in no net premium being paid (i.e. a costless or zero-cost collar). The foreign currency forwards and options are used in fair value hedging relationships to mitigate the foreign exchange risk associated with U.S. dollar-denominated investments supporting yen-denominated liabilities.

From time to time, the Company may also enter into foreign currency forwards and options to hedge the currency risk associated with the net investment in Aflac Japan. In these forward transactions, Aflac agrees with another party to buy a fixed amount of U.S. dollars and sell a corresponding amount of yen at a specified price at a specified future date. In the option transactions, the Company may use a combination of foreign currency options to protect expected future cash flows by simultaneously purchasing yen put options (options that protect against a weakening yen) and selling yen call options (options that limit participation in a strengthening yen). The combination of these two actions create a zero-cost collar.

The Company enters into foreign currency swaps pursuant to which it exchanges an initial principal amount in one currency for an initial principal amount of another currency, with an agreement to re-exchange the principal amounts at a future date. There may also be periodic exchanges of payments at specified intervals based on the agreed upon rates and notional amounts. Foreign currency swaps are used primarily in the consolidated VIEs in the Company's Aflac Japan portfolio to convert foreign-denominated cash flows to yen, the functional currency of Aflac Japan, in order to minimize cash flow fluctuations. The Company also uses foreign currency swaps to economically convert certain of its U.S. dollar-denominated senior note and subordinated debenture principal and interest obligations into yen-denominated obligations.

In order to reduce investment income volatility from its variable-rate investments, the Company enters into receive-fixed, pay-floating interest rate swaps. These derivatives are cleared and settled through a central clearinghouse.

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Swaptions are used to mitigate the adverse impact resulting from significant changes in the fair value of U.S. dollar-denominated available-for-sale securities due to fluctuation in interest rates. In a payer swaption, the Company pays a premium to obtain the right, but not the obligation, to enter into a swap contract where it will pay a fixed rate and receive a floating rate. Interest rate swaption collars are combinations of two swaption positions. In order to maximize the efficiency of the collars while minimizing cost, a collar strategy is used whereby the Company purchases a long payer swaption (the Company purchases an option that allows it to enter into a swap where the Company will pay the fixed rate and receive the floating rate of the swap) and sells a short receiver swaption (the Company sells an option that provides the counterparty with the right to enter into a swap where the Company will receive the fixed rate and pay the floating rate of the swap). The combination of purchasing the long payer swaption and selling the short receiver swaption results in no net premium being paid (i.e. a costless or zero-cost collar).

### Derivative Balance Sheet Classification

The table below summarizes the balance sheet classification of the Company's derivative fair value amounts, as well as the gross asset and liability fair value amounts, at December 31. The fair value amounts presented do not include income accruals. Derivative assets are included in "Other Assets," while derivative liabilities are included in "Other Liabilities" within the Company's Consolidated Balance Sheets. The notional amount of derivative contracts represents the basis upon which pay or receive amounts are calculated and are not reflective of exposure or credit risk.

(In millions)	2019			2018		
	Notional Amount	Asset Derivatives Fair Value	Liability Derivatives Fair Value	Notional Amount	Asset Derivatives Fair Value	Liability Derivatives Fair Value
<b>Hedge Designation/ Derivative Type</b>						
<b>Cash flow hedges:</b>						
Foreign currency swaps - VIE	\$ 75	\$ 0	\$ 8	\$ 75	\$ 1	\$ 4
<b>Total cash flow hedges</b>	<b>75</b>	<b>0</b>	<b>8</b>	<b>75</b>	<b>1</b>	<b>4</b>
<b>Fair value hedges:</b>						
Foreign currency forwards	964	0	38	2,086	0	34
Foreign currency options	11,573	0	5	9,070	3	1
Interest rate swaptions	243	0	0	500	0	1
<b>Total fair value hedges</b>	<b>12,780</b>	<b>0</b>	<b>43</b>	<b>11,656</b>	<b>3</b>	<b>36</b>
<b>Net investment hedge:</b>						
Foreign currency forwards	4,952	72	2	0	0	0
Foreign currency options	2,000	0	0	0	0	0
<b>Total net investment hedge</b>	<b>6,952</b>	<b>72</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Non-qualifying strategies:</b>						
Foreign currency swaps	2,800	72	78	2,800	103	129
Foreign currency swaps - VIE	2,587	169	118	2,587	181	101
Foreign currency forwards	19,821	166	337	16,057	126	117
Foreign currency options	9,553	0	0	430	0	0
Interest rate swaps	7,120	3	0	4,750	3	0
Interest rate swaptions	7	0	0	0	0	0
<b>Total non-qualifying strategies</b>	<b>41,888</b>	<b>410</b>	<b>533</b>	<b>26,624</b>	<b>413</b>	<b>347</b>
<b>Total derivatives</b>	<b>\$ 61,695</b>	<b>\$ 482</b>	<b>\$ 586</b>	<b>\$ 38,355</b>	<b>\$ 417</b>	<b>\$ 387</b>

### Cash Flow Hedges

For certain variable-rate U.S. dollar-denominated available-for-sale securities held by Aflac Japan via consolidated VIEs, foreign currency swaps are used to swap the USD variable rate interest and principal payments to fixed rate JPY interest and principal payments. The Company has designated foreign currency swaps as a hedge of the variability in cash flows of a forecasted transaction or of amounts to be received or paid related to a recognized asset ("cash flow" hedge). The remaining maximum length of time for which these cash flows are hedged is seven years. The derivatives in the Company's consolidated VIEs that are not designated as accounting hedges are discussed in the "non-qualifying strategies" section of this note.

### Fair Value Hedges

The Company designates and accounts for certain foreign currency forwards, options, and interest rate swaptions as fair value hedges when they meet the requirements for hedge accounting. The Company recognizes gains and losses on these derivatives as well as the offsetting gain or loss on the related hedged items in current earnings.

Foreign currency forwards and options hedge the foreign currency exposure of certain U.S. dollar-denominated available-for-sale fixed-maturity investments held in Aflac Japan. The change in the fair value of the foreign currency forwards related to the changes in the difference between the spot rate and the forward price is excluded from the assessment of hedge effectiveness. The change in fair value of the foreign currency option related to the time value of the option is recognized in current earnings and is excluded from the assessment of hedge effectiveness.

Interest rate swaptions hedge the interest rate exposure of certain U.S. dollar-denominated available-for-sale securities held in Aflac Japan. For these hedging relationships, the Company excludes time value from the assessment of hedge effectiveness and recognizes changes in the intrinsic value of the swaptions in current earnings within net investment income. The change in the time value of the swaptions is recognized in other comprehensive income (loss) and amortized into earnings (net investment income) over its legal term.

The following table presents the gains and losses on derivatives and the related hedged items in fair value hedges for the years ended December 31.

## Fair Value Hedging Relationships

(In millions)		Hedging Derivatives			Hedged Items		Net Realized Gains (Losses) Recognized for Fair Value Hedge	
Hedging Derivatives	Hedged Items	Total Gains (Losses)	Gains (Losses) Excluded from Effectiveness Testing <sup>(1)</sup>	Gains (Losses) Included in Effectiveness Testing <sup>(2)</sup>	Gains (Losses) <sup>(2)</sup>			
<b>2019:</b>								
Foreign currency forwards	Fixed maturity securities	\$ (50)	\$ (64)	\$ 14	\$ (12)	\$	2	
Foreign currency options	Fixed maturity securities	(7)	(7)	0	0		0	
Interest rate swaptions	Fixed maturity securities	(9)	(9)	0	0		0	
Total gains (losses)		\$ (66)	\$ (80)	\$ 14	\$ (12)	\$	2	
<b>2018:</b>								
Foreign currency forwards	Fixed maturity securities	\$ 126	\$ (104)	\$ 230	\$ (242)	\$	(12)	
Foreign currency options	Fixed maturity securities	4	4	0	0		0	
Interest rate swaptions	Fixed maturity securities	(1)	(1)	0	0		0	
Total gains (losses)		\$ 129	\$ (101)	\$ 230	\$ (242)	\$	(12)	
<b>2017:</b>								
Foreign currency forwards	Fixed maturity and equity securities	\$ 98	\$ (202)	\$ 300	\$ (278)	\$	22	
Foreign currency options	Fixed maturity securities	21	10	11	(10)		1	
Total gains (losses)		\$ 119	\$ (192)	\$ 311	\$ (288)	\$	23	

<sup>(1)</sup> Gains (losses) excluded from effectiveness testing includes the forward point on foreign currency forwards and time value change on foreign currency options which are reported in the consolidated statement of earnings as realized investment gains (losses). It also includes the change in the fair value of the interest rate swaptions related to the time value of the swaptions which is recognized as a component of other comprehensive income (loss).

<sup>(2)</sup> Gains and losses on foreign currency forwards and options and related hedged items are reported in the consolidated statement of earnings as realized investment gains (losses). For interest rate swaptions and related hedged items, gains and losses included in the hedge assessment, premium amortization and time value amortization while the hedge items are still outstanding are reported within net investment income. The time value gains and losses for interest rate swaptions when the related hedged items are redeemed are reported in realized investment gains and losses consistent with the impact of the hedged item. For the years ended December 31, 2019 and 2018, gains and losses included in the hedge assessment on interest rate swaptions and related hedged items were immaterial.

The following table shows the carrying amounts of assets designated and qualifying as hedged items in fair value hedges of interest rate risk and the related cumulative hedge adjustment included in the carrying amount as of December 31.

(In millions)	Carrying Amount of the Hedged Assets/(Liabilities) <sup>(1)</sup>		Cumulative Amount of Fair Value Hedging Adjustment Included in the Carrying Amount of Hedged Assets/(Liabilities)	
	2019	2018	2019	2018
Fixed maturity securities	\$ 4,633	\$ 6,593	\$ 256	\$ 294

<sup>(1)</sup> The balance includes hedging adjustment on discontinued hedging relationships of \$256 in 2019 and \$294 in 2018. The total notional amount of the Company's interest rate swaptions was \$243 in 2019 and \$500 in 2018. The hedging adjustment related to these derivatives was immaterial.

## Net Investment Hedge

The Company's investment in Aflac Japan is affected by changes in the yen/dollar exchange rate. To mitigate this exposure, the Parent Company's yen-denominated liabilities (see Note 9) have been designated as non-derivative hedges.

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Beginning in July 2019, certain foreign currency forwards and options were designated as derivative hedges of the foreign currency exposure of the Company's net investment in Aflac Japan. Prior to April 1, 2018, foreign currency forwards and options were also designated as derivative hedges of the foreign currency exposure of the Company's net investment in Aflac Japan.

The Company's net investment hedge was effective during the years ended December 31, 2019, 2018 and 2017.

### **Non-qualifying Strategies**

For the Company's derivative instruments in consolidated VIEs that do not qualify for hedge accounting treatment, all changes in their fair value are reported in current period earnings within realized investment gains (losses). The amount of gain or loss recognized in earnings for the Company's VIEs is attributable to the derivatives in those investment structures. While the change in value of the swaps is recorded through current period earnings, the change in value of the available-for-sale fixed maturity securities associated with these swaps is recorded through other comprehensive income.

As of December 31, 2019, the Parent Company had cross-currency interest rate swap agreements related to its \$350 million senior notes due February 2022, \$700 million senior notes due June 2023, \$750 million senior notes due November 2024 and \$450 million senior notes due March 2025. Changes in the values of these swaps are recorded through current period earnings. For additional information regarding these swaps, see Note 9.

The Company uses foreign exchange forwards and options to economically mitigate the currency risk of some of its U.S. dollar-denominated loan receivables held within the Aflac Japan segment. These arrangements are not designated as accounting hedges, as the foreign currency remeasurement of the loan receivables impacts current period earnings, and generally offsets gains and losses from foreign exchange forwards within realized investment gains (losses). The Company also has certain foreign exchange forwards on U.S. dollar-denominated AFS securities where hedge accounting is not being applied.

Prior to July 2019, in order to economically mitigate currency risk of future yen dividends from Aflac Japan while lowering consolidated hedge costs associated with Aflac Japan's U.S. dollar investment hedging, the Parent Company entered into offsetting hedge positions using foreign exchange forwards. This activity is reported in the Corporate and other segment. As of July 1, 2019, the Parent Company designates these foreign exchange forward contracts as accounting hedges of its net investment in Aflac Japan.

The Company uses interest rate swaps to economically convert the variable rate investment income to a fixed rate on certain variable-rate investments.



## Impact of Derivatives and Hedging Instruments

The following table summarizes the impact to realized investment gains (losses) and other comprehensive income (loss) from all derivatives and hedging instruments for the years ended December 31.

(In millions)	2019			2018			2017		
	Net Investment Income <sup>(1)</sup>	Realized Investment Gains (Losses)	Other Comprehensive Income (Loss) <sup>(2)</sup>	Net Investment Income <sup>(1)</sup>	Realized Investment Gains (Losses)	Other Comprehensive Income (Loss) <sup>(2)</sup>	Net Investment Income <sup>(1)</sup>	Realized Investment Gains (Losses)	Other Comprehensive Income (Loss) <sup>(2)</sup>
<b>Qualifying hedges:</b>									
<b>Cash flow hedges:</b>									
Foreign currency swaps - VIE	\$ (2)	\$ (1)	\$ (4)	\$ 0	\$ 0	\$ 3	\$ 0	\$ 0	\$ 1
<b>Total cash flow hedges</b>	<b>(2)</b>	<b>(1)</b> <sup>(3)</sup>	<b>(4)</b>	<b>0</b>	<b>0</b> <sup>(3)</sup>	<b>3</b>	<b>0</b>	<b>0</b> <sup>(3)</sup>	<b>1</b>
<b>Fair value hedges:</b>									
Foreign currency forwards <sup>(3)</sup>		(62)			(116)			(180)	
Foreign currency options <sup>(3)</sup>		(7)			4			11	
Interest rate swaptions <sup>(3)</sup>	(1)	0	(8)	0	0	(1)	0	0	0
<b>Total fair value hedges</b>	<b>(1)</b>	<b>(69)</b>	<b>(8)</b>	<b>0</b>	<b>(112)</b>	<b>(1)</b>	<b>0</b>	<b>(169)</b>	<b>0</b>
<b>Net investment hedge:</b>									
Non-derivative hedging instruments		0	(24)		0	(32)		0	(15)
Foreign currency forwards		10	83		0	0		0	(25)
Foreign currency options		(4)	0		0	(8)		0	5
<b>Total net investment hedge</b>		<b>6</b>	<b>59</b>		<b>0</b>	<b>(40)</b>		<b>0</b>	<b>(35)</b>
<b>Non-qualifying strategies:</b>									
Foreign currency swaps		90			(40)			9	
Foreign currency swaps - VIE		(68)			60			44	
Foreign currency forwards		(148)			(135)			8	
Credit default swaps		0			0			(1)	
Interest rate swaps		17			3			0	
<b>Total non-qualifying strategies</b>		<b>(110)</b>			<b>(112)</b>			<b>60</b>	
<b>Total</b>	<b>\$ (3)</b>	<b>\$ (174)</b>	<b>\$ 47</b>	<b>\$ 0</b>	<b>\$ (224)</b>	<b>\$ (38)</b>	<b>\$ 0</b>	<b>\$ (109)</b>	<b>\$ (34)</b>

<sup>(1)</sup> Cash flow hedge items and the change in the fair value of interest rate swaptions related to the time value of the swaptions in fair value hedges are recorded as unrealized gains (losses) on derivatives and net investment hedge items are recorded in the unrealized foreign currency translation gains (losses) line in the consolidated statement of comprehensive income (loss).

<sup>(2)</sup> Impact of cash flow hedges reported as realized investment gains (losses) includes an immaterial amount of gains or losses reclassified from accumulated other comprehensive income (loss) into earnings. It also includes an immaterial amount excluded from effectiveness testing during the years ended December 31, 2019, 2018 and 2017, respectively.

<sup>(3)</sup> Impact shown net of effect of hedged items (see Fair Value Hedges section of this Note 4 for further detail)

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As of December 31, 2019, deferred gains and losses on derivative instruments recorded in accumulated other comprehensive income that are expected to be reclassified to earnings during the next twelve months were immaterial.

### **Credit Risk Assumed through Derivatives**

For the foreign currency and credit default swaps associated with the Company's VIE investments for which it is the primary beneficiary, the Company bears the risk of loss due to counterparty default even though it is not a direct counterparty to those contracts.

The Company is a direct counterparty to the foreign currency swaps that it has entered into in connection with certain of its senior notes and subordinated debentures; foreign currency forwards; and foreign currency options, and therefore the Company is exposed to credit risk in the event of nonperformance by the counterparties in those contracts. The risk of counterparty default for the Company's foreign currency swaps, certain foreign currency forwards, and foreign currency options is mitigated by collateral posting requirements that counterparties to those transactions must meet.

As of December 31, 2019, all of the Company's derivative agreement counterparties were investment grade.

The Company engages in over-the-counter (OTC) bilateral derivative transactions directly with unaffiliated third parties under International Swaps and Derivatives Association, Inc. (ISDA) agreements and other documentation. Most of the ISDA agreements also include Credit Support Annexes (CSAs) provisions, which generally provide for two-way collateral postings at the first dollar of exposure. The Company mitigates the risk that counterparties to transactions might be unable to fulfill their contractual obligations by monitoring counterparty credit exposure and collateral value while generally requiring that collateral be posted at the outset of the transaction. In addition, a significant portion of the derivative transactions have provisions that give the counterparty the right to terminate the transaction upon a downgrade of Aflac's financial strength rating. The actual amount of payments that the Company could be required to make depends on market conditions, the fair value of outstanding affected transactions, and other factors prevailing at and after the time of the downgrade.

The Company also engages in OTC cleared derivative transactions through regulated central clearing counterparties. These positions are marked to market and margined on a daily basis (both initial margin and variation margin), and the Company has minimal exposure to credit-related losses in the event of nonperformance by counterparties to these derivatives.

Collateral posted by the Company to third parties for derivative transactions can generally be repledged or resold by the counterparties. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position by counterparty was approximately \$301 million and \$139 million as of December 31, 2019 and 2018, respectively. If the credit-risk-related contingent features underlying these agreements had been triggered on December 31, 2019, the Company estimates that it would be required to post a maximum of \$46 million of additional collateral to these derivative counterparties. The Company is generally allowed to sell or repledge collateral obtained from its derivative counterparties, although it does not typically exercise such rights. (See the Offsetting tables below for collateral posted or received as of the reported balance sheet dates.)

### **Offsetting of Financial Instruments and Derivatives**

Most of the Company's derivative instruments are subject to enforceable master netting arrangements that provide for the net settlement of all derivative contracts between the Parent Company or its subsidiaries and the respective counterparty in the event of default or upon the occurrence of certain termination events. Collateral support agreements with the master netting arrangements generally provide that the Company will receive or pledge financial collateral at the first dollar of exposure.

The Company has securities lending agreements with unaffiliated financial institutions that post collateral to the Company in return for the use of its fixed maturity and public equity securities (see Note 3). When the Company has entered into securities lending agreements with the same counterparty, the agreements generally provide for net settlement in the event of default by the counterparty. This right of set-off allows the Company to keep and apply collateral received if the counterparty failed to return the securities borrowed from the Company as contractually agreed. For additional information on the Company's accounting policy for securities lending, see Note 1.

The tables below summarize the Company's derivatives and securities lending transactions as of December 31, and as reflected in the tables, in accordance with U.S. GAAP, the Company's policy is to not offset these financial instruments in the Consolidated Balance Sheets.

## Offsetting of Financial Assets and Derivative Assets

2019							
(In millions)	Gross Amount of Recognized Assets	Gross Amount Offset in Balance Sheet	Net Amount of Assets Presented in Balance Sheet	Gross Amounts Not Offset in Balance Sheet			Net Amount
				Financial Instruments	Securities Collateral	Cash Collateral Received	
<b>Derivative assets:</b>							
Derivative assets subject to a master netting agreement or offsetting arrangement							
OTC - bilateral	\$ 310	\$ 0	\$ 310	\$ (190)	\$ (7)	\$ (113)	\$ 0
OTC - cleared	3	0	3	0	0	0	3
Total derivative assets subject to a master netting agreement or offsetting arrangement	313	0	313	(190)	(7)	(113)	3
Derivative assets not subject to a master netting agreement or offsetting arrangement							
OTC - bilateral	169		169				169
Total derivative assets not subject to a master netting agreement or offsetting arrangement	169		169				169
<b>Total derivative assets</b>	<b>482</b>	<b>0</b>	<b>482</b>	<b>(190)</b>	<b>(7)</b>	<b>(113)</b>	<b>172</b>
<b>Securities lending and similar arrangements</b>	<b>1,860</b>	<b>0</b>	<b>1,860</b>	<b>0</b>	<b>0</b>	<b>(1,860)</b>	<b>0</b>
<b>Total</b>	<b>\$ 2,342</b>	<b>\$ 0</b>	<b>\$ 2,342</b>	<b>\$ (190)</b>	<b>\$ (7)</b>	<b>\$ (1,973)</b>	<b>\$ 172</b>

2018

(In millions)	Gross Amount of Recognized Assets	Gross Amount Offset in Balance Sheet	Net Amount of Assets Presented in Balance Sheet	Gross Amounts Not Offset in Balance Sheet			Net Amount
				Financial Instruments	Securities Collateral	Cash Collateral Received	
<b>Derivative assets:</b>							
Derivative assets subject to a master netting agreement or offsetting arrangement							
OTC - bilateral	\$ 231	\$ 0	\$ 231	\$ (152)	\$ (23)	\$ (55)	\$ 1
OTC - cleared	3	0	3	0	0	(3)	0
Total derivative assets subject to a master netting agreement or offsetting arrangement	234	0	234	(152)	(23)	(58)	1
Derivative assets not subject to a master netting agreement or offsetting arrangement							
OTC - bilateral	183		183				183
Total derivative assets not subject to a master netting agreement or offsetting arrangement	183		183				183
<b>Total derivative assets</b>	<b>417</b>	<b>0</b>	<b>417</b>	<b>(152)</b>	<b>(23)</b>	<b>(58)</b>	<b>184</b>
<b>Securities lending and similar arrangements</b>	<b>1,029</b>	<b>0</b>	<b>1,029</b>	<b>0</b>	<b>0</b>	<b>(1,029)</b>	<b>0</b>
<b>Total</b>	<b>\$ 1,446</b>	<b>\$ 0</b>	<b>\$ 1,446</b>	<b>\$ (152)</b>	<b>\$ (23)</b>	<b>\$ (1,087)</b>	<b>\$ 184</b>

## Offsetting of Financial Liabilities and Derivative Liabilities

2019							
(In millions)	Gross Amount of Recognized Liabilities	Gross Amount Offset in Balance Sheet	Net Amount of Liabilities Presented in Balance Sheet	Gross Amounts Not Offset in Balance Sheet			Net Amount
				Financial Instruments	Securities Collateral	Cash Collateral Pledged	
<b>Derivative liabilities:</b>							
Derivative liabilities subject to a master netting agreement or offsetting arrangement							
OTC - bilateral	\$ 459	\$ 0	\$ 459	\$ (190)	\$ (222)	\$ (32)	\$ 15
OTC - cleared	1	0	1	0	0	(1)	0
Total derivative liabilities subject to a master netting agreement or offsetting arrangement	460	0	460	(190)	(222)	(33)	15
Derivative liabilities not subject to a master netting agreement or offsetting arrangement							
OTC - bilateral	126		126				126
Total derivative liabilities not subject to a master netting agreement or offsetting arrangement	126		126				126
<b>Total derivative liabilities</b>	<b>586</b>	<b>0</b>	<b>586</b>	<b>(190)</b>	<b>(222)</b>	<b>(33)</b>	<b>141</b>
<b>Securities lending and similar arrangements</b>	<b>1,876</b>	<b>0</b>	<b>1,876</b>	<b>(1,860)</b>	<b>0</b>	<b>0</b>	<b>16</b>
<b>Total</b>	<b>\$ 2,462</b>	<b>\$ 0</b>	<b>\$ 2,462</b>	<b>\$ (2,050)</b>	<b>\$ (222)</b>	<b>\$ (33)</b>	<b>\$ 157</b>

2018

(In millions)	Gross Amount of Recognized Liabilities	Gross Amount Offset in Balance Sheet	Net Amount of Liabilities Presented in Balance Sheet	Gross Amounts Not Offset in Balance Sheet			Net Amount
				Financial Instruments	Securities Collateral	Cash Collateral Pledged	
<b>Derivative liabilities:</b>							
Derivative liabilities subject to a master netting agreement or offsetting arrangement							
OTC - bilateral	\$ 285	\$ 0	\$ 285	\$ (152)	\$ (37)	\$ (68)	\$ 28
Total derivative liabilities subject to a master netting agreement or offsetting arrangement	285	0	285	(152)	(37)	(68)	28
Derivative liabilities not subject to a master netting agreement or offsetting arrangement							
OTC - bilateral	102		102				102
Total derivative liabilities not subject to a master netting agreement or offsetting arrangement	102		102				102
<b>Total derivative liabilities</b>	<b>387</b>	<b>0</b>	<b>387</b>	<b>(152)</b>	<b>(37)</b>	<b>(68)</b>	<b>130</b>
<b>Securities lending and similar arrangements</b>	<b>1,052</b>	<b>0</b>	<b>1,052</b>	<b>(1,029)</b>	<b>0</b>	<b>0</b>	<b>23</b>
<b>Total</b>	<b>\$ 1,439</b>	<b>\$ 0</b>	<b>\$ 1,439</b>	<b>\$ (1,181)</b>	<b>\$ (37)</b>	<b>\$ (68)</b>	<b>\$ 153</b>

For additional information on the Company's financial instruments, see the accompanying Notes 1, 3 and 5.

## 5. FAIR VALUE MEASUREMENTS

### Fair Value Hierarchy

U.S. GAAP specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. These two types of inputs create three valuation hierarchy levels. Level 1 valuations reflect quoted market prices for identical assets or liabilities in active markets. Level 2 valuations reflect quoted market prices for similar assets or liabilities in an active market, quoted market prices for identical or similar assets or liabilities in non-active markets or model-derived valuations in which all significant valuation inputs are observable in active markets. Level 3 valuations reflect valuations in which one or more of the significant inputs are not observable in an active market.

The following tables present the fair value hierarchy levels of the Company's assets and liabilities that are measured and carried at fair value on a recurring basis as of December 31.

2019				
(In millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<b>Assets:</b>				
Securities available for sale, carried at fair value:				
Fixed maturity securities:				
Government and agencies	\$ 34,878	\$ 1,522	\$ 0	\$ 36,400
Municipalities	0	1,847	0	1,847
Mortgage- and asset-backed securities	0	232	178	410
Public utilities	0	6,556	224	6,780
Sovereign and supranational	0	1,042	0	1,042
Banks/financial institutions	0	10,264	23	10,287
Other corporate	0	34,234	262	34,496
Total fixed maturity securities	34,878	55,697	687	91,262
Equity securities	642	80	80	802
Other investments	628	0	0	628
Cash and cash equivalents	4,896	0	0	4,896
Other assets:				
Foreign currency swaps	0	72	169	241
Foreign currency forwards	0	238	0	238
Interest rate swaps	0	3	0	3
Total other assets	0	313	169	482
Total assets	\$ 41,044	\$ 56,090	\$ 936	\$ 98,070
<b>Liabilities:</b>				
Other liabilities:				
Foreign currency swaps	\$ 0	\$ 78	\$ 126	\$ 204
Foreign currency forwards	0	377	0	377
Foreign currency options	0	5	0	5
Total liabilities	\$ 0	\$ 460	\$ 126	\$ 586



	2018			
(In millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<b>Assets:</b>				
Securities available for sale, carried at fair value:				
Fixed maturity securities:				
Government and agencies	\$ 32,993	\$ 1,349	\$ 0	\$ 34,342
Municipalities	0	1,863	0	1,863
Mortgage- and asset-backed securities	0	162	177	339
Public utilities	0	7,062	109	7,171
Sovereign and supranational	0	1,260	0	1,260
Banks/financial institutions	0	8,895	23	8,918
Other corporate	0	28,789	213	29,002
Total fixed maturity securities	32,993	49,380	522	82,895
Equity securities	874	67	46	987
Other investments	152	0	0	152
Cash and cash equivalents	4,337	0	0	4,337
Other assets:				
Foreign currency swaps	0	103	182	285
Foreign currency forwards	0	126	0	126
Foreign currency options	0	3	0	3
Interest rate swaps	0	3	0	3
Total other assets	0	235	182	417
Total assets	\$ 38,356	\$ 49,682	\$ 750	\$ 88,788
<b>Liabilities:</b>				
Other liabilities:				
Foreign currency swaps	\$ 0	\$ 132	\$ 102	\$ 234
Foreign currency forwards	0	151	0	151
Foreign currency options	0	1	0	1
Interest rate swaptions	0	1	0	1
Total liabilities	\$ 0	\$ 285	\$ 102	\$ 387

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The following tables present the carrying amount and fair value categorized by fair value hierarchy level for the Company's financial instruments that are not carried at fair value as of December 31.

	2019				
(In millions)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<b>Assets:</b>					
Securities held to maturity, carried at amortized cost:					
Fixed maturity securities:					
Government and agencies	\$ 22,241	\$ 27,937	\$ 354	\$ 0	\$ 28,291
Municipalities	821	0	1,083	0	1,083
Mortgage and asset-backed securities	16	0	7	10	17
Public utilities	2,535	0	2,954	0	2,954
Sovereign and supranational	1,123	0	1,320	0	1,320
Banks/financial institutions	916	0	1,018	0	1,018
Other corporate	2,433	0	2,911	0	2,911
Commercial mortgage and other loans	9,569	0	0	9,648	9,648
Other investments <sup>(1)</sup>	30	0	30	0	30
<b>Total assets</b>	<b>\$ 39,684</b>	<b>\$ 27,937</b>	<b>\$ 9,677</b>	<b>\$ 9,658</b>	<b>\$ 47,272</b>
<b>Liabilities:</b>					
Other policyholders' funds	\$ 7,317	\$ 0	\$ 0	\$ 7,234	\$ 7,234
Notes payable (excluding leases)	6,408	0	6,663	272	6,935
<b>Total liabilities</b>	<b>\$ 13,725</b>	<b>\$ 0</b>	<b>\$ 6,663</b>	<b>\$ 7,506</b>	<b>\$ 14,169</b>

<sup>(1)</sup> Excludes policy loans of \$250 and equity method investments of \$569, at carrying value

2018					
(In millions)	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<b>Assets:</b>					
Securities held to maturity, carried at amortized cost:					
Fixed maturity securities:					
Government and agencies	\$ 21,712	\$ 27,030	\$ 8	\$ 0	\$ 27,038
Municipalities	359	0	469	0	469
Mortgage and asset-backed securities	14	0	0	15	15
Public utilities	2,727	0	2,973	0	2,973
Sovereign and supranational	1,551	0	1,840	0	1,840
Banks/financial institutions	1,445	0	1,583	0	1,583
Other corporate	2,510	0	2,804	0	2,804
Commercial mortgage and other loans	6,919	0	0	6,893	6,893
Other investments <sup>(1)</sup>	26	0	26	0	26
<b>Total assets</b>	<b>\$ 37,263</b>	<b>\$ 27,030</b>	<b>\$ 9,703</b>	<b>\$ 6,908</b>	<b>\$ 43,641</b>
<b>Liabilities:</b>					
Other policyholders' funds	\$ 7,146	\$ 0	\$ 0	\$ 7,067	\$ 7,067
Notes payable (excluding leases)	5,765	0	5,606	270	5,876
<b>Total liabilities</b>	<b>\$ 12,911</b>	<b>\$ 0</b>	<b>\$ 5,606</b>	<b>\$ 7,337</b>	<b>\$ 12,943</b>

<sup>(1)</sup> Excludes policy loans of \$232 and equity method investments of \$377, at carrying value

## Fair Value of Financial Instruments

### Fixed maturity and equity securities

The Company determines the fair values of fixed maturity securities and public and privately-issued equity securities using the following approaches or techniques: price quotes and valuations from third party pricing vendors (including quoted market prices readily available from public exchange markets) and non-binding price quotes the Company obtains from outside brokers.

A third party pricing vendor has developed valuation models to determine fair values of privately issued securities to reflect the impact of the persistent economic environment and the changing regulatory framework. These models are discounted cash flow (DCF) valuation models, but also use information from related markets, specifically the CDS market to estimate expected cash flows. These models take into consideration any unique characteristics of the securities and make various adjustments to arrive at an appropriate issuer-specific loss adjusted credit curve. This credit curve is then used with the relevant recovery rates to estimate expected cash flows and modeling of additional features, including illiquidity adjustments, if necessary, to price the security by discounting those loss adjusted cash flows. In cases where a credit curve cannot be developed from the specific security features, the valuation methodology takes into consideration other market observable inputs, including:

- 1) the most appropriate comparable security(ies) of the issuer
- 2) issuer-specific CDS spreads
- 3) bonds or CDS spreads of comparable issuers with similar characteristics such as rating, geography, or sector
- 4) bond indices that are comparative in rating, industry, maturity and region.

The pricing data and market quotes the Company obtains from outside sources, including third party pricing services, are reviewed internally for reasonableness. If a fair value appears unreasonable, the Company will re-examine the inputs and assess the reasonableness of the pricing data with the vendor. Additionally, the Company may compare the inputs to

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relevant market indices and other performance measurements. Based on management's analysis, the valuation is confirmed or may be revised if there is evidence of a more appropriate estimate of fair value based on available market data. The Company has performed verification of the inputs and calculations in any valuation models to confirm that the valuations represent reasonable estimates of fair value.

The fixed maturity securities classified as Level 3 consist of securities with limited or no observable valuation inputs. For Level 3 securities, the Company estimates the fair value of these securities by obtaining non-binding broker quotes from a limited number of brokers. These brokers base their quotes on a combination of their knowledge of the current pricing environment and market conditions. The Company considers these inputs to be unobservable. The Company also considers a variety of significant valuation inputs in the valuation process, including forward exchange rates, yen swap rates, dollar swap rates, interest rate volatilities, credit spread data on specific issuers, assumed default and default recovery rates, and certain probability assumptions. In obtaining these valuation inputs, the Company has determined that certain pricing assumptions and data used by its pricing sources are difficult to validate or corroborate by the market and/or appear to be internally developed rather than observed in or corroborated by the market. The use of these unobservable valuation inputs causes more subjectivity in the valuation process for these securities.

For the periods presented, the Company has not adjusted the quotes or prices it obtains from the pricing services and brokers it uses.

The following tables present the pricing sources for the fair values of the Company's fixed maturity and equity securities as of December 31.

2019				
(In millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<b>Securities available for sale, carried at fair value:</b>				
<b>Fixed maturity securities:</b>				
Government and agencies:				
Third party pricing vendor	\$ 34,878	\$ 1,522	\$ 0	\$ 36,400
Total government and agencies	34,878	1,522	0	36,400
Municipalities:				
Third party pricing vendor	0	1,847	0	1,847
Total municipalities	0	1,847	0	1,847
Mortgage- and asset-backed securities:				
Third party pricing vendor	0	232	0	232
Broker/other	0	0	178	178
Total mortgage- and asset-backed securities	0	232	178	410
Public utilities:				
Third party pricing vendor	0	6,556	0	6,556
Broker/other	0	0	224	224
Total public utilities	0	6,556	224	6,780
Sovereign and supranational:				
Third party pricing vendor	0	1,042	0	1,042
Total sovereign and supranational	0	1,042	0	1,042
Banks/financial institutions:				
Third party pricing vendor	0	10,264	0	10,264
Broker/other	0	0	23	23
Total banks/financial institutions	0	10,264	23	10,287
Other corporate:				
Third party pricing vendor	0	34,234	0	34,234
Broker/other	0	0	262	262
Total other corporate	0	34,234	262	34,496
Total securities available for sale	\$ 34,878	\$ 55,697	\$ 687	\$ 91,262
<b>Equity securities, carried at fair value:</b>				
Third party pricing vendor	\$ 642	\$ 80	\$ 0	\$ 722
Broker/other	0	0	80	80
Total equity securities	\$ 642	\$ 80	\$ 80	\$ 802

2019				
(In millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<b>Securities held to maturity, carried at amortized cost:</b>				
<b>Fixed maturity securities:</b>				
Government and agencies:				
Third party pricing vendor	\$ 27,937	\$ 354	\$ 0	\$ 28,291
Total government and agencies	27,937	354	0	28,291
Municipalities:				
Third party pricing vendor	0	1,083	0	1,083
Total municipalities	0	1,083	0	1,083
Mortgage- and asset-backed securities:				
Third party pricing vendor	0	7	0	7
Broker/other	0	0	10	10
Total mortgage- and asset-backed securities	0	7	10	17
Public utilities:				
Third party pricing vendor	0	2,954	0	2,954
Total public utilities	0	2,954	0	2,954
Sovereign and supranational:				
Third party pricing vendor	0	1,320	0	1,320
Total sovereign and supranational	0	1,320	0	1,320
Banks/financial institutions:				
Third party pricing vendor	0	1,018	0	1,018
Total banks/financial institutions	0	1,018	0	1,018
Other corporate:				
Third party pricing vendor	0	2,911	0	2,911
Total other corporate	0	2,911	0	2,911
Total securities held to maturity	\$ 27,937	\$ 9,647	\$ 10	\$ 37,594

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2018				
(In millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<b>Securities available for sale, carried at fair value:</b>				
Fixed maturity securities:				
Government and agencies:				
Third party pricing vendor	\$ 32,993	\$ 1,349	\$ 0	\$ 34,342
Total government and agencies	32,993	1,349	0	34,342
Municipalities:				
Third party pricing vendor	0	1,863	0	1,863
Total municipalities	0	1,863	0	1,863
Mortgage- and asset-backed securities:				
Third party pricing vendor	0	162	0	162
Broker/other	0	0	177	177
Total mortgage- and asset-backed securities	0	162	177	339
Public utilities:				
Third party pricing vendor	0	7,062	0	7,062
Broker/other	0	0	109	109
Total public utilities	0	7,062	109	7,171
Sovereign and supranational:				
Third party pricing vendor	0	1,260	0	1,260
Total sovereign and supranational	0	1,260	0	1,260
Banks/financial institutions:				
Third party pricing vendor	0	8,895	0	8,895
Broker/other	0	0	23	23
Total banks/financial institutions	0	8,895	23	8,918
Other corporate:				
Third party pricing vendor	0	28,789	0	28,789
Broker/other	0	0	213	213
Total other corporate	0	28,789	213	29,002
Total securities available for sale	\$ 32,993	\$ 49,380	\$ 522	\$ 82,895
<b>Equity securities, carried at fair value:</b>				
Third party pricing vendor	\$ 874	\$ 67	\$ 0	\$ 941
Broker/other	0	0	46	46
Total equity securities	\$ 874	\$ 67	\$ 46	\$ 987

2018				
(In millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
<b>Securities held to maturity, carried at amortized cost:</b>				
<b>Fixed maturity securities:</b>				
Government and agencies:				
Third party pricing vendor	\$ 27,030	\$ 8	\$ 0	\$ 27,038
Total government and agencies	27,030	8	0	27,038
Municipalities:				
Third party pricing vendor	0	469	0	469
Total municipalities	0	469	0	469
Mortgage- and asset-backed securities:				
Broker/other	0	0	15	15
Total mortgage- and asset-backed securities	0	0	15	15
Public utilities:				
Third party pricing vendor	0	2,973	0	2,973
Total public utilities	0	2,973	0	2,973
Sovereign and supranational:				
Third party pricing vendor	0	1,840	0	1,840
Total sovereign and supranational	0	1,840	0	1,840
Banks/financial institutions:				
Third party pricing vendor	0	1,583	0	1,583
Total banks/financial institutions	0	1,583	0	1,583
Other corporate:				
Third party pricing vendor	0	2,804	0	2,804
Total other corporate	0	2,804	0	2,804
Total securities held to maturity	\$ 27,030	\$ 9,677	\$ 15	\$ 36,722

The following is a discussion of the determination of fair value of the Company's remaining financial instruments.

### Derivatives

The Company uses derivative instruments to manage the risk associated with certain assets. However, the derivative instrument may not be classified in the same fair value hierarchy level as the associated asset. The Company uses pricing models to determine the estimated fair value of derivatives. Inputs used to value derivatives include, but are not limited to, interest rates, credit spreads, foreign currency forward and spot rates, and interest volatility. The significant inputs to pricing derivatives are generally observable in the market or can be derived by observable market data. When these inputs are observable, the derivatives are classified as Level 2.

The fair values of the foreign currency forwards and options are based on observable market inputs, therefore they are classified as Level 2.

To determine the fair value of its interest rate derivatives, the Company uses inputs that are generally observable in the market or can be derived from observable market data. Interest rate swaps are cleared trades. In a cleared swap contract the clearinghouse provides benefits to the counterparties similar to contracts listed for investment traded on an exchange since it maintains a daily margin to mitigate counterparties credit risk. These derivatives are priced using observable inputs, accordingly, they are classified as Level 2. For its interest rate swaptions, the Company estimates their fair values using observable market data, including interest rate curves and volatilities. Their fair values are also classified as Level 2.

For derivatives associated with VIEs where the Company is the primary beneficiary, the Company is not the direct counterparty to the swap contracts. As a result, the fair value measurements incorporate the credit risk of the collateral associated with the VIE. The Company receives valuations from a third party pricing vendor for these derivatives. Based on



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an analysis of these derivatives and a review of the methodology employed by the pricing vendor, the Company determined that due to the long duration of these swaps and the need to extrapolate from short-term observable data to derive and measure long-term inputs, certain inputs, assumptions and judgments are required to value future cash flows that cannot be corroborated by current inputs or current observable market data. As a result, the derivatives associated with the Company's consolidated VIEs are classified as Level 3 of the fair value hierarchy.

### *Commercial mortgage and other loans*

Commercial mortgage and other loans include transitional real estate loans, commercial mortgage loans and middle market loans. The Company's loan receivables do not have readily determinable market prices and generally lack market liquidity. Fair values for loan receivables are determined based on the present value of expected future cash flows discounted at the applicable U.S. Treasury or London Interbank Offered Rate (LIBOR) yield plus an appropriate spread that considers other risk factors, such as credit and liquidity risk. These spreads are provided by the applicable asset managers based on their knowledge of the current loan pricing environment and market conditions. The spreads are a significant component of the pricing inputs and are generally considered unobservable. Therefore, these investments have been assigned a Level 3 within the fair value hierarchy.

### *Other investments*

Other investments includes short-term investments that are measured at fair value where amortized cost approximates fair value.

### *Other policyholders' funds*

The largest component of the other policyholders' funds liability is the Company's annuity line of business in Aflac Japan. The Company's annuities have fixed benefits and premiums. For this product, the Company estimates the fair value to be equal to the cash surrender value. This is analogous to the value paid to policyholders on the valuation date if they were to surrender their policy. The Company periodically checks the cash value against discounted cash flow projections for reasonableness. The Company considers its inputs for this valuation to be unobservable and have accordingly classified this valuation as Level 3.

### *Notes payable*

The fair values of the Company's publicly issued notes payable are determined by utilizing available sources of observable inputs from third party pricing vendors and are classified as Level 2. The fair values of the Company's yen-denominated loans approximate their carrying values and are classified as Level 3.

## **Transfers between Hierarchy Levels and Level 3 Rollforward**

There were no transfers between Level 1 and 2 for assets and liabilities that are measured and carried at fair value on a recurring basis for the years ended December 31, 2019 and 2018, respectively.

The following tables present the changes in fair value of the Company's investments and derivatives carried at fair value classified as Level 3 as of December 31.

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2019									
(In millions)	Fixed Maturity Securities				Equity Securities	Derivatives <sup>(1)</sup>			Total
	Mortgage- and Asset-Backed Securities	Public Utilities	Banks/ Financial Institutions	Other Corporate		Foreign Currency Swaps	Credit Default Swaps		
Balance, beginning of period	\$ 177	\$ 109	\$ 23	\$ 213	\$ 46	\$ 80	\$ 0	\$ 648	
Realized investment gains (losses) included in earnings	0	0	0	(1)	0	(33)	0	(34)	
Unrealized gains (losses) included in other comprehensive income (loss)	1	6	1	8	0	(4)	0	12	
Purchases, issuances, sales and settlements:									
Purchases	0	48	0	165	34	0	0	247	
Issuances	0	0	0	0	0	0	0	0	
Sales	0	(24)	0	(17)	0	0	0	(41)	
Settlements	0	(6)	0	0	0	0	0	(6)	
Transfers into Level 3	0	116 <sup>(2)</sup>	0	26 <sup>(2)</sup>	0	0	0	142	
Transfers out of Level 3	0	(25) <sup>(2)</sup>	(1)	(132) <sup>(2), (3)</sup>	0	0	0	(158)	
Balance, end of period	\$ 178	\$ 224	\$ 23	\$ 262	\$ 80	\$ 43	\$ 0	\$ 810	
Changes in unrealized gains (losses) relating to Level 3 assets and liabilities still held at the end of the period included in earnings	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ (33)	\$ 0	\$ (33)	

<sup>(1)</sup> Derivative assets and liabilities are presented net

<sup>(2)</sup> Transfer due to sector classification change

<sup>(3)</sup> Transfer due to availability of observable market inputs

2018									
(In millions)	Fixed Maturity Securities				Equity Securities	Derivatives <sup>(1)</sup>			Total
	Mortgage- and Asset-Backed Securities	Public Utilities	Banks/ Financial Institutions	Other Corporate		Foreign Currency Swaps	Credit Default Swaps		
Balance, beginning of period	\$ 175	\$ 68	\$ 25	\$ 146	\$ 16	\$ 22	\$ 1	\$ 453	
Realized investment gains (losses) included in earnings	0	0	0	0	(1)	54	(1)	52	
Unrealized gains (losses) included in other comprehensive income (loss)	2	1	(2)	1	0	4	0	6	
Purchases, issuances, sales and settlements:									
Purchases	0	40	0	56	31	0	0	127	
Issuances	0	0	0	0	0	0	0	0	
Sales	0	0	0	0	0	0	0	0	
Settlements	0	0	0	(6)	0	0	0	(6)	
Transfers into Level 3	0	0	0	16	0	0	0	16	
Transfers out of Level 3	0	0	0	0	0	0	0	0	
Balance, end of period	\$ 177	\$ 109	\$ 23	\$ 213	\$ 46	\$ 80	\$ 0	\$ 648	
Changes in unrealized gains (losses) relating to Level 3 assets and liabilities still held at the end of the period included in earnings	\$ 0	\$ 0	\$ 0	\$ 0	\$ (1)	\$ 54	\$ (1)	\$ 52	

<sup>(1)</sup> Derivative assets and liabilities are presented net

## Fair Value Sensitivity

## Level 3 Significant Unobservable Input Sensitivity

The following tables summarize the significant unobservable inputs used in the valuation of the Company's Level 3 investments and derivatives carried at fair value as of December 31. Included in the tables are the inputs or range of possible inputs that have an effect on the overall valuation of the financial instruments.

2019				
(In millions)	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
<b>Assets:</b>				
<b>Securities available for sale, carried at fair value:</b>				
<b>Fixed maturity securities:</b>				
Mortgage- and asset-backed securities	\$ 178	Consensus pricing	Offered quotes	N/A <sup>(a)</sup>
Public utilities	224	Discounted cash flow	Credit spreads	N/A <sup>(a)</sup>
Banks/financial institutions	23	Consensus pricing	Offered quotes	N/A <sup>(a)</sup>
Other corporate	262	Discounted cash flow	Credit spreads	N/A <sup>(a)</sup>
<b>Equity securities</b>	<b>80</b>	<b>Net asset value</b>	<b>Offered quotes</b>	<b>N/A <sup>(a)</sup></b>
<b>Other assets:</b>				
Foreign currency swaps	106	Discounted cash flow	Interest rates (USD)	1.89% - 2.09% <sup>(b)</sup>
			Interest rates (JPY)	.12% - .43% <sup>(c)</sup>
			CDS spreads	10 - 100 bps
	63	Discounted cash flow	Interest rates (USD)	1.89% - 2.09% <sup>(b)</sup>
			Interest rates (JPY)	.12% - .43% <sup>(c)</sup>
<b>Total assets</b>	<b>\$ 936</b>			
<b>Liabilities:</b>				
<b>Other liabilities:</b>				
Foreign currency swaps	\$ 118	Discounted cash flow	Interest rates (USD)	1.89% - 2.09% <sup>(b)</sup>
			Interest rates (JPY)	.12% - .43% <sup>(c)</sup>
			CDS spreads	13 - 159 bps
	8	Discounted cash flow	Interest rates (USD)	1.89% - 2.09% <sup>(b)</sup>
			Interest rates (JPY)	.12% - .43% <sup>(c)</sup>
<b>Total liabilities</b>	<b>\$ 126</b>			

(a) N/A represents securities where the Company receives unadjusted broker quotes and for which there is no transparency into the providers' valuation techniques or unobservable inputs.

(b) Inputs derived from U.S. long-term rates to accommodate long maturity nature of the Company's swaps

(c) Inputs derived from Japan long-term rates to accommodate long maturity nature of the Company's swaps

2018

(In millions)	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)	
<b>Assets:</b>					
<b>Securities available for sale, carried at fair value:</b>					
<b>Fixed maturity securities:</b>					
Mortgage- and asset-backed securities	\$ 177	Consensus pricing	Offered quotes	N/A	(a)
Public utilities	109	Discounted cash flow	Credit spreads	N/A	(a)
Banks/financial institutions	23	Consensus pricing	Offered quotes	N/A	(a)
Other corporate	213	Discounted cash flow	Credit spreads	N/A	(a)
<b>Equity securities</b>	<b>46</b>	Net asset value	Offered quotes	N/A	(a)
<b>Other assets:</b>					
Foreign currency swaps	125	Discounted cash flow	Interest rates (USD)	2.75% - 2.84%	(b)
			Interest rates (JPY)	.18% - .71%	(c)
			CDS spreads	19 - 120 bps	
57	Discounted cash flow	Interest rates (USD)	2.75% - 2.84%	(b)	
		Interest rates (JPY)	.18% - .71%	(c)	
<b>Total assets</b>	<b>\$ 750</b>				
<b>Liabilities:</b>					
<b>Other liabilities:</b>					
Foreign currency swaps	\$ 98	Discounted cash flow	Interest rates (USD)	2.75% - 2.84%	(b)
			Interest rates (JPY)	.18% - .71%	(c)
			CDS spreads	28 - 211 bps	
4	Discounted cash flow	Interest rates (USD)	2.75% - 2.84%	(b)	
		Interest rates (JPY)	.18% - .71%	(c)	
<b>Total liabilities</b>	<b>\$ 102</b>				

(a) N/A represents securities where the Company receives unadjusted broker quotes and for which there is no transparency into the providers' valuation techniques or unobservable inputs.

(b) Inputs derived from U.S. long-term rates to accommodate long maturity nature of the Company's swaps

(c) Inputs derived from Japan long-term rates to accommodate long maturity nature of the Company's swaps

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The following is a discussion of the significant unobservable inputs or valuation techniques used in determining the fair value of securities and derivatives classified as Level 3.

### Net Asset Value

The Company holds certain unlisted equity securities whose fair value is derived based on the financial statements published by the investee. These securities do not trade on an active market and the valuations derived are dependent on the availability of timely financial reporting of the investee. Net asset value is an unobservable input in the determination of fair value of equity securities.

### Offered Quotes

In circumstances where the Company's valuation model price is overridden because it implies a value that is not consistent with current market conditions, the Company will solicit bids from a limited number of brokers. The Company also receives unadjusted prices from brokers for its mortgage and asset-backed securities. These quotes are non-binding but are reflective of valuation best estimates at that particular point in time. Offered quotes are an unobservable input in the determination of fair value of mortgage- and asset-backed securities, certain banks/financial institutions, certain other corporate, and equity securities investments.

### Interest Rates and CDS Spreads

The significant drivers of the valuation of the foreign exchange swaps are interest rates and CDS spreads. Some of the Company's swaps have long maturities that increase the sensitivity of the swaps to interest rate fluctuations. For the Company's foreign exchange or cross currency swaps that are in a net asset position, an increase in yen interest rates (all other factors held constant) will decrease the present value of the yen final settlement receivable (receive leg), thus decreasing the value of the swap as long as the derivative remains in a net asset position.

Foreign exchange swaps also have a lump-sum final settlement of foreign exchange principal amounts at the termination of the swap. Assuming all other factors are held constant, an increase in yen interest rates will decrease the receive leg and decrease the net value of the swap. Likewise, holding all other factors constant, an increase in U.S. dollar interest rates will increase the swap's net value due to the decrease in the present value of the dollar final settlement payable (pay leg).

The extinguisher feature in most of the Company's VIE swaps results in a cessation of cash flows and no further payments between the parties to the swap in the event of a default on the referenced or underlying collateral. To price this feature, the Company applies the survival probability of the referenced entity to the projected cash flows. The survival probability uses the CDS spreads and recovery rates to adjust the present value of the cash flows. For extinguisher swaps with positive values, an increase in CDS spreads decreases the likelihood of receiving the final exchange payments and reduces the value of the swap.

For additional information on the Company's investments and financial instruments, see the accompanying Notes 1, 3 and 4.

## 6. DEFERRED POLICY ACQUISITION COSTS AND INSURANCE EXPENSES

Consolidated policy acquisition costs deferred were \$1.5 billion in 2019, 2018 and 2017. The following table presents a rollforward of deferred policy acquisition costs by segment for the years ended December 31.

(In millions)	2019		2018	
	Japan	U.S.	Japan	U.S.
<b>Deferred policy acquisition costs:</b>				
Balance, beginning of year	\$ 6,384	\$ 3,491	\$ 6,150	\$ 3,355
Capitalization	825	626	833	669
Amortization	(709)	(573)	(710)	(534)
Foreign currency translation and other	84	0	111	1
Balance, end of year	\$ 6,584	\$ 3,544	\$ 6,384	\$ 3,491

Commissions deferred as a percentage of total acquisition costs deferred were 74% in 2019, compared with 72% in both 2018 and 2017.

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Personnel, compensation and benefit expenses as a percentage of insurance expenses were 57% in 2019, compared with 54% in 2018 and 56% in 2017. Advertising expense, which is included in insurance expenses in the consolidated statements of earnings, was as follows for the years ended December 31:

(In millions)	2019	2018	2017
<b>Advertising expense:</b>			
Aflac Japan	\$ 101	\$ 108	\$ 100
Aflac U.S.	118	110	110
Total advertising expense	\$ 219	\$ 218	\$ 210

Depreciation and other amortization expenses, which are included in insurance expenses in the consolidated statements of earnings, were as follows for the years ended December 31:

(In millions)	2019	2018	2017
Depreciation expense	\$ 40	\$ 48	\$ 50
Other amortization expense	1	1	3
Total depreciation and other amortization expense	\$ 41	\$ 49	\$ 53

## 7. POLICY LIABILITIES

Policy liabilities consist of future policy benefits, unpaid policy claims, unearned premiums, and other policyholders' funds, which accounted for 85%, 4%, 4% and 7% of total policy liabilities at December 31, 2019, respectively. The Company regularly reviews the adequacy of its policy liabilities in total and by component.

The liability for future policy benefits as of December 31 consisted of the following:

(In millions)	Liability Amounts		Interest Rate Assumptions
	2019	2018	
<b>Health insurance</b>			
Japan	\$ 50,941	\$ 49,496	0.6 - 6.75 %
U.S.	8,646	8,442	3.0 - 7.0
<b>Intercompany eliminations</b>	(532) <sup>(1)</sup>	(583) <sup>(1)</sup>	2.0
<b>Life insurance</b>			
Japan	30,520	28,318	1.0 - 4.5
U.S.	760	695	2.5 - 6.0
Total	\$ 90,335	\$ 86,368	

<sup>(1)</sup> Elimination entry necessary due to recapture of a portion of policy liabilities ceded externally, as a result of the reinsurance retrocession transaction as described in Note 8 of the Notes to the Consolidated Financial Statements

The weighted-average interest rates reflected in the consolidated statements of earnings for future policy benefits for Japanese policies were 3.2% in 2019, compared with 3.3% in 2018 and 3.4% in 2017; and for U.S. policies, 5.3% in 2019, compared with 5.3% in 2018 and 5.4% in 2017.

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Changes in the liability for unpaid policy claims were as follows for the years ended December 31:

(In millions)	2019	2018	2017
Unpaid supplemental health claims, beginning of period	\$ 3,952	\$ 3,884	\$ 3,707
Less reinsurance recoverables	27	30	27
Net balance, beginning of period	3,925	3,854	3,680
Add claims incurred during the period related to:			
Current year	7,216	7,101	6,979
Prior years	(552)	(563)	(518)
Total incurred	6,664	6,538	6,461
Less claims paid during the period on claims incurred during:			
Current year	4,715	4,612	4,530
Prior years	1,965	1,898	1,822
Total paid	6,680	6,510	6,352
Effect of foreign exchange rate changes on unpaid claims	29	43	65
Net balance, end of period	3,938	3,925	3,854
Add reinsurance recoverables	30	27	30
Unpaid supplemental health claims, end of period	3,968	3,952	3,884
Unpaid life claims, end of period	691	632	508
Total liability for unpaid policy claims	\$ 4,659	\$ 4,584	\$ 4,392

The incurred claims development related to prior years reflects favorable claims experience compared to previous estimates. The favorable claims development of \$552 million for 2019 comprises approximately \$395 million from Japan, which represents approximately 72% of the total. Excluding the impact of foreign exchange of a gain of approximately \$5 million from December 31, 2018 to December 31, 2019, the favorable claims development in Japan would have been approximately \$390 million, representing approximately 71% of the total.

The Company has experienced continued favorable claim trends in 2019 for its core health products in Japan. The Company's experience in Japan related to the average length of stay in the hospital for cancer treatment has shown continued decline in the current period. In addition, cancer treatment patterns in Japan are continuing to be influenced by significant advances in early-detection techniques and by the increased use of pathological diagnosis rather than clinical exams. Additionally, follow-up radiation and chemotherapy treatments are occurring more often on an outpatient basis. Such changes in treatment not only increase the quality of life and initial outcomes for the patients, but also decrease the average length of each hospital stay, resulting in favorable claims development.

As of December 31, 2019 and 2018, unearned premiums consisted primarily of discounted advance premiums on deposit. Discounted advance premiums are premiums on deposit from policyholders in conjunction with their purchase of certain Aflac Japan limited-pay insurance products. These advanced premiums are deferred upon collection and recognized as premium revenue over the contractual premium payment period. These advanced premiums represented 64% of the December 31, 2019 and 69% of the December 31, 2018 unearned premiums balances.

As of December 31, 2019 and 2018, the largest component of the other policyholders' funds liability was the Company's annuity line of business in Aflac Japan. The Company's annuities have fixed benefits and premiums. These annuities represented 97% of other policyholders' funds liability at December 31, 2019 and 2018.

## 8. REINSURANCE

The Company periodically enters into fixed quota-share coinsurance agreements with other companies in the normal course of business. For each of its reinsurance agreements, the Company determines whether the agreement provides indemnification against loss or liability relating to insurance risk in accordance with applicable accounting standards. Reinsurance premiums and benefits paid or provided are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums and benefits are reported net of insurance ceded.

The Company has recorded a deferred profit liability related to reinsurance transactions. The remaining deferred profit liability of \$1.0 billion, as of December 31, 2019, is included in future policy benefits in the consolidated balance sheet and is being amortized into income over the expected lives of the policies. The Company has also recorded a reinsurance recoverable for reinsurance transactions, which is included in other assets in the consolidated balance sheet and had a remaining balance of \$970 million and \$941 million as of December 31, 2019 and 2018, respectively. The increase in the reinsurance recoverable balance was driven by two aggregating factors: yen strengthening and the growth in reserves related to the business that has been reinsured as the policies age. The spot yen/dollar exchange rate strengthened by approximately 1.3% and ceded reserves increased approximately 1.4% from December 31, 2018, to December 31, 2019.

The following table reconciles direct premium income and direct benefits and claims to net amounts after the effect of reinsurance for the years ended December 31.

(In millions)	2019	2018	2017
Direct premium income	\$ 19,122	\$ 19,018	\$ 18,875
Ceded to other companies:			
Ceded Aflac Japan closed blocks	(478)	(497)	(515)
Other	(69)	(58)	(51)
Assumed from other companies:			
Retrocession activities	200	208	216
Other	5	6	6
Net premium income	\$ 18,780	\$ 18,677	\$ 18,531
Direct benefits and claims	\$ 12,237	\$ 12,293	\$ 12,486
Ceded benefits and change in reserves for future benefits:			
Ceded Aflac Japan closed blocks	(433)	(450)	(473)
Eliminations	41	43	51
Other	(57)	(44)	(44)
Assumed from other companies:			
Retrocession activities	194	209	209
Eliminations	(41)	(53)	(51)
Other	1	2	3
Benefits and claims, net	\$ 11,942	\$ 12,000	\$ 12,181

These reinsurance transactions are indemnity reinsurance that do not relieve the Company from its obligations to policyholders. In the event that the reinsurer is unable to meet their obligations, the Company remains liable for the reinsured claims.

As a part of its capital contingency plan, the Company entered into a committed reinsurance facility agreement on December 1, 2015 in the amount of approximately ¥110 billion of reserves. This reinsurance facility agreement was renewed in 2019 and is effective until December 31, 2020. There are also additional commitment periods of a one-year duration each of which are automatically extended unless notification is received from the reinsurer within 60 days prior to the expiration. The reinsurer can withdraw from the committed facility if Aflac's Standard and Poor's (S&P) rating drops below BBB-. As of December 31, 2019, the Company had not executed a reinsurance treaty under this committed reinsurance facility.



9. NOTES PAYABLE AND LEASE OBLIGATIONS

A summary of notes payable and lease obligations as of December 31 follows:

(In millions)	2019	2018
4.00% senior notes due February 2022 <sup>(1)</sup>	\$ 348	\$ 348
3.625% senior notes due June 2023	698	698
3.625% senior notes due November 2024	747	746
3.25% senior notes due March 2025	448	447
2.875% senior notes due October 2026	298	297
6.90% senior notes due December 2039	220	220
6.45% senior notes due August 2040	254	254
4.00% senior notes due October 2046	394	394
4.750% senior notes due January 2049	541	540
Yen-denominated senior notes and subordinated debentures:		
.932% senior notes due January 2027 (principal amount ¥60.0 billion)	545	538
.500% senior notes due December 2029 (principal amount ¥12.6 billion)	114	0
1.159% senior notes due October 2030 (principal amount ¥29.3 billion)	266	262
.843% senior notes due December 2031 (principal amount ¥9.3 billion)	84	0
1.488% senior notes due October 2033 (principal amount ¥15.2 billion)	138	136
.934% senior notes due December 2034 (principal amount ¥9.8 billion)	88	0
1.750% senior notes due October 2038 (principal amount ¥8.9 billion)	81	79
1.122% senior notes due December 2039 (principal amount ¥6.3 billion)	57	0
2.108% subordinated debentures due October 2047 (principal amount ¥60.0 billion)	543	536
.963% subordinated bonds due April 2049 (principal amount ¥30.0 billion)	272	0
Yen-denominated loans:		
Variable interest rate loan due September 2026 (.42% in 2019 and .32% in 2018, principal amount ¥5.0 billion)	45	45
Variable interest rate loan due September 2029 (.57% in 2019 and .47% in 2018, principal amount ¥25.0 billion)	227	225
Finance lease obligations payable through 2026	12	13
Operating lease obligations payable through 2049 <sup>(2)</sup>	149	0
<b>Total notes payable and lease obligations</b>	<b>\$ 6,569</b>	<b>\$ 5,778</b>

<sup>(1)</sup> Redeemed in January 2020

<sup>(2)</sup> See Note 1 of the Notes to the Consolidated Financial Statements for the adoption of accounting guidance on January 1, 2019 related to leases.

Amounts in the table above are reported net of debt issuance costs and issuance premiums or discounts, if applicable, that are being amortized over the life of the notes.

In December 2019, the Parent Company issued four series of senior notes totaling ¥38.0 billion through a public debt offering under its U.S. shelf registration statement. The first series, which totaled ¥12.6 billion, bears interest at a fixed rate of .500% per annum, payable semi-annually, and will mature in December 2029. The second series, which totaled ¥9.3 billion, bears interest at a fixed rate of .843% per annum, payable semi-annually, and will mature in December 2031. The third series, which totaled ¥9.8 billion, bears interest at a fixed rate of .934% per annum, payable semi-annually, and will mature in December 2034. The fourth series, which totaled ¥6.3 billion, bears interest at a fixed rate of 1.122% per annum, payable semi-annually, and will mature in December 2039. These notes may only be redeemed before maturity, in whole but not in part, upon the occurrence of certain changes affecting U.S. taxation, as specified in the indenture governing the terms of the issuance.

In September 2019, the Parent Company renewed a ¥30.0 billion senior term loan facility. The first tranche of the facility, which totaled ¥5.0 billion, bears interest at a rate per annum equal to the Tokyo interbank market rate (TIBOR), or alternate TIBOR, if applicable, plus the applicable TIBOR margin and will mature in September 2026. The applicable margin ranges between .30% and .70%, depending on the Parent Company's debt ratings as of the date of determination. The second tranche, which totaled ¥25.0 billion, bears interest at a rate per annum equal to the TIBOR, or alternate TIBOR, if applicable,

plus the applicable TIBOR margin and will mature in September 2029. The applicable margin ranges between .45% and 1.00%, depending on the Parent Company's debt ratings as of the date of determination.

In April 2019, ALIJ issued ¥30.0 billion (par value) of perpetual subordinated bonds. These bonds bear interest at a fixed rate of .963% per annum and then at six-month Euro Yen LIBOR plus an applicable spread on and after the day immediately following April 18, 2024. The bonds will be callable on each interest payment date on and after April 18, 2024. In November 2019, ALIJ amended the bonds to change their duration from perpetual to a stated maturity date of April 16, 2049 and to remove provisions that permitted ALIJ to defer payments of interest under certain circumstances.

In October 2018, the Parent Company issued \$550 million of senior notes through a U.S. public debt offering. The notes bear interest at a fixed rate of 4.750% per annum, payable semi-annually, and will mature in January 2049. These notes are redeemable at the Parent Company's option in whole at any time or in part from time to time at a redemption price equal to the greater of: (i) the aggregate principal amount of the notes to be redeemed or (ii) the amount equal to the sum of the present values of the remaining scheduled payments for principal of and interest on the notes to be redeemed, not including any portion of the payments of interest accrued as of such redemption date, discounted to such redemption date on a semiannual basis at the yield to maturity for a U.S. Treasury security with a maturity comparable to the remaining term of the notes, plus 25 basis points, plus in each case, accrued and unpaid interest on the principal amount of the notes to be redeemed to, but excluding, such redemption date.

In October 2018, the Parent Company issued three series of senior notes totaling ¥53.4 billion through a public debt offering under its U.S. shelf registration statement. The first series, which totaled ¥29.3 billion, bears interest at a fixed rate of 1.159% per annum, payable semi-annually, and will mature in October 2030. The second series, which totaled ¥15.2 billion, bears interest at a fixed rate of 1.488% per annum, payable semi-annually, and will mature in October 2033. The third series, which totaled ¥8.9 billion, bears interest at a fixed rate of 1.750% per annum, payable semi-annually, and will mature in October 2038. These notes may only be redeemed before maturity, in whole but not in part, upon the occurrence of certain changes affecting U.S. taxation, as specified in the indenture governing the terms of the issuance.

In October 2017, the Parent Company issued ¥60.0 billion of subordinated debentures through a U.S. public debt offering. The debentures bear interest at an initial rate of 2.108% per annum through October 22, 2027, or earlier redemption. Thereafter, the rate of the interest of the debentures will be reset every five years at a rate of interest equal to the then-current JPY 5-year Swap Offered Rate plus 205 basis points. The debentures are payable semi-annually in arrears and will mature in October 2047. The debentures are redeemable (i) at any time, in whole but not in part, upon the occurrence of certain tax events or certain rating agency events, as specified in the indenture governing the terms of the debentures or (ii) on or after October 23, 2027, in whole or in part, at a redemption price equal to their principal amount plus accrued and unpaid interest to, but excluding, the date of redemption.

In January 2017, the Parent Company issued ¥60.0 billion of senior notes through a U.S. public debt offering. The notes bear interest at a fixed rate of .932% per annum, payable semi-annually, and will mature in January 2027. These notes may only be redeemed before maturity, in whole but not in part, upon the occurrence of certain changes affecting U.S. taxation, as specified in the indenture governing the terms of the issuance.

In September 2016, the Parent Company issued two series of senior notes totaling \$700 million through a U.S. public debt offering. The first series, which totaled \$300 million, bears interest at a fixed rate of 2.875% per annum, payable semi-annually and will mature in October 2026. The second series, which totaled \$400 million, bears interest at a fixed rate of 4.00% per annum, payable semi-annually, and will mature in October 2046.

In March 2015, the Parent Company issued \$450 million of senior notes through a U.S. public debt offering. The notes bear interest at a fixed rate of 3.25% per annum, payable semi-annually, and will mature in March 2025. The Parent Company entered into cross-currency swaps that convert the U.S. dollar-denominated principal and interest on the senior notes into yen-denominated obligations which results in lower nominal net interest rates on the debt. By entering into these cross-currency swaps, the Parent Company economically converted its \$450 million liability into a ¥55.0 billion yen liability and reduced the interest rate on this debt from 3.25% in dollars to .82% in yen.

In November 2014, the Parent Company issued \$750 million of senior notes through a U.S. public debt offering. The notes bear interest at a fixed rate of 3.625% per annum, payable semi-annually, and will mature in November 2024. These notes are redeemable at the Parent Company's option in whole at any time or in part from time to time at a redemption price equal to the greater of: (i) the aggregate principal amount of the notes to be redeemed or (ii) the amount equal to the sum of the present values of the remaining scheduled payments for principal of and interest on the notes to be redeemed, not including any portion of the payments of interest accrued as of such redemption date, discounted to such redemption date on a semiannual basis at the treasury rate plus 20 basis points, plus in each case, accrued and unpaid interest on the principal

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amount of the notes to be redeemed to, but excluding, such redemption date. The Parent Company entered into cross-currency interest rate swaps to reduce interest expense by converting the U.S. dollar-denominated principal and interest on the senior notes it issued into yen-denominated obligations. By entering into the swaps, the Parent Company economically converted its \$750 million liability into an ¥85.3 billion liability and reduced the interest rate on this debt from 3.625% in dollars to 1.00% in yen.

In June 2013, the Parent Company issued \$700 million of senior notes through a U.S. public debt offering. The notes bear interest at a fixed rate of 3.625% per annum, payable semi-annually, and will mature in June 2023. These notes are redeemable at the Parent Company's option in whole at any time or in part from time to time at a redemption price equal to the greater of: (i) the aggregate principal amount of the notes to be redeemed or (ii) the amount equal to the sum of the present values of the remaining scheduled payments for principal of and interest on the notes to be redeemed, not including any portion of the payments of interest accrued as of such redemption date, discounted to such redemption date on a semiannual basis at the treasury rate plus 20 basis points, plus in each case, accrued and unpaid interest on the principal amount of the notes to be redeemed to, but excluding, such redemption date. The Parent Company had entered into cross-currency interest rate swaps to reduce interest expense by converting the U.S. dollar-denominated principal and interest on the senior notes it issued into yen-denominated obligations. By entering into these swaps, the Parent Company economically converted its \$700 million liability into a ¥69.8 billion liability and reduced the interest rate on this debt from 3.625% in dollars to 1.50% in yen.

In February 2012, the Parent Company issued \$350 million of senior notes through a U.S. public debt offering. The notes bear interest at a fixed rate of 4.00% per annum, payable semiannually, and will mature in February 2022. These notes are redeemable at the Parent Company's option in whole at any time or in part from time to time at a redemption price equal to the greater of: (i) the principal amount of the notes or (ii) the present value of the remaining scheduled payments of principal and interest to be redeemed, discounted to the redemption date, plus accrued and unpaid interest. The Parent Company entered into cross-currency interest rate swaps to reduce interest expense by converting the U.S. dollar-denominated principal and interest on the senior notes it issued into yen-denominated obligations. By entering into these swaps, the Parent Company economically converted its \$350 million liability into a ¥27.0 billion liability and reduced the interest rate on this debt from 4.00% in dollars to 2.07% in yen.

In 2010 and 2009, the Parent Company issued senior notes through U.S. public debt offerings; the details of these notes are as follows. In August 2010, the Parent Company issued \$450 million of senior notes that will mature in August 2040. In December 2009, the Parent Company issued \$400 million of senior notes that will mature in December 2039. These senior notes pay interest semiannually and are redeemable at the Parent Company's option in whole at any time or in part from time to time at a redemption price equal to the greater of: (i) the principal amount of the notes or (ii) the present value of the remaining scheduled payments of principal and interest to be redeemed, discounted to the redemption date, plus accrued and unpaid interest. In December 2016, the Parent Company completed a tender offer in which it extinguished \$176 million principal of its 6.90% senior notes due December 2039 and \$193 million principal of its 6.45% senior notes due August 2040. The pretax loss due to the early redemption of these notes was \$137 million.

For the Company's yen-denominated notes and loans, the principal amount as stated in dollar terms will fluctuate from period to period due to changes in the yen/dollar exchange rate. The Company has designated the majority of its yen-denominated notes payable as a nonderivative hedge of the foreign currency exposure of the Company's investment in Aflac Japan.

The aggregate contractual maturities of notes payable during each of the years after December 31, 2019, are as follows:

(In millions)	Total Notes Payable
2020	\$ 0
2021	0
2022	350
2023	700
2024	750
Thereafter	4,658
Total	\$ 6,458

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The following table presents the contractual maturities and present value of lease liabilities as of December 31.

(In millions)	2019		
	Operating Leases	Finance Leases	Total
2020	\$ 49	\$ 4	\$ 53
2021	37	3	40
2022	31	2	33
2023	10	2	12
2024	10	1	11
After 2024	22	0	22
Total lease payments	\$ 159	\$ 12	\$ 171
Less: Interest	10	0	10
Present value of lease liabilities	\$ 149	\$ 12	\$ 161

The following table presents the weighted average remaining lease term and weighted average discount rate for lease liabilities as of December 31.

	2019
Weighted average remaining lease term (years):	
Operating leases	6.8
Finance leases	3.7
Weighted average discount rate:	
Operating leases	2.1%
Finance leases	1.5%

Operating lease costs, included in insurance expenses in the consolidated statements of earnings, were \$54 million, \$73 million and \$75 million for the years ended December 31, 2019, 2018 and 2017, respectively. Operating cash outflow for operating leases was \$52 million for the year ended December 31, 2019.

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A summary of the Company's lines of credit as of December 31, 2019 follows:

Borrower	Type	Original Term	Expiration Date	Capacity	Amount Outstanding	Interest Rate on Borrowed Amount	Maturity Period	Commitment Fee	Business Purpose
Aflac Incorporated and Aflac	uncommitted bilateral	364 days	December 18, 2020	\$100 million	\$0 million	The rate quoted by the bank and agreed upon at the time of borrowing	Up to 3 months	None	General corporate purposes
Aflac Incorporated	unsecured revolving	5 years	March 29, 2024, or the date commitments are terminated pursuant to an event of default	¥100.0 billion	¥0.0 billion	A rate per annum equal to (a) Tokyo interbank market rate (TIBOR) plus, the alternative applicable TIBOR margin during the availability period from the closing date to the commitment termination date or (b) the TIBOR rate offered by the agent to major banks in yen for the applicable period plus, the applicable alternative TIBOR margin during the term out period	No later than March 29, 2024	.30% to .50%, depending on the Parent Company's debt ratings as of the date of determination	General corporate purposes, including a capital contingency plan for the operations of the Parent Company
Aflac Incorporated and Aflac	unsecured revolving	5 years	November 18, 2024, or the date commitments are terminated pursuant to an event of default	\$1.0 billion	\$0.0 billion	A rate per annum equal to, at the Company's option, either, (a) the rate for Eurocurrency for deposits in the London interbank market for a period of one, two, three or six months (LIBOR) or (b) a base rate determined by reference to the highest of (1) the federal funds rate plus 1/2 of 1%, (2) the rate of interest in effect for such day as publicly announced from time to time by Mizuho as its "prime rate", and (3) the LIBOR for a one month interest period in effect on such day (or if such day is not a business day, the immediately preceding business day) plus 1.00%, and in each case an applicable margin	No later than November 18, 2024	.085% to .225%, depending on the Parent Company's debt ratings as of the date of determination	General corporate purposes, including a capital contingency plan for the operations of the Parent Company
Aflac Incorporated and Aflac	uncommitted bilateral	None specified	None specified	\$50 million	\$0 million	A rate per annum equal to, at the Parent Company's option, either (a) a eurocurrency rate determined by reference to the agent's LIBOR for the interest period relevant to such borrowing or (b) the base rate determined by reference to the greater of (i) the prime rate as determined by the agent, and (ii) the sum of 0.50% and the federal funds rate for such day	Up to 3 months	None	General corporate purposes
Aflac <sup>(1)</sup>	uncommitted revolving	364 days	November 30, 2020	\$250 million	\$0 million	USD three-month LIBOR plus 75 basis points per annum	3 months	None	General corporate purposes
Aflac Incorporated <sup>(1)</sup>	uncommitted revolving	364 days	April 2, 2020	¥50.0 billion	¥0.0 billion	Three-month TIBOR plus 70 basis points per annum	3 months	None	General corporate purposes
Aflac Incorporated <sup>(1)</sup>	uncommitted revolving	364 days	November 25, 2020	¥50.0 billion	¥0.0 billion	Three-month TIBOR plus 70 basis points per annum	3 months	None	General corporate purposes

<sup>(1)</sup> Intercompany credit agreement

The Parent Company was in compliance with all of the covenants of its notes payable and lines of credit at December 31, 2019. No events of default or defaults occurred during 2019 and 2018.

10. INCOME TAXES

The components of income tax expense (benefit) applicable to pretax earnings for the years ended December 31 were as follows:

(In millions)	Foreign	U.S.	Total
<b>2019:</b>			
<b>Current</b>	<b>\$ 737</b>	<b>\$ 69</b>	<b>\$ 806</b>
<b>Deferred</b>	<b>183</b>	<b>152</b>	<b>335</b>
<b>Total income tax expense</b>	<b>\$ 920</b>	<b>\$ 221</b>	<b>\$ 1,141</b>
<b>2018:</b>			
Current	\$ 771	\$ 608	\$ 1,379
Deferred	93	(409)	(316)
Total income tax expense	\$ 864	\$ 199	\$ 1,063
<b>2017:</b>			
Current	\$ 722	\$ (91)	\$ 631
Deferred	(24)	(1,193)	(1,217)
Total income tax expense	\$ 698	\$ (1,284)	\$ (586)

The Japan income tax rate for the fiscal year 2017 was 28.2%. The rate was reduced to 28.0% for fiscal years 2018 and 2019.

For the U.S., the Tax Cuts and Jobs Act (Tax Act) was signed into law on December 22, 2017. Effective January 1, 2018, the Tax Act imposed a broad number of changes in tax law, including permanently reducing the U.S. federal statutory corporate income tax rate from 35% to 21%, eliminating or reducing certain deductions and credits and limiting the deductibility of interest expense and executive compensation.

In accordance with Staff Accounting Bulletin 118 (SAB 118) issued by the U.S. Securities and Exchange Commission in December 2017, the Company recorded provisional amounts for certain items for which the income tax accounting was not complete. As of the enactment date, the Company estimated provisional amounts for its deferred taxes, including related valuation allowance, resulting in a reduction of its DTAs by approximately \$1.0 billion and its deferred tax liabilities (DTLs) by \$2.9 billion, for a net DTL reduction of approximately \$1.9 billion. The provisions of ASC 740-10, *Income Taxes*, require that the effects of changes in tax law on deferred taxes be recognized as a component of the income tax provision in the period the tax rate change was enacted. Therefore, the \$1.9 billion provisional amount of net DTL reduction was recorded in the fourth quarter of 2017 as a reduction in the "Income tax expense, Deferred" line item of the Company's consolidated statement of earnings.

In 2018, the Company recorded additional income tax expense of \$4 million resulting from a decrease in the SAB 118 provisional estimate related to Japan deferred tax balances. No further adjustment was made to the SAB 118 provisional estimate related to the valuation allowance. As of December 31, 2018, the Company has completed its accounting for the Tax Act in accordance with SAB 118.

Income tax expense in the accompanying statements of earnings varies from the amount computed by applying the expected U.S. tax rate of 21% in both 2019 and 2018 and 35% in 2017 to pretax earnings. The principal reasons for the differences and the related tax effects for the years ended December 31 were as follows:

(In millions)	2019	2018	2017
Income taxes based on U.S. statutory rates	\$ 933	\$ 836	\$ 1,406
Foreign rate differential	229	220	0
Write-down of U.S. deferred tax liabilities for tax reform change	0	0	(1,933)
Utilization of foreign tax credit	(6)	(3)	(27)
Nondeductible expenses	10	21	10
Other, net	(25)	(11)	(42)
Income tax expense	\$ 1,141	\$ 1,063	\$ (586)

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Total income tax expense for the years ended December 31 was allocated as follows:

(In millions)	2019	2018	2017
Statements of earnings	\$ 1,141	\$ 1,063	\$ (586)
Other comprehensive income (loss):			
Unrealized foreign currency translation gains (losses) during period	27	10	52
Unrealized gains (losses) on investment securities:			
Unrealized holding gains (losses) on investment securities during period	1,532	(787)	575
Reclassification adjustment for realized (gains) losses on investment securities included in net earnings	5	(12)	1
Unrealized gains (losses) on derivatives during period	(3)	0	0
Pension liability adjustment during period	(18)	(8)	3
Total income tax expense (benefit) related to items of other comprehensive income (loss)	1,543	(797)	631
Total income taxes	\$ 2,684	\$ 266	\$ 45

The income tax effects of the temporary differences that gave rise to deferred income tax assets and liabilities as of December 31 were as follows:

(In millions)	2019	2018
<b>Deferred income tax liabilities:</b>		
Deferred policy acquisition costs	\$ 3,492	\$ 3,404
Unrealized gains and other basis differences on investments	4,485	1,307
Premiums receivable	152	149
Policy benefit reserves	3,442	3,828
Total deferred income tax liabilities	11,571	8,688
<b>Deferred income tax assets:</b>		
Unfunded retirement benefits	8	8
Other accrued expenses	36	40
Policy and contract claims	781	775
Foreign currency loss on Aflac Japan	16	38
Deferred compensation	162	163
Capital loss carryforwards	34	5
Depreciation	164	119
Anticipatory foreign tax credit	5,487	4,040
Deferred foreign tax credit	605	591
Other	204	150
Total deferred income tax assets before valuation allowance	7,497	5,929
Valuation allowance	(1,340)	(738)
Total deferred income tax assets after valuation allowance	6,157	5,191
Net deferred income tax liability	5,414	3,497
<b>Current income tax (asset) liability</b>	(44)	523
Total income tax liability	\$ 5,370	\$ 4,020

The application of U.S. GAAP requires the Company to evaluate the recoverability of deferred tax assets and establish a valuation allowance if necessary to reduce the deferred tax asset to an amount that is more likely than not expected to be realized. The Company has determined a \$1,022 million valuation allowance against its anticipatory foreign tax credit is necessary. The anticipatory foreign tax credit represents the foreign tax credit the Company will generate from the reversal of Japan deferred tax liabilities in the future. The increase in the valuation allowance on the anticipatory foreign tax credit is due to an increase Japan's local country deferred tax inventory relative to the deferred tax inventory for Japan's U.S. tax obligation. The Company has also determined a \$318 million valuation allowance against its deferred foreign tax credits is necessary. Deferred foreign tax credits are foreign tax credits generated in the current tax year by the Japanese life company, but are unable to be utilized until 2020 due to Japan's current tax year not closing until March 31, 2020. The valuation



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allowance on the deferred foreign tax credit has increased due to the utilization of prior year credits as well as the recognition of the current year deferred foreign tax credit. Based upon a review of the Company's anticipated future taxable income, and including all other available evidence, both positive and negative, the Company's management has concluded that, notwithstanding the items noted above, it is more likely than not that all other deferred tax assets will be realized.

Under U.S. income tax rules, only 35% of non-life operating losses can be offset against life insurance taxable income each year. For current U.S. income tax purposes, as of December 31, 2019, there were non-life operating loss carryforwards of \$99 million available to offset against future taxable income, of which \$31 million expires in 2039, and \$68 million does not expire. The Company has capital loss carryforwards of \$161 million available to offset capital gains, of which \$65 million expires in 2023 and \$96 million expires in 2024.

The Company files federal income tax returns in the U.S. and Japan as well as state or prefecture income tax returns in various jurisdictions in the two countries. The Company is currently under audit by the IRS for the 2013-2016 amended federal income tax returns. There are currently no other open Federal, State, or local U.S. income tax audits. U.S. federal income tax returns for years before 2016 are no longer subject to examination. Japan corporate income tax returns for years before 2016 are no longer subject to examination. Management believes it has established adequate tax liabilities and final resolution of all open audits is not expected to have a material impact on the Company's consolidated financial statements.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows for the years ended December 31:

(In millions)	2019	2018
Balance, beginning of year	\$ 15	\$ 14
Additions for tax positions of prior years	2	1
Balance, end of year	\$ 17	\$ 15

Included in the balance of the liability for unrecognized tax benefits at December 31, 2019, are \$15 million of tax positions for which the ultimate deductibility is highly certain, but for which there is uncertainty about the timing of such deductibility, compared with \$14 million at December 31, 2018. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate, but would accelerate the payment of cash to the taxing authority to an earlier period. The Company has accrued approximately \$2 million as of December 31, 2019, for permanent uncertainties, which if reversed would not have a material effect on the annual effective rate.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. The Company recognized approximately \$1 million in interest and penalties in 2019, 2018 and 2017, respectively. The Company has accrued approximately \$2 million for the payment of interest and penalties as of December 31, 2019, compared with \$2 million at December 31, 2018.

As of December 31, 2019, there were no material uncertain tax positions for which the total amounts of unrecognized tax benefits will significantly increase or decrease within the next 12 months.

## 11. SHAREHOLDERS' EQUITY

The following table is a reconciliation of the number of shares of the Company's common stock for the years ended December 31.



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(In thousands of shares)	2019	2018	2017
<b>Common stock - issued:</b>			
Balance, beginning of period	1,347,540	1,345,762	1,342,498
Exercise of stock options and issuance of restricted shares	1,769	1,778	3,264
Balance, end of period	1,349,309	1,347,540	1,345,762
<b>Treasury stock:</b>			
Balance, beginning of period	592,254	564,852	530,877
Purchases of treasury stock:			
Share repurchase program	31,994	28,949	35,510
Other	592	392	1,018
Dispositions of treasury stock:			
Shares issued to AFL Stock Plan	(1,610)	(1,306)	(1,782)
Exercise of stock options	(418)	(519)	(734)
Other	(296)	(114)	(37)
Balance, end of period	622,516	592,254	564,852
Shares outstanding, end of period	726,793	755,286	780,910

Outstanding share-based awards are excluded from the calculation of weighted-average shares used in the computation of basic EPS. The following table presents the approximate number of share-based awards to purchase shares, on a weighted-average basis, that were considered to be anti-dilutive and were excluded from the calculation of diluted earnings per share at December 31:

(In thousands)	2019	2018	2017
Anti-dilutive share-based awards	6	44	510

The weighted-average shares used in calculating earnings per share for the years ended December 31 were as follows:

(In thousands of shares)	2019	2018	2017
Weighted-average outstanding shares used for calculating basic EPS	742,414	769,588	792,042
Dilutive effect of share-based awards	4,016	5,062	5,819
Weighted-average outstanding shares used for calculating diluted EPS	746,430	774,650	797,861

**Share Repurchase Program:** During 2019, the Company repurchased 32.0 million shares of its common stock in the open market for \$1.6 billion. The Company repurchased 28.9 million shares for \$1.3 billion in 2018 and 35.5 million shares for \$1.4 billion in 2017. As of December 31, 2019, a remaining balance of 37.1 million shares of the Company's common stock was available for purchase under share repurchase authorizations by its board of directors.

**Voting Rights:** In accordance with the Parent Company's articles of incorporation, shares of common stock are generally entitled to one vote per share until they have been held by the same beneficial owner for a continuous period of 48 months, at which time they become entitled to 10 votes per share.

**Reclassifications from Accumulated Other Comprehensive Income**

The tables below are reconciliations of accumulated other comprehensive income by component for the years ended December 31.

## Changes in Accumulated Other Comprehensive Income

2019					
(In millions)	Unrealized Foreign Currency Translation Gains (Losses)	Unrealized Gains (Losses) on Investment Securities	Unrealized Gains (Losses) on Derivatives	Pension Liability Adjustment	Total
<b>Balance, beginning of period</b>	\$ (1,847)	\$ 4,234	\$ (24)	\$ (212)	\$ 2,151
Other comprehensive income (loss) before reclassification	224	4,327	(9)	(76)	4,466
Amounts reclassified from accumulated other comprehensive income (loss)	0	(13)	0	11	(2)
Net current-period other comprehensive income (loss)	224	4,314	(9)	(65)	4,464
<b>Balance, end of period</b>	\$ (1,623)	\$ 8,548	\$ (33)	\$ (277)	\$ 6,615

All amounts in the table above are net of tax.

2018					
(In millions)	Unrealized Foreign Currency Translation Gains (Losses)	Unrealized Gains (Losses) on Investment Securities	Unrealized Gains (Losses) on Derivatives	Pension Liability Adjustment	Total
<b>Balance, beginning of period</b>	\$ (1,750)	\$ 5,964	\$ (23)	\$ (163)	\$ 4,028
Cumulative effect of change in accounting principle - financial instruments	0	(148)	0	0	(148)
Cumulative effect of change in accounting principle - tax effects from tax reform	(325)	734	(3)	(32)	374
Other comprehensive income (loss) before reclassification	228	(2,350)	2	(30)	(2,150)
Amounts reclassified from accumulated other comprehensive income (loss)	0	34	0	13	47
Net current-period other comprehensive income (loss)	228	(2,316)	2	(17)	(2,103)
<b>Balance, end of period</b>	\$ (1,847)	\$ 4,234	\$ (24)	\$ (212)	\$ 2,151

All amounts in the table above are net of tax.

2017					
(In millions)	Unrealized Foreign Currency Translation Gains (Losses)	Unrealized Gains (Losses) on Investment Securities	Unrealized Gains (Losses) on Derivatives	Pension Liability Adjustment	Total
<b>Balance, beginning of period</b>	\$ (1,983)	\$ 4,805	\$ (24)	\$ (168)	\$ 2,630
Other comprehensive income (loss) before reclassification	233	1,158	1	(6)	1,386
Amounts reclassified from accumulated other comprehensive income (loss)	0	1	0	11	12
Net current-period other comprehensive income (loss)	233	1,159	1	5	1,398
<b>Balance, end of period</b>	<b>\$ (1,750)</b>	<b>\$ 5,964</b>	<b>\$ (23)</b>	<b>\$ (163)</b>	<b>\$ 4,028</b>

All amounts in the table above are net of tax.

For the year ended December 31, 2018, see Note 1 for discussion of the amounts reclassified between AOCI and retained earnings upon the adoption of new accounting pronouncements.

The tables below summarize the amounts reclassified from each component of accumulated other comprehensive income based on source for the years ended December 31.

#### Reclassifications Out of Accumulated Other Comprehensive Income

2019		
(In millions)	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statements of Earnings
Unrealized gains (losses) on available-for-sale securities	\$ (13)	Other-than-temporary impairment losses realized
	31	Other gains (losses)
	18	Total before tax
	(5)	Tax (expense) or benefit <sup>(1)</sup>
	<b>\$ 13</b>	Net of tax
Amortization of defined benefit pension items:		
Actuarial gains (losses)	\$ (15)	Acquisition and operating expenses <sup>(2)</sup>
Prior service (cost) credit	0	Acquisition and operating expenses <sup>(2)</sup>
	4	Tax (expense) or benefit <sup>(1)</sup>
	<b>\$ (11)</b>	Net of tax
<b>Total reclassifications for the period</b>	<b>\$ 2</b>	Net of tax

<sup>(1)</sup> Based on 26% blended tax rate

<sup>(2)</sup> These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 14 for additional details).

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(In millions)	2018	
Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statements of Earnings
Unrealized gains (losses) on available-for-sale securities	\$ (63)	Other-than-temporary impairment losses realized
	17	Other gains (losses)
	(46)	Total before tax
	12	Tax (expense) or benefit <sup>(1)</sup>
	\$ (34)	Net of tax
Amortization of defined benefit pension items:		
Actuarial gains (losses)	\$ (18)	Acquisition and operating expenses <sup>(2)</sup>
Prior service (cost) credit	0	Acquisition and operating expenses <sup>(2)</sup>
	5	Tax (expense) or benefit <sup>(1)</sup>
	\$ (13)	Net of tax
<b>Total reclassifications for the period</b>	<b>\$ (47)</b>	<b>Net of tax</b>

<sup>(1)</sup> Based on 27% blended tax rate

<sup>(2)</sup> These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 14 for additional details).

(In millions)	2017	
Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statements of Earnings
Unrealized gains (losses) on available-for-sale securities	\$ (29)	Other-than-temporary impairment losses realized
	27	Other gains (losses)
	(2)	Total before tax
	1	Tax (expense) or benefit <sup>(1)</sup>
	\$ (1)	Net of tax
Amortization of defined benefit pension items:		
Actuarial gains (losses)	\$ (17)	Acquisition and operating expenses <sup>(2)</sup>
Prior service (cost) credit	0	Acquisition and operating expenses <sup>(2)</sup>
	6	Tax (expense) or benefit <sup>(1)</sup>
	\$ (11)	Net of tax
<b>Total reclassifications for the period</b>	<b>\$ (12)</b>	<b>Net of tax</b>

<sup>(1)</sup> Based on 35% tax rate

<sup>(2)</sup> These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 14 for additional details).

## 12. SHARE-BASED COMPENSATION

As of December 31, 2019, the Company has outstanding share-based awards under the Aflac Incorporated Long-Term Incentive Plan (the Plan). Share-based awards are designed to reward employees for their long-term contributions to the Company and provide incentives for them to remain with the Company. The number and frequency of share-based awards are based on competitive practices, operating results of the Company, government regulations, and other factors.

The Plan, as amended on February 14, 2017, allows for a maximum number of shares issuable over its term of 75 million shares including 38 million shares that may be awarded in respect of awards other than options or stock appreciation rights. If any awards granted under the Plan are forfeited or are terminated before being exercised or settled for any reason other than tax forfeiture, then the shares underlying the awards will again be available under the Plan.

The Plan allows awards to Company employees for incentive stock options (ISOs), non-qualifying stock options (NQSOs), restricted stock, restricted stock units, and stock appreciation rights. Non-employee directors are eligible for grants of NQSOs,

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restricted stock, and stock appreciation rights. As of December 31, 2019, approximately 39.3 million shares were available for future grants under this plan. The ISOs and NQSOs have a term of 10 years, and the share-based awards generally vest upon time-based conditions or time and performance-based conditions. Time-based vesting generally occurs after three years. Performance-based vesting conditions generally include the attainment of goals related to Company financial performance. As of December 31, 2019, the only performance-based awards issued and outstanding were restricted stock awards and units.

Stock options and stock appreciation rights granted under the amended Plan have an exercise price of at least the fair market value of the underlying stock on the grant date and have an expiration date no later than 10 years from the grant date. Time-based restricted stock awards, restricted stock units and stock options granted after January 1, 2017 generally vest on a ratable basis over three years, and awards granted prior to the amendment vest on a three-year cliff basis. The Compensation Committee of the Board of Directors has the discretion to determine vesting schedules.

Share-based awards granted to U.S.-based grantees are settled with authorized but unissued Company stock, while those issued to Japan-based grantees are settled with treasury shares.

### Summary of Share-Based Compensation Expense

Share-based compensation expense consists primarily of expenses for stock options, restricted stock awards (including performance based restricted stock awards), and restricted stock units granted to employees.

The following table presents the impact of the expense recognized in connection with share-based awards for the periods ended December 31.

(In millions, except for per-share amounts)	2019	2018	2017
Impact on earnings from continuing operations	\$ 59	\$ 57	\$ 51
Impact on earnings before income taxes	59	57	51
Impact on net earnings	46	45	35
<b>Impact on net earnings per share:</b>			
Basic	\$ .06	\$ .06	\$ .05
Diluted	.06	.06	.05

### Stock Options

The following table summarizes stock option activity under the employee stock option plan.

(In thousands of shares)	Stock Option Shares	Weighted-Average Exercise Price Per Share
Outstanding at December 31, 2016	12,680	\$ 26.28
Granted in 2017	626	35.80
Canceled in 2017	(236)	24.95
Exercised in 2017	(5,766)	30.11
Outstanding at December 31, 2017	7,304	28.03
Granted in 2018	67	44.59
Canceled in 2018	(167)	32.11
Exercised in 2018	(1,874)	26.78
<b>Outstanding at December 31, 2018</b>	<b>5,330</b>	<b>28.54</b>
<b>Granted in 2019</b>	<b>0</b>	<b>0.00</b>
<b>Canceled in 2019</b>	<b>(40)</b>	<b>27.82</b>
<b>Exercised in 2019</b>	<b>(1,584)</b>	<b>25.97</b>
<b>Outstanding at December 31, 2019</b>	<b>3,706</b>	<b>\$ 29.65</b>

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(In thousands of shares)	2019	2018	2017
Shares exercisable, end of year	3,553	3,917	4,208

The Company estimates the fair value of each stock option granted using the Black-Scholes-Merton multiple option approach. Expected volatility is based on historical periods generally commensurate with the estimated terms of the options. The Company uses historical data to estimate option exercise and termination patterns within the model. Separate groups of employees that have similar historical exercise patterns are stratified and considered separately for valuation purposes. The expected term of options granted is derived from the output of the Company's option model and represents the weighted-average period of time that options granted are expected to be outstanding. The Company bases the risk-free interest rate on the Treasury note rate with a term comparable to that of the estimated term of the options. There were no options granted in 2019. The weighted-average fair value of options at their grant date was \$8.81 for 2018 compared with \$7.64 in 2017. The following table presents the assumptions used in valuing options granted during the years ended December 31.

	2019	2018	2017
Expected term (years)	7.0	7.0	5.9
Expected volatility	18.0 %	22.0 %	26.0 %
Annual forfeiture rate	3.9	3.6	3.4
Risk-free interest rate	2.9	2.5	2.5
Dividend yield	2.2	2.4	2.5

The following table summarizes information about stock options outstanding and exercisable at December 31, 2019.

(In thousands of shares)		Options Outstanding			Options Exercisable		
Range of Exercise Prices Per Share		Stock Option Shares Outstanding	Wgtd.-Avg. Remaining Contractual Life (Yrs.)	Wgtd.-Avg. Exercise Price Per Share	Stock Option Shares Exercisable	Wgtd.-Avg. Exercise Price Per Share	
\$ 16.92 - \$ 24.75	872	2.1	\$ 23.58	872	\$ 23.58		
24.79 - 28.97	919	3.8	28.49	919	28.49		
29.04 - 31.21	988	4.7	30.77	988	30.77		
31.22 - 36.21	778	6.5	34.31	626	34.02		
37.22 - 44.59	149	7.8	40.57	148	40.59		
\$ 16.92 - \$ 44.59	3,706	4.4	\$ 29.65	3,553	\$ 29.40		

The aggregate intrinsic value in the following table represents the total pretax intrinsic value, and is based on the difference between the exercise price of the stock options and the quoted closing common stock price of \$52.90 as of December 31, 2019, for those awards that have an exercise price currently below the closing price. As of December 31, 2019, the aggregate intrinsic value of stock options outstanding was \$86 million, with a weighted-average remaining term of 4.4 years. The total number of in-the-money stock options exercisable as of December 31, 2019, was 3.6 million. The aggregate intrinsic value of stock options exercisable at that same date was \$84 million, with a weighted-average remaining term of 4.2 years.

The following table summarizes stock option activity during the years ended December 31.

(In millions)	2019	2018	2017
Total intrinsic value of options exercised	\$ 38	\$ 34	\$ 87
Cash received from options exercised	40	48	58
Tax benefit realized as a result of options exercised and restricted stock releases	34	25	74

**Performance-Based Restricted Stock Awards and Units**

Under the Plan, the Company grants selected executive officers performance-based restricted stock awards (PBRS) each February whose vesting is contingent upon meeting various performance goals. PBRS are generally granted at-the-money and contingently cliff vest over a period of three years, generally subject to continued employment. In February 2019, the Company granted 399 thousand performance-based stock awards, which are contingent on the achievement of the Company's financial performance metrics and its market-based conditions. On the date of grant, the Company estimated

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the fair value of restricted stock awards with market-based conditions using a Monte Carlo simulation model. The model discounts the value of the stock at the assumed vesting date based on a risk-free interest rate. Based on estimates of actual performance versus the vesting thresholds, the calculated fair value percentage pay-out estimate will be updated each quarter. Actual performance, including modification for relative total shareholder return, may result in the ultimate award of 0% to 200% percent of the initial number of PBRS issued, with the potential for no award if company performance goals are not achieved during the three-year period. PBRS subject to accelerated vesting at the date of retirement eligibility is recognized over the implicit service period.

The Company also granted selected executive officers performance-based restricted stock units (PSUs) throughout the year whose vesting is contingent upon meeting various performance goals. PSUs are generally granted at-the-money and contingently cliff vest over a period of three years, generally subject to continued employment. In November 2019, the Company granted 46 thousand performance-based stock units, which are contingent on the achievement of certain Company determined metrics. Based on estimates of actual performance versus the vesting thresholds, the calculated fair value percentage pay-out estimate will be updated each quarter. Actual performance may result in the ultimate award of 0% to 200% percent of the initial number of PSUs issued, with the potential for no award if the Company determined metrics are not achieved during the three-year period. PSUs subject to accelerated vesting at the date of retirement eligibility is recognized over the implicit service period.

The Company uses third-party analyses to assist in developing the assumptions used in, as well as calibrating, a Monte Carlo simulation model. The Company is responsible for determining the assumptions used in estimating the fair value of its share-based payment awards.

Key assumptions used to value PBRS granted during 2019 follows:

(In millions)	2019
Expected volatility (based on Aflac Inc. and peer group historical daily stock price)	15.82%
Expected life from grant date (years)	2.9
Risk-free interest rate (based on U.S. Treasury yields at the date of grant)	2.51%

### Restricted Stock Awards and Units

The value of restricted stock awards and restricted stock units is based on the fair market value of the Company's common stock at the date of grant. The following table summarizes restricted stock activity during the years ended December 31.

(In thousands of shares)	Shares	Weighted-Average Grant-Date Fair Value Per Share
Restricted stock at December 31, 2016	3,736	\$ 30.88
Granted in 2017	1,118	36.48
Canceled in 2017	(202)	32.23
Vested in 2017	(1,018)	31.09
Restricted stock at December 31, 2017	3,634	32.40
Granted in 2018	1,121	44.27
Canceled in 2018	(105)	34.39
Vested in 2018	(1,243)	31.64
<b>Restricted stock at December 31, 2018</b>	<b>3,407</b>	<b>36.52</b>
<b>Granted in 2019</b>	<b>1,070</b>	<b>49.68</b>
<b>Canceled in 2019</b>	<b>(39)</b>	<b>41.60</b>
<b>Vested in 2019</b>	<b>(1,865)</b>	<b>32.73</b>
<b>Restricted stock at December 31, 2019</b>	<b>2,573</b>	<b>\$ 44.66</b>

As of December 31, 2019, total compensation cost not yet recognized in the Company's financial statements related to restricted stock awards and restricted stock units was \$60 million, of which \$30 million (1.5 million shares) was related to restricted stock awards with a performance-based vesting condition. The Company expects to recognize these amounts over

a weighted-average period of approximately 1.1 years. There are no other contractual terms covering restricted stock awards once vested.

### 13. STATUTORY ACCOUNTING AND DIVIDEND RESTRICTIONS

The Company's insurance subsidiaries are required to report their results of operations and financial position to insurance regulatory authorities on the basis of statutory accounting practices prescribed or permitted by such authorities. Statutory accounting practices primarily differ from U.S. GAAP by charging policy acquisition costs to expense as incurred, establishing future policy benefit liabilities using different actuarial assumptions as well as valuing investments and certain assets and accounting for deferred taxes on a different basis.

Aflac reports statutory financial statements that are prepared on the basis of accounting practices prescribed or permitted by the Nebraska Department of Insurance (NDOI). The NDOI recognizes statutory accounting principles and practices prescribed or permitted by the state of Nebraska for determining and reporting the financial condition and results of operations of an insurance company, and for determining a company's solvency under Nebraska insurance law. Statutory Accounting Principles (SAP) as detailed by the National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual* has been adopted by the state of Nebraska as a component of those prescribed or permitted practices. Additionally, the Director of the NDOI has the right to permit other specific practices which deviate from prescribed practices. Prior to the Japan branch conversion on April 1, 2018, Aflac had been given explicit permission by the Director of the NDOI for two such permitted practices. On April 1, 2018, the Company entered into a series of transactions in order to complete the conversion of the Japan branch into a Japanese insurance corporation. As a result of the conversion, the permitted practices were no longer necessary, therefore they were canceled by the NDOI effective April 2, 2018. Aflac had no permitted practices as of December 31, 2019 and 2018.

Aflac's capital and surplus as determined by NAIC basis and Nebraska state basis was \$2.1 billion and \$2.6 billion as of December 31, 2019 and 2018, respectively. As of December 31, 2019, Aflac's capital and surplus significantly exceeded the required company action level capital and surplus of \$4 billion. As determined on a U.S. statutory accounting basis, Aflac's net income was \$864 million in 2019, \$1.3 billion in 2018 and \$2.6 billion in 2017.

Aflac Japan must report its results of operations and financial position to the Japanese Financial Services Agency (FSA) on a Japanese regulatory accounting basis as prescribed by the FSA. Capital and surplus of Aflac Japan, based on Japanese regulatory accounting practices, was \$7.8 billion at December 31, 2019, compared with \$6.4 billion at December 31, 2018. Japanese regulatory accounting practices differ in many respects from U.S. GAAP. Under Japanese regulatory accounting practices, policy acquisition costs are expensed immediately; policy benefit and claim reserving methods and assumptions are different; premium income is recognized on a cash basis; different consolidation criteria apply to VIEs; reinsurance is recognized on a different basis; and investments can have a separate accounting classification and treatment referred to as policy reserve matching bonds (PRM).

The Parent Company depends on its subsidiaries for cash flow, primarily in the form of dividends and management fees. Consolidated retained earnings in the accompanying financial statements largely represent the undistributed earnings of the Company's insurance subsidiary. Amounts available for dividends, management fees and other payments to the Parent Company by its insurance subsidiaries may fluctuate due to different accounting methods required by regulatory authorities. These payments are also subject to various regulatory restrictions and approvals related to safeguarding the interests of insurance policyholders. Aflac must maintain adequate RBC for U.S. regulatory authorities, and Aflac Japan must maintain adequate solvency margins for Japanese regulatory authorities.

The maximum amount of dividends that can be paid to the Parent Company by Aflac and CAIC without prior approval of Nebraska's director of insurance is the greater of the net income from operations, which excludes net realized investment gains, for the previous year determined under statutory accounting principles, or 10% of statutory capital and surplus as of the previous year-end. Dividends declared by Aflac during 2020 in excess of \$864 million would require such approval. Aflac declared dividends of \$1.3 billion during 2019.

After the Japan branch conversion as of April 1, 2018, Aflac Japan is required to meet certain financial criteria as governed by Japanese corporate law in order to provide dividends to the Parent Company. Under these criteria, dividend capacity at Aflac Japan is basically defined as retained earnings excluding capital reserves, which represent equity generated by capital profits that are statutorily required in Japan, less net after-tax unrealized losses on available-for-sale securities based on the previous fiscal year-end. Prior to April 1, 2018, a portion of Aflac Japan earnings, as determined on a Japanese regulatory accounting basis, could be remitted each year to Aflac U.S. after complying with solvency margin provisions and satisfying various conditions imposed by Japanese regulatory authorities for protecting policyholders. Profit remittances to the U.S. could fluctuate due to changes in the amounts of Japanese regulatory earnings. Among other items, factors affecting regulatory



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earnings include Japanese regulatory accounting practices and fluctuations in currency translation of Aflac Japan's U.S. dollar-denominated investments and related investment income into yen. Profits remitted by Aflac Japan to the Parent Company, after April 1, 2018, and to Aflac U.S., prior to April 1, 2018, were as follows for the years ended December 31:

(In millions of dollars and billions of yen)	In Dollars			In Yen		
	2019	2018	2017	2019	2018	2017
Profit remittances	\$ 2,070	\$ 808	\$ 1,150	¥ 225.2	¥ 89.7	¥ 129.3

## 14. BENEFIT PLANS

## Pension and Other Postretirement Plans

The Company has funded defined benefit plans in Japan and the U.S., however the U.S. plan was frozen to new participants effective October 1, 2013. The Company also maintains non-qualified, unfunded supplemental retirement plans that provide defined pension benefits in excess of limits imposed by federal tax law for certain Japanese, U.S. and former employees, however the U.S. plan was frozen to new participants effective January 1, 2015. U.S. employees who are not participants in the defined benefit plan receive a nonelective 401(k) employer contribution.

The Company provides certain health care benefits for eligible U.S. retired employees, their beneficiaries and covered dependents (other postretirement benefits). The health care plan is contributory and unfunded. Effective January 1, 2014, employees eligible for benefits included the following: (1) active employees whose age plus service, in years, equaled or exceeded 80 (rule of 80); (2) active employees who were age 55 or older and have met the 15 years of service requirement; (3) active employees who would meet the rule of 80 in the next five years; (4) active employees who were age 55 or older and who would meet the 15 years of service requirement within the next five years; and (5) current retirees. For certain employees and former employees, additional coverage is provided for all medical expenses for life.

Information with respect to the Company's benefit plans' assets and obligations as of December 31 was as follows:

(In millions)	Pension Benefits				Other	
	Japan		U.S.		Postretirement Benefits	
	2019	2018	2019	2018	2019	2018
<b>Projected benefit obligation:</b>						
Benefit obligation, beginning of year	\$ 396	\$ 341	\$ 875	\$ 908	\$ 37	\$ 36
Service cost	22	19	23	27	0	0
Interest cost	7	7	20	31	1	1
Actuarial (gain) loss	17	35	163 <sup>(3)</sup>	(69)	4	4
Benefits and expenses paid	(11)	(11)	(23)	(22)	(3)	(4)
Effect of foreign exchange rate changes	5	5	0	0	0	0
Benefit obligation, end of year	436	396	1,058	875	39	37
<b>Plan assets:</b>						
Fair value of plan assets, beginning of year	289	270	465	448	0	0
Actual return on plan assets	24	(9)	98	(30)	0	0
Employer contributions	38	34	104	69	3	4
Benefits and expenses paid	(11)	(11)	(23)	(22)	(3)	(4)
Effect of foreign exchange rate changes	4	5	0	0	0	0
Fair value of plan assets, end of year	344	289	644	465	0	0
<b>Funded status of the plans<sup>(1)</sup></b>	<b>\$ (92)</b>	<b>\$ (107)</b>	<b>\$ (414)</b>	<b>\$ (410)</b>	<b>\$ (39)</b>	<b>\$ (37)</b>
<b>Amounts recognized in accumulated other comprehensive income:</b>						
Net actuarial (gain) loss	\$ 92	\$ 95	\$ 259	\$ 174	\$ 12	\$ 9
Prior service (credit) cost	(2)	(2)	(4)	(4)	0	0
Total included in accumulated other comprehensive income	\$ 90	\$ 93	\$ 255	\$ 170	\$ 12	\$ 9
Accumulated benefit obligation	\$ 390	\$ 356	\$ 886	\$ 746	N/A <sup>(2)</sup>	N/A <sup>(2)</sup>

<sup>(1)</sup> Recognized in other liabilities in the consolidated balance sheets

<sup>(2)</sup> Not applicable

<sup>(3)</sup> Actuarial losses increased due to lower discount rates at the end of 2019. Also, additional funds were contributed to the U.S. funded defined benefit plan in 2019. The Company contributed \$95 million in 2019 compared to \$60 million in 2018.

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*Information for Pension Plans with an Accumulated Benefit Obligation in Excess of Plan Assets*

(In millions)	Pension Benefits			
	Japan		U.S.	
	2019	2018	2019	2018
Accumulated benefit obligation	\$ 390	\$ 356	\$ 886	\$ 746
Fair value of plan assets	344	289	644	465

*Information for Pension Plans with a Projected Benefit Obligation in Excess of Plan Assets*

(In millions)	Pension Benefits			
	Japan <sup>(1)</sup>		U.S. <sup>(2)</sup>	
	2019	2018	2019	2018
Projected benefit obligation	\$ 436	\$ 396	\$ 1,058	\$ 875
Fair value of plan assets	344	289	644	465

<sup>(1)</sup> The net amount of projected benefit obligation and plan assets for the underfunded (including unfunded) Japan pension plan was \$92 and \$107 at December 31, 2019 and 2018, respectively, and was classified as liabilities on the statement of financial position.

<sup>(2)</sup> The net amount of projected benefit obligation and plan assets for the underfunded (including unfunded) U.S. pension plan was \$414 and \$410 at December 31, 2019 and 2018, respectively, and was classified as liabilities on the statement of financial position.

Information for other postretirement benefit plans with an accumulated postretirement benefit obligation in excess of plan assets has been disclosed in the note on "Obligations and Funded Status" because all the other postretirement benefit plans are unfunded or underfunded.

	Pension Benefits						Other Postretirement Benefits		
	Japan			U.S.					
	2019	2018	2017	2019	2018	2017	2019	2018	2017
<b>Weighted-average actuarial assumptions:</b>									
Discount rate - net periodic benefit cost	1.25%	1.25%	1.25%	4.25%	3.75%	4.25%	4.25%	3.75%	4.25%
Discount rate - benefit obligations	.75	1.25	1.25	3.25	4.25	3.75	3.25	4.25	3.75
Expected long-term return on plan assets	2.00	2.00	2.00	6.25	6.50	6.75	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>
Rate of compensation increase	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	4.00	4.00	4.00	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>
Health care cost trend rates	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	N/A <sup>(1)</sup>	N/A	N/A <sup>(1)</sup>	7.50 <sup>(2)</sup>	7.40 <sup>(2)</sup>	5.40 <sup>(2)</sup>

<sup>(1)</sup> Not applicable

<sup>(2)</sup> For the years 2019, 2018 and 2017, the health care cost trend rates are expected to trend down to 3.8% in 54 years, 4.1% in 61 years, and 4.5% in 77 years, respectively.

The Company determines its discount rate assumption for its pension retirement obligations based on indices for AA corporate bonds with an average duration of approximately 20 years for the Japan pension plans and 17 years for the U.S. pension plans, and determination of the U.S. pension plans discount rate utilizes the 85-year extrapolated yield curve. In Japan, participant salary and future salary increases are not factors in determining pension benefit cost or the related pension benefit obligation.

The Company bases its assumption for the long-term rate of return on assets on historical trends (10-year or longer historical rates of return for the Japanese plan assets and 15-year historical rates of return for the U.S. plan assets), expected future market movement, as well as the portfolio mix of securities in the asset portfolio including, but not limited to, style, class and equity and fixed income allocations. In addition, the Company's consulting actuaries evaluate its assumptions for long-term rates of return under Actuarial Standards of Practice (ASOP). Under the ASOP, the actual portfolio type, mix and class is modeled to determine a best estimate of the long-term rate of return. The Company in turn use those results to further validate its own assumptions.

*Components of Net Periodic Benefit Cost*

Pension and other postretirement benefit expenses are included in acquisition and operating expenses in the consolidated statements of earnings, which includes \$8 million, \$25 million and \$35 million of other components of net periodic pension cost and postretirement costs (other than services costs) for the years ended December 31, 2019, 2018 and 2017, respectively. Total net periodic benefit cost includes the following components:

(In millions)	Pension Benefits						Other		
	Japan			U.S.			Postretirement Benefits		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Service cost	\$ 22	\$ 19	\$ 20	\$ 23	\$ 27	\$ 24	\$ 0	\$ 0	\$ 0
Interest cost	7	7	6	20	31	40	1	1	1
Expected return on plan assets	(6)	(6)	(5)	(29)	(26)	(24)	0	0	0
Amortization of net actuarial loss	4	1	2	10	16	14	1	1	1
<b>Net periodic (benefit) cost</b>	<b>\$ 27</b>	<b>\$ 21</b>	<b>\$ 23</b>	<b>\$ 24</b>	<b>\$ 48</b>	<b>\$ 54</b>	<b>\$ 2</b>	<b>\$ 2</b>	<b>\$ 2</b>

*Changes in Accumulated Other Comprehensive Income*

The following table summarizes the amounts recognized in other comprehensive loss (income) for the years ended December 31:

(In millions)	Pension Benefits						Other		
	Japan			U.S.			Postretirement Benefits		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
Net actuarial loss (gain)	\$ 1	\$ 52	\$ (21)	\$ 95	\$ (13)	\$ 28	\$ 4	\$ 4	\$ 0
Amortization of net actuarial loss	(4)	(1)	(2)	(10)	(16)	(14)	(1)	(1)	(1)
<b>Total</b>	<b>\$ (3)</b>	<b>\$ 51</b>	<b>\$ (23)</b>	<b>\$ 85</b>	<b>\$ (29)</b>	<b>\$ 14</b>	<b>\$ 3</b>	<b>\$ 3</b>	<b>\$ (1)</b>

No transition obligations arose during 2019.

*Benefit Payments*

The following table provides expected benefit payments, which reflect expected future service, as appropriate.

(In millions)	Pension Benefits						Other		
	Japan			U.S.			Postretirement Benefits		
	2020	2021	2022	2023	2024	2025-2029	2020	2021	2022
	\$ 13				\$ 25		\$ 3		
2021	12				27		4		
2022	17				29		4		
2023	14				30		4		
2024	16				31		4		
2025-2029	84				203		16		

*Funding*

The Company plans to make contributions of \$35 million to the Japanese funded defined benefit plan in 2020. The Company does not plan to make any contributions to the U.S. funded defined benefit plan in 2020. The Company funded additional contributions to the U.S. funded defined benefit plan in 2019. The funding policy for the Company's non-qualified supplemental defined benefit pension plans and other postretirement benefits plan is to contribute the amount of the benefit payments made during the year.

*Plan Assets*

The investment objective of the Company's Japanese and U.S. funded defined benefit plans is to preserve the purchasing power of the plan's assets and earn a reasonable inflation-adjusted rate of return over the long term. Furthermore, the Company seeks to accomplish these objectives in a manner that allows for the adequate funding of plan benefits and expenses. In order to achieve these objectives, the Company's goal is to maintain a conservative, well-diversified and balanced portfolio of high-quality equity, fixed-income and money market securities. As a part of its strategy, the Company has established strict policies covering quality, type and concentration of investment securities. For the Company's Japanese plan, these policies include limitations on investments in derivatives including futures, options and swaps, and low-liquidity investments such as real estate, venture capital investments, and privately issued securities. For the Company's U.S. plan, these policies prohibit investments in precious metals, limited partnerships, venture capital, and direct investments in real estate. The Company is also prohibited from trading on margin.

The plan fiduciaries for the Company's funded defined benefit plans have developed guidelines for asset allocations reflecting a percentage of total assets by asset class, which are reviewed on an annual basis. Asset allocation targets as of December 31, 2019 were as follows:

	Japan Pension	U.S. Pension
Domestic equities	5%	40%
International equities	20	20
Fixed income securities	66	40
Other	9	0
<b>Total</b>	<b>100%</b>	<b>100%</b>

The U.S. Pension Plan had \$100 million in cash at December 31, 2019. The plan fiduciaries authorized investing a contribution made to the Plan in 2019 on a graduated basis over a period of time.

The following table presents the fair value of Aflac Japan's pension plan assets that are measured at fair value on a recurring basis as of December 31. All of these assets are classified as Level 2 in the fair value hierarchy.

(In millions)	2019	2018
<b>Japan pension plan assets:</b>		
Equities:		
Japanese equity securities	\$ 17	\$ 14
International equity securities	67	50
Fixed income securities:		
Japanese bonds	20	34
International bonds	207	160
Insurance contracts	33	31
<b>Total</b>	<b>\$ 344</b>	<b>\$ 289</b>

The following table presents the fair value of Aflac U.S.'s pension plan assets that are measured at fair value on a recurring basis as of December 31. All of these assets are classified as Level 1 in the fair value hierarchy.

(In millions)	2019	2018
<b>U.S. pension plan assets:</b>		
Mutual funds:		
Large cap equity funds	\$ 179	\$ 120
Mid cap equity funds	22	17
Real estate equity funds	16	13
International equity funds	112	92
Fixed income bond funds	209	179
Aflac Incorporated common stock	6	5
Cash and cash equivalents	100	39
<b>Total</b>	<b>\$ 644</b>	<b>\$ 465</b>

The fair values of the Company's pension plan investments categorized as Level 1, consisting of mutual funds and common stock, are based on quoted market prices for identical securities traded in active markets that are readily and regularly available to the Company. The fair values of the Company's pension plan investments classified as Level 2 are based on quoted prices for similar assets in markets that are not active, other inputs that are observable, such as interest rates, yield curves, volatilities, prepayment speeds, loss severities, credit risks, and default rates, or other market-corroborated inputs.

#### 401(k) Plan

The Company sponsors a 401(k) plan in which it matches a portion of U.S. employees' contributions. The plan provides for salary reduction contributions by employees and provides for matching contributions which, starting January 1, 2018, the Company increased to 100% of each employee's contributions which were not in excess of 4% of the employee's annual cash compensation as a result of tax reform. The Company also provides a nonelective contribution to the 401(k) plan of 2% of annual cash compensation for employees who opted out of the future benefits of the U.S. defined benefit plan and for new U.S. employees.

The 401(k) contributions by the Company, included in acquisition and operating expenses in the consolidated statements of earnings, were \$18 million in both 2019 and 2018 and \$15 million in 2017. The plan trustee held approximately 2.6 million shares of the Company's common stock for plan participants at December 31, 2019.

#### Stock Bonus Plan

Aflac U.S. maintains a stock bonus plan for eligible U.S. sales associates. Plan participants receive shares of Aflac Incorporated common stock based on their new annualized premium sales and their first-year persistency of substantially all new insurance policies. The cost of this plan, which was capitalized as deferred policy acquisition costs, amounted to \$31 million in 2019, 2018 and 2017.

### 15. COMMITMENTS AND CONTINGENT LIABILITIES

The Company has two outsourcing agreements with a technology and consulting corporation. The first agreement provides mainframe computer operations, distributed mid-range server computer operations, and related support for Aflac Japan. It has a remaining term of three years and an aggregate remaining cost of ¥26.7 billion (\$244 million using the December 31, 2019, exchange rate). The second agreement provides application maintenance and development services for Aflac Japan. It has a remaining term of four years and an aggregate remaining cost of ¥6.6 billion (\$61 million using the December 31, 2019, exchange rate).

The Company has an outsourcing agreement with a management consulting and technology services company to provide application maintenance and development services for its Japanese operation. The agreement has a remaining term of two years with an aggregate remaining cost of ¥6.9 billion (\$63 million using the December 31, 2019, exchange rate).

The Company has two outsourcing agreements with information technology and data services companies to provide application maintenance and development services for its Japanese operation. The first agreement has a remaining term of three years with an aggregate remaining cost of ¥5.5 billion (\$50 million using the December 31, 2019, exchange rate). The second agreement has a remaining term of three years with an aggregate remaining cost of ¥4.9 billion (\$45 million using the December 31, 2019, exchange rate).

The Company is a defendant in various lawsuits considered to be in the normal course of business. Members of the Company's senior legal and financial management teams review litigation on a quarterly and annual basis. The final results of any litigation cannot be predicted with certainty. Although some of this litigation is pending in states where large punitive damages, bearing little relation to the actual damages sustained by plaintiffs, have been awarded in recent years, the Company believes the outcome of pending litigation will not have a material adverse effect on its financial position, results of operations, or cash flows.

See Note 3 of the Notes to the Consolidated Financial Statements for details on certain investment commitments.

### **Guaranty Fund Assessments**

The U.S. insurance industry has a policyholder protection system that is monitored and regulated by state insurance departments. These life and health insurance guaranty associations are state entities (in all 50 states as well as Puerto Rico and the District of Columbia) created to protect policyholders of an insolvent insurance company. All insurance companies (with limited exceptions) licensed to sell life or health insurance in a state must be members of that state's guaranty association. Under state guaranty association laws, certain insurance companies can be assessed (up to prescribed limits) for certain obligations to the policyholders and claimants of impaired or insolvent insurance companies that write the same line or similar lines of business.

In 2009, the Pennsylvania Insurance Commissioner placed long-term care insurer Penn Treaty Network America Insurance Company and its subsidiary American Network Insurance Company (collectively referred to as Penn Treaty), neither of which is affiliated with Aflac, in rehabilitation and petitioned a state court for approval to liquidate Penn Treaty. A final order of liquidation was granted by a recognized judicial authority on March 1, 2017, and as a result, Penn Treaty is in the process of liquidation. The Company estimated and recognized the impact of its share of guaranty fund assessments resulting from the liquidation using a discounted rate of 4.25%. The Company recognized a discounted liability for the assessments of \$62 million (undiscounted \$94 million), offset by discounted premium tax credits of \$48 million (undiscounted \$74 million), for a net \$14 million impact to net income in the quarter ended March 31, 2017. The Company paid a majority of these assessments by March 31, 2019. The Company used the cost estimate provided as of the liquidation date by the National Organization of Life and Health Guaranty Associations (NOLHGA) to calculate its estimated assessments and tax credits. Other guaranty fund assessments for the years ended December 31, 2019, 2018, and 2017 were immaterial.

### **16. UNAUDITED CONSOLIDATED QUARTERLY FINANCIAL DATA**

In management's opinion, the following quarterly financial information fairly presents the results of operations for such periods and is prepared on a basis consistent with the Company's annual audited financial statements.

[Item 8. Financial Statements and Supplementary Data](#)

(In millions, except for per-share amounts)	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019
<b>Net premium income</b>	<b>\$ 4,691</b>	<b>\$ 4,681</b>	<b>\$ 4,736</b>	<b>\$ 4,671</b>
<b>Net investment income</b>	<b>878</b>	<b>878</b>	<b>936</b>	<b>886</b>
<b>Realized investment gains (losses)</b>	<b>71</b>	<b>(66)</b>	<b>(153)</b>	<b>12</b>
<b>Other income (loss)</b>	<b>17</b>	<b>18</b>	<b>17</b>	<b>34</b>
<b>Total revenues</b>	<b>5,657</b>	<b>5,511</b>	<b>5,536</b>	<b>5,603</b>
<b>Total benefits and expenses</b>	<b>4,415</b>	<b>4,402</b>	<b>4,500</b>	<b>4,545</b>
<b>Earnings before income taxes</b>	<b>1,242</b>	<b>1,109</b>	<b>1,036</b>	<b>1,058</b>
<b>Total income tax</b>	<b>314</b>	<b>292</b>	<b>259</b>	<b>276</b>
<b>Net earnings</b>	<b>\$ 928</b>	<b>\$ 817</b>	<b>\$ 777</b>	<b>\$ 782</b>
<b>Net earnings per basic share</b>	<b>\$ 1.23</b>	<b>\$ 1.10</b>	<b>\$ 1.05</b>	<b>\$ 1.07</b>
<b>Net earnings per diluted share</b>	<b>1.23</b>	<b>1.09</b>	<b>1.04</b>	<b>1.06</b>

Quarterly amounts may not agree in total to the corresponding annual amounts due to rounding.

(In millions, except for per-share amounts)	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018
<b>Net premium income</b>	<b>\$ 4,745</b>	<b>\$ 4,706</b>	<b>\$ 4,636</b>	<b>\$ 4,591</b>
<b>Net investment income</b>	<b>837</b>	<b>862</b>	<b>870</b>	<b>874</b>
<b>Realized investment gains (losses)</b>	<b>(134)</b>	<b>3</b>	<b>56</b>	<b>(355)</b>
<b>Other income (loss)</b>	<b>16</b>	<b>18</b>	<b>15</b>	<b>16</b>
<b>Total revenues</b>	<b>5,464</b>	<b>5,589</b>	<b>5,577</b>	<b>5,126</b>
<b>Total benefits and expenses</b>	<b>4,482</b>	<b>4,458</b>	<b>4,431</b>	<b>4,404</b>
<b>Earnings before income taxes</b>	<b>982</b>	<b>1,131</b>	<b>1,146</b>	<b>722</b>
<b>Total income tax</b>	<b>265</b>	<b>299</b>	<b>301</b>	<b>197</b>
<b>Net earnings</b>	<b>\$ 717</b>	<b>\$ 832</b>	<b>\$ 845</b>	<b>\$ 525</b>
<b>Net earnings per basic share</b>	<b>\$ .92</b>	<b>\$ 1.08</b>	<b>\$ 1.10</b>	<b>\$ .69</b>
<b>Net earnings per diluted share</b>	<b>.91</b>	<b>1.07</b>	<b>1.09</b>	<b>.69</b>

Quarterly amounts may not agree in total to the corresponding annual amounts due to rounding.

## 17. SUBSEQUENT EVENTS

In January 2020, the Parent Company used proceeds from senior notes issued in December 2019 to redeem \$350 million of its 4.00% fixed-rate senior notes due February 2022.



## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

There have been no changes in, or disagreements with, accountants on accounting and financial disclosure matters during the years ended December 31, 2019 and 2018.

### **ITEM 9A. CONTROLS AND PROCEDURES**

#### **Disclosure Controls and Procedures**

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this annual report (the "Evaluation Date"). Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures are effective.

#### **Internal Control Over Financial Reporting**

##### **(a) Management's Annual Report on Internal Control Over Financial Reporting**

Management's Annual Report on Internal Control Over Financial Reporting is incorporated herein by reference from Part II, Item 8 of this report.

##### **(b) Attestation Report of the Registered Public Accounting Firm**

The Attestation Report of the Registered Public Accounting Firm on the Company's internal control over financial reporting is incorporated herein by reference from Part II, Item 8 of this report.

##### **(c) Changes in Internal Control Over Financial Reporting**

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the last fiscal quarter of 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. In connection with adoption of new accounting standards associated with accounting for credit losses as detailed in Note 1 of the Notes to the Consolidated Financial Statements, the Company has implemented a new system, and related processes and controls to ensure appropriate accounting and disclosures are developed and maintained.

### **ITEM 9B. OTHER INFORMATION**

Not applicable.

**PART III**

Pursuant to General Instruction G to Form 10-K, Items 10 through 14 are incorporated by reference from the Company's definitive Notice and Proxy Statement relating to the Company's 2020 Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission on or about March 20, 2020, pursuant to Regulation 14A under the Exchange Act. The Audit Committee Report and Compensation Committee Report to be included in such proxy statement shall be deemed to be furnished in this report and shall not be incorporated by reference into any filing under the Securities Act of 1933 as a result of such furnishing in Items 10 and 11, respectively.

Refer to the Information Contained in the Proxy  
Statement under Captions (filed electronically)

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<b>ITEM 10.</b>	<b>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</b>	1. Election of Directors; Delinquent Section 16(a) Reports; Audit and Risk Committee; Audit and Risk Committee Report; Director Nominating Process; and Code of Business Conduct and Ethics
	<b>Information about the Company's Executive Officers -see Part I, Item 1 herein</b>	
<b>ITEM 11.</b>	<b>EXECUTIVE COMPENSATION</b>	Director Compensation; Compensation Committee; Compensation Committee Report; Compensation Discussion and Analysis; 2019 Summary Compensation Table; 2019 Grants of Plan-Based Awards; 2019 Outstanding Equity Awards at Fiscal Year-End; 2019 Option Exercises and Stock Vested; Pension Benefits; Nonqualified Deferred Compensation; Potential Payments Upon Termination or Change-In-Control; and Compensation Committee Interlocks and Insider Participation
<b>ITEM 12.</b>	<b>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</b>	Principal Shareholders; Election of Directors (Proposal 1); Security Ownership of Management; and Equity Compensation Plan Information
<b>ITEM 13.</b>	<b>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</b>	Related Person Transactions; and Director Independence
<b>ITEM 14.</b>	<b>PRINCIPAL ACCOUNTING FEES AND SERVICES</b>	Ratification of Appointment of Independent Registered Public Accounting Firm (Proposal 3); and Audit and Risk Committee

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

<b>(a) 1. <u>FINANCIAL STATEMENTS</u></b>	<b>Page(s)</b>
Included in Part II, Item 8, of this report:	
Aflac Incorporated and Subsidiaries:	
Report of Independent Registered Public Accounting Firm	<a href="#">78</a>
Consolidated Statements of Earnings for each of the years in the three-year period ended December 31, 2019	<a href="#">82</a>
Consolidated Statements of Comprehensive Income for each of the years in the three-year period ended December 31, 2019	<a href="#">83</a>
Consolidated Balance Sheets as of December 31, 2019 and 2018	<a href="#">84</a>
Consolidated Statements of Shareholders' Equity for each of the years in the three-year period ended December 31, 2019	<a href="#">85</a>
Consolidated Statements of Cash Flows for each of the years in the three-year period ended December 31, 2019	<a href="#">86</a>
Notes to the Consolidated Financial Statements	<a href="#">87</a>
Unaudited Consolidated Quarterly Financial Data	<a href="#">168</a>
<b>2. <u>FINANCIAL STATEMENT SCHEDULES</u></b>	
Included in Part IV of this report:	
Schedule II - Condensed Financial Information of Registrant as of December 31, 2019 and 2018, and for each of the years in the three-year period ended December 31, 2019	<a href="#">182</a>
Schedule III - Supplementary Insurance Information as of December 31, 2019 and 2018, and for each of the years in the three-year period ended December 31, 2019	<a href="#">188</a>
Schedule IV - Reinsurance for each of the years in the three-year period ended December 31, 2019	<a href="#">189</a>

**3. EXHIBIT INDEX**

An "Exhibit Index" has been filed as part of this Report beginning on the following page and is incorporated herein by this reference.

Schedules other than those listed above are omitted because they are not required, are not material, are not applicable, or the required information is shown in the financial statements or notes thereto.

In reviewing the agreements included as exhibits to this annual report, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about the Company or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time.

**ITEM 16. FORM 10-K SUMMARY**

Not applicable

## Glossary of Selected Terms

Throughout this Annual Report on Form 10-K, the Company may use certain terms which are defined below.

**Adjusted Earnings Per Diluted Share Excluding the Impact of Foreign Currency** – 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 Aflac's underlying business performance. The most comparable U.S. GAAP measure is net earnings. 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 most comparable U.S. GAAP measure is net earnings per share. This metric is then adjusted using the average yen/dollar exchange rate for the comparable prior year period, which eliminates dollar based fluctuations driven solely from currency rate changes.

**Affiliated Corporate Agency** – Agency in Japan directly affiliated with a specific corporation that sells insurance policies primarily to its employees

**Annualized premiums in force** – the amount of gross premium that a policyholder must pay over a full year in order to keep coverage. The growth of net premiums (defined below) is directly affected by the change in premiums in force and by the change in weighted-average yen/dollar exchange rates.

**Earnings Per Basic Share** – Net earnings divided by weighted-average number of shares outstanding for the period

**Earnings Per Diluted Share** – Net earnings divided by the weighted-average number of shares outstanding for the period plus the weighted-average shares for the dilutive effect of share-based awards outstanding

**Group Insurance** – Insurance issued to a group, such as an employer or trade association, that covers employees or association members and their dependents through certificates of coverage

**Individual Insurance** – Insurance issued to an individual with the policy designed to cover that person and his or her dependents

**In-force Policies** – A count of policies that are active contracts at the end of a period.

**Net Investment Income** – The income derived from interest and dividends on invested assets, after deducting investment expenses

**Net premiums** – (sometimes referred to as net premium income or net earned premiums) is a financial measure that appears on the Company's Consolidated Statements of Earnings and in its segment reporting. This measure reflects collected or due premiums that have been earned ratably on policies in force during the reporting period, reduced by premiums that have been ceded to third parties and increased by premiums assumed through reinsurance.

**New Annualized Premium Sales** – (sometimes referred to as new sales or sales) An operating measure that is not reflected on the Company's financial statements. New annualized premium sales generally represent annual premiums on policies the Company sold and incremental increases from policy conversions that would be collected over a 12-month period assuming the policies remain in force for that entire period. For Aflac Japan, new annualized premium sales are determined by applications submitted during the reporting period. For Aflac U.S., new annualized premium sales are determined by applications that are issued during the reporting period. Policy conversions are defined as the positive difference in the annualized premium when a policy upgrades in the current reporting period.

**Persistency** – Percentage of premiums remaining in force at the end of a period, usually one year. For example, 95% persistency would mean that 95% of the premiums in force at the beginning of the period were still in force at the end of the period

**Risk-based Capital (RBC) Ratio** – Statutory adjusted capital divided by statutory required capital. This insurance ratio is based on rules prescribed by the National Association of Insurance Commissioners (NAIC) and provides an indication of the amount of statutory capital the insurance company maintains, relative to the inherent risks in the insurer's operations

**Solvency Margin Ratio (SMR)** – Solvency margin total divided by one half of the risk total. This insurance ratio is prescribed by the Japan Financial Services Agency (FSA) and is used for all life insurance companies in Japan to measure the adequacy of the company's ability to pay policyholder claims in the event actual risks exceed expected levels

**Total Return to Shareholders** – Appreciation of a shareholder's investment over a period of time, including reinvested cash dividends paid during that time

## Defined Terms

Throughout this Annual Report on Form 10-K, the Company may use abbreviations, acronyms and defined terms which are defined below.

<b>ACA</b>	Affordable Care Act
<b>AFS</b>	Available-for-Sale
<b>AOCI</b>	Accumulated Other Comprehensive Income
<b>APPI</b>	Act on the Protection of Personal Information
<b>ASC</b>	Accounting Standards Codification
<b>ASOP</b>	Actuarial Standards of Practice
<b>ASU</b>	Accounting Standards Update
<b>BoJ</b>	Bank of Japan
<b>CDSs</b>	Credit Default Swaps
<b>CFTC</b>	Commodity Futures Trading Commission
<b>CMLs</b>	Commercial Mortgage Loans
<b>COSO</b>	Committee of Sponsoring Organizations of the Treadway Commission
<b>CSAs</b>	Credit Support Annexes
<b>DAC</b>	Deferred Policy Acquisition Costs
<b>DTL</b>	Deferred Tax Liability
<b>Dodd-Frank</b>	Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
<b>DTA</b>	Deferred Tax Asset
<b>ECB</b>	European Central Bank
<b>EPS</b>	Earnings Per Share
<b>FASB</b>	Financial Accounting Standard Boards
<b>FHLB</b>	Federal Home Loan Bank of Atlanta
<b>FIO</b>	Federal Insurance Office
<b>FSA</b>	Japanese Financial Services Agency
<b>GLBA</b>	Gramm-Leach-Bliley Act of 1999
<b>HIPAA</b>	Health Insurance Portability and Accountability Act of 1996
<b>HTM</b>	Held-to-Maturity
<b>IRS</b>	Internal Revenue Service
<b>ISDA</b>	International Swaps and Derivatives Association, Inc.
<b>ISOs</b>	Incentive Stock Options
<b>Japan Post Group</b>	Japan Post Holdings Co., Ltd., JPC and JPI, collectively
<b>Japan Post Holdings</b>	Japan Post Holdings Co., Ltd.
<b>JGB</b>	Japan Government Bond
<b>JPC</b>	Japan Post Co. Ltd
<b>JPI</b>	Japan Post Insurance Co., Ltd.
<b>LDP</b>	Liberal Democratic Party
<b>LIBOR</b>	London Interbank Offered Rate
<b>LIPPC</b>	Life Insurance Policyholder Protection Corporation
<b>MD&amp;A</b>	Management's Discussion and Analysis of Financial Condition and Results of Operations
<b>MMLs</b>	Middle Market Loans
<b>MOF</b>	Ministry of Finance
<b>NAIC</b>	National Association of Insurance Commissioners
<b>NDOI</b>	Nebraska Department of Insurance
<b>NOLHGA</b>	National Organization of Life and Health Guaranty Associations
<b>NQSOs</b>	Non-qualifying Stock Options

<b>NRSROs</b>	Nationally Recognized Statistical Rating Organizations
<b>NYDFS</b>	New York Department of Financial Services
<b>OIS</b>	Overnight Index Swap
<b>ORSA</b>	Own Risk and Solvency Assessment
<b>OTC</b>	Over-the-Counter
<b>OTTI</b>	Other-than-temporary Impairment
<b>PCD Financial Assets</b>	Purchased Credit-Deteriorated Financial Assets
<b>PCI Financial Assets</b>	Purchased Credit-Impaired Financial Assets
<b>PRM</b>	Policy Reserve Matching
<b>PSUs</b>	Performance-based restricted stock units
<b>RBC</b>	Risk-Based Capital
<b>S&amp;P 500</b>	Standard & Poor's 500 Index
<b>S&amp;P Life and Health</b>	Standard & Poor's Life and Health Insurance Index
<b>SAB 118</b>	Staff Accounting Bulletin 118
<b>SAP</b>	Statutory Accounting Principles
<b>SCDOI</b>	South Carolina Department of Insurance
<b>SEC</b>	Securities and Exchange Commission
<b>SIFMA</b>	Securities Industry and Financial Markets Association
<b>Singapore Life</b>	Singapore Life Pte. Ltd.
<b>SMI</b>	Solvency Modernization Initiative
<b>SMR</b>	Solvency Margin Ratio
<b>SOFR</b>	Secured Overnight Financing Rate
<b>TAC</b>	Total Adjusted Capital
<b>Tax Act</b>	Tax Cuts and Jobs Act
<b>The Plan</b>	Aflac Incorporated Long-Term Incentive Plan
<b>TIBOR</b>	Tokyo Interbank Market Rate
<b>TREs</b>	Transitional Real Estate Loans
<b>TTM</b>	Telegraphic Transfer Middle Rate
<b>U.S. GAAP</b>	U.S. Generally Accepted Accounting Principles
<b>UST</b>	Treasury Obligations of the U.S. Government
<b>VIEs</b>	Variable Interest Entities

(b) EXHIBIT INDEX<sup>(1)</sup>

- [3.0](#) - Articles of Incorporation, as amended – incorporated by reference from Form 10-Q for June 30, 2008, Exhibit 3.0.
- [3.1](#) - Bylaws of the Corporation, as amended and restated – incorporated by reference from Form 8-K dated November 10, 2015, Exhibit 3.1.
- 4.0 - There are no instruments with respect to long-term debt not being registered in which the total amount of securities authorized exceeds 10% of the total assets of Aflac Incorporated and its subsidiaries on a consolidated basis. The Company agrees to furnish a copy of any long-term debt instrument to the Securities and Exchange Commission upon request.
- [4.1](#) - Description of common stock securities registered pursuant to Section 12 of the Securities Exchange Act of 1934.
- [4.2](#) - Indenture, dated as of May 21, 2009, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee – incorporated by reference from Form 8-K dated May 21, 2009, Exhibit 4.1.
- [4.3](#) - Second Supplemental Indenture, dated as of December 17, 2009, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 6.900% Senior Note due 2039) – incorporated by reference from Form 8-K dated December 14, 2009, Exhibit 4.1.
- [4.4](#) - Third Supplemental Indenture, dated as of August 9, 2010, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 6.45% Senior Note due 2040) - incorporated by reference from Form 8-K dated August 4, 2010, Exhibit 4.1.
- [4.5](#) - Sixth Supplemental Indenture, dated as of February 10, 2012, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 4.00% Senior Note due 2022) - incorporated by reference from Form 8-K dated February 8, 2012, Exhibit 4.2.
- [4.6](#) - Eighth Supplemental Indenture, dated as of June 10, 2013, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 3.625% Senior Note due 2023) - incorporated by reference from Form 8-K dated June 10, 2013, Exhibit 4.1.
- [4.7](#) - Ninth Supplemental Indenture, dated as of November 7, 2014, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 3.625% Senior Note due 2024) - incorporated by reference from Form 8-K dated November 4, 2014, Exhibit 4.1.
- [4.8](#) - Eleventh Supplemental Indenture, dated as of March 12, 2015, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 3.25% Senior Note due 2025) - incorporated by reference from Form 8-K dated March 9, 2015, Exhibit 4.2.
- [4.9](#) - Twelfth Supplemental Indenture, dated as of September 19, 2016, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 2.875% Senior Note due 2026) - incorporated by reference from Form 8-K dated September 19, 2016, Exhibit 4.1.
- [4.10](#) - Thirteenth Supplemental Indenture, dated as of September 19, 2016, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 4.000% Senior Note due 2046) – incorporated by reference from Form 8-K dated September 19, 2016, Exhibit 4.2.
- [4.11](#) - Fourteenth Supplemental Indenture, dated as of January 25, 2017, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of .932% Senior Note due 2027) – incorporated by reference from Form 8-K dated January 25, 2017, Exhibit 4.1.
- [4.12](#) - Fifteenth Supplemental Indenture, dated as of October 18, 2018, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 1.159% Senior Note due 2030) – incorporated by reference from Form 8-K dated October 18, 2018, Exhibit 4.1.
- [4.13](#) - Sixteenth Supplemental Indenture, dated as of October 18, 2018, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 1.488% Senior Note due 2033) – incorporated by reference from Form 8-K dated October 18, 2018, Exhibit 4.2.
- [4.14](#) - Seventeenth Supplemental Indenture, dated as of October 18, 2018, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 1.750% Senior Note due 2038) – incorporated by reference from Form 8-K dated October 18, 2018, Exhibit 4.3.
- [4.15](#) - Eighteenth Supplemental Indenture, dated as of October 31, 2018, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 4.750% Senior Note due 2049) – incorporated by reference from Form 8-K dated October 31, 2018, Exhibit 4.1.
- [4.16](#) - Nineteenth Supplemental Indenture, dated as of December 17, 2019, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 0.500% Senior Note due 2029) – incorporated by reference from Form 8-K dated December 17, 2019, Exhibit 4.1.



- [4.17](#) - Twentieth Supplemental Indenture, dated as of December 17, 2019, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 0.843% Senior Note due 2031) – incorporated by reference from Form 8-K dated December 17, 2019, Exhibit 4.2.
- [4.18](#) - Twenty-First Supplemental Indenture, dated as of December 17, 2019, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 0.934% Senior Note due 2034) – incorporated by reference from Form 8-K dated December 17, 2019, Exhibit 4.3.
- [4.19](#) - Twenty-Second Supplemental Indenture, dated as of December 17, 2019, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 1.122% Senior Note due 2039) – incorporated by reference from Form 8-K dated December 17, 2019, Exhibit 4.4.
- [4.20](#) - Subordinated Indenture, dated as of September 26, 2012, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee – incorporated by reference from Form 8-K dated September 26, 2012, Exhibit 4.1.
- [4.21](#) - Second Supplemental Indenture, dated as of October 23, 2017, between Aflac Incorporated and The Bank of New York Mellon Trust Company, N.A., as trustee (including the form of 2.108% Subordinated Debenture due 2047) - incorporated by reference from Form 8-K dated October 23, 2017, Exhibit 4.1.
- [10.0\\*](#) - American Family Corporation Retirement Plan for Senior Officers, as amended and restated October 1, 1989 – incorporated by reference from 1993 Form 10-K, Exhibit 10.2.
- [10.1\\*](#) - Amendment to American Family Corporation Retirement Plan for Senior Officers, dated December 8, 2008 – incorporated by reference from 2008 Form 10-K, Exhibit 10.1.
- [10.2\\*](#) - Second Amendment to the American Family Corporation Retirement Plan for Senior Officers, dated November 16, 2012 – incorporated by reference from Form 10-Q for September 30, 2016, Exhibit 10.2.
- [10.3\\*](#) - Third Amendment to the American Family Corporation Retirement Plan for Senior Officers, dated October 18, 2016 – incorporated by reference from Form 10-Q for September 30, 2016, Exhibit 10.3.
- [10.4\\*](#) - Aflac Incorporated Supplemental Executive Retirement Plan, as amended and restated January 1, 2009 – incorporated by reference from 2008 Form 10-K, Exhibit 10.5.
- [10.5\\*](#) - First Amendment to the Aflac Incorporated Supplemental Executive Retirement Plan, as amended and restated January 1, 2009 – incorporated by reference from 2012 Form 10-K, Exhibit 10.3.
- [10.6\\*](#) - Second Amendment to the Aflac Incorporated Supplemental Executive Retirement Plan, as amended and restated January 1, 2009 – incorporated by reference from 2014 Form 10-K, Exhibit 10.4.
- [10.7\\*](#) - Aflac Incorporated Executive Deferred Compensation Plan, as amended and restated, effective September 1, 2015 – incorporated by reference from Form 10-Q for September 30, 2015, Exhibit 10.5.
- [10.8\\*](#) - First Amendment to the Aflac Incorporated Executive Deferred Compensation Plan, as amended and restated, effective September 1, 2015 – incorporated by reference from Form 10-Q for September 30, 2016, Exhibit 10.8.
- [10.9\\*](#) - Second Amendment to the Aflac Incorporated Executive Deferred Compensation Plan, as amended and restated, effective September 1, 2015 – incorporated by reference from Form 10-Q for March 31, 2017, Exhibit 10.9.
- [10.10\\*](#) - Third Amendment to the Aflac Incorporated Executive Deferred Compensation Plan, as amended and restated, effective September 1, 2015 – incorporated by reference from 2018 Form 10-K, Exhibit 10.10.
- [10.11\\*](#) - Aflac Incorporated Executive Deferred Compensation Plan, as amended and restated, effective January 1, 2020.
- [10.12\\*](#) - Aflac Incorporated 2013 Management Incentive Plan – incorporated by reference from the 2012 Proxy Statement, Appendix B.
- [10.13\\*](#) - Aflac Incorporated 2018 Management Incentive Plan - incorporated by reference from the 2017 Proxy Statement, Appendix B.
- [10.14\\*](#) - 1999 Aflac Associate Stock Bonus Plan, amended and restated as of January 1, 2013 – incorporated by reference from Form 10-Q for March 31, 2013, Exhibit 10.10.
- [10.15\\*](#) - Aflac Incorporated 1997 Stock Option Plan – incorporated by reference from the 1997 Shareholders’ Proxy Statement, Appendix B.

- [10.16\\*](#) - Form of Officer Stock Option Agreement (Non-Qualifying Stock Option) under the Aflac Incorporated 1997 Stock Option Plan – incorporated by reference from Form 8-K dated January 28, 2005, Exhibit 10.5.
- [10.17\\*](#) - Form of Officer Stock Option Agreement (Incentive Stock Option) under the Aflac Incorporated 1997 Stock Option Plan – incorporated by reference from Form 8-K dated January 28, 2005, Exhibit 10.6.
- [10.18\\*](#) - Notice of grant of stock options and stock option agreement to officers under the Aflac Incorporated 1997 Stock Option Plan – incorporated by reference from Form 8-K dated January 28, 2005, Exhibit 10.7.
- [10.19\\*](#) - 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference from the 2012 Proxy Statement, Appendix A.
- [10.20\\*](#) - Form of Non-Employee Director Stock Option Agreement (NQSO) under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference from Form 10-Q for March 31, 2016, Exhibit 10.13.
- [10.21\\*](#) - Notice of grant of stock options to non-employee director under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference from Form 10-Q for March 31, 2016, Exhibit 10.14.
- [10.22\\*](#) - Form of Non-Employee Director Restricted Stock Award Agreement under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference from Form 10-Q for March 31, 2016, Exhibit 10.15.
- [10.23\\*](#) - Notice of restricted stock award to non-employee director under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference from Form 10-Q for March 31, 2016, Exhibit 10.16.
- [10.24\\*](#) - U.S. Form of Employee Restricted Stock Award Agreement under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference from Form 10-Q for March 31, 2016, Exhibit 10.17.
- [10.25\\*](#) - Japan Form of Employee Restricted Stock Award Agreement under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference from Form 10-Q for March 31, 2016, Exhibit 10.18.
- [10.26\\*](#) - Notice of time based restricted stock award under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference from Form 10-Q for June 30, 2013, Exhibit 10.22.
- [10.27\\*](#) - Notice of performance based restricted stock award under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference from Form 10-Q for March 31, 2016, Exhibit 10.20.
- [10.28\\*](#) - U.S. Form of Employee Stock Option Agreement (Non-Qualifying Stock Option) under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference from Form 10-Q for March 31, 2016, Exhibit 10.21.
- [10.29\\*](#) - Japan Form of Employee Stock Option Agreement (Non-Qualifying Stock Option) under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference from Form 10-Q for March 31, 2016, Exhibit 10.22.
- [10.30\\*](#) - U.S. Form of Employee Stock Option Agreement (Incentive Stock Option) under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference from Form 10-Q for March 31, 2016, Exhibit 10.23.
- [10.31\\*](#) - U.S. Notice of grant of stock options under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference from Form 10-Q for June 30, 2013, Exhibit 10.28.
- [10.32\\*](#) - Japan Notice of grant of stock options under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference from Form 10-Q for June 30, 2013, Exhibit 10.29.
- [10.33\\*](#) - Japan Form of Restricted Stock Unit Agreement under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference from Form 10-Q for March 31, 2016, Exhibit 10.26.
- [10.34\\*](#) - Aflac Incorporated Long-Term Incentive Plan, as amended and restated February 14, 2017 – incorporated by reference from Form 8-K dated May 1, 2017, Exhibit 10.1.
- [10.35\\*](#) - Form of Non-Employee Director Stock Option Agreement (Non-Qualifying Stock Option) under the Aflac Incorporated Long-Term Incentive Plan, as amended and restated February 14, 2017 – incorporated by reference from Form 10-Q for June 30, 2017, Exhibit 10.33.
- [10.36\\*](#) - Form of Non-Employee Director Restricted Stock Award Agreement under the Aflac Incorporated Long-Term Incentive Plan, as amended and restated February 14, 2017 – incorporated by reference from Form 10-Q for June 30, 2017, Exhibit 10.34.

- [10.37\\*](#) - Notice of time based restricted stock unit and restricted stock unit agreement under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference from Form 10-Q for March 31, 2018, Exhibit 10.1.
- [10.38\\*](#) - 2017 Notice of performance based restricted stock and restricted stock award agreement under the 2004 Aflac Incorporated Long-Term Incentive Plan, as amended and restated March 14, 2012 – incorporated by reference from Form 10-Q for March 31, 2018, Exhibit 10.2.
- [10.39\\*](#) - Notice of time based restricted stock unit and restricted stock unit agreement under the Aflac Incorporated Long-Term Incentive Plan, as amended and restated February 14, 2017 – incorporated by reference from Form 10-Q for March 31, 2018, Exhibit 10.3.
- [10.40\\*](#) - 2018 Notice of performance based restricted stock and restricted stock award agreement under the Aflac Incorporated Long-Term Incentive Plan, as amended and restated February 14, 2017 – incorporated by reference from Form 10-Q for March 31, 2018, Exhibit 10.4.
- [10.41\\*](#) - Aflac Incorporated Retirement Plan for Directors Emeritus, as amended and restated, dated February 9, 2010 – incorporated by reference from 2009 Form 10-K, Exhibit 10.26.
- [10.42\\*](#) - Amendment to Aflac Incorporated Retirement Plan for Directors Emeritus, as amended and restated, dated August 10, 2010 – incorporated by reference from Form 10-Q for September 30, 2010, Exhibit 10.27.
- [10.43\\*](#) - Aflac Life Insurance Japan Ltd. Officer Retirement Plan.
- [10.44\\*](#) - Aflac Incorporated Employment Agreement with Daniel P. Amos, as amended and restated, dated August 20, 2015 – incorporated by reference from Form 10-Q for September 30, 2015, Exhibit 10.29.
- [10.45\\*](#) - Aflac Employment Agreement with Eric M. Kirsch, as amended and restated, dated December 1, 2015 – incorporated by reference from Form 8-K dated December 1, 2015, Exhibit 10.1.
- [10.46\\*](#) - Amendment to Aflac Employment Agreement with Eric M. Kirsch, dated November 30, 2017 – incorporated by reference from 2017 Form 10-K, Exhibit 10.42.
- [10.47\\*](#) - Aflac Incorporated Employment Agreement with Frederick J. Crawford, effective June 30, 2015 – incorporated by reference from Form 8-K dated June 24, 2015, Exhibit 10.1.
- [10.48\\*](#) - Aflac Incorporated Employment Agreement with Charles D. Lake II, dated January 1, 2018 – incorporated by reference from Form 10-Q for March 31, 2018, Exhibit 10.5.
- [10.49\\*](#) - Amendment to Aflac Incorporated Employment Agreement with Charles D. Lake II, effective January 1, 2020.
- [10.50\\*](#) - Aflac Incorporated Employment Agreement with Audrey Boone Tillman, dated June 11, 2015 – incorporated by reference from Form 10-Q for March 31, 2018, Exhibit 10.6.
- [10.51](#) - Basic Agreement regarding the “Strategic Alliance Based on Capital Relationship”, dated December 19, 2018, by and among Japan Post Holdings Co., Ltd., Aflac Incorporated and Aflac Life Insurance Japan Ltd. – incorporated by reference from Form 8-K dated December 19, 2018, Exhibit 10.1.
- [10.52](#) - Letter Agreement, dated December 19, 2018, by and between Japan Post Holdings Co., Ltd. and Aflac Incorporated – incorporated by reference from Form 8-K dated December 19, 2018, Exhibit 10.2.
- [10.53](#) - Shareholders Agreement, dated February 28, 2019, by and between Aflac Incorporated, Japan Post Holdings Co., Ltd., J&A Alliance Holdings Corporation (solely in its capacity as trustee of J&A Alliance Trust), and General Incorporated Association J&A Alliance – incorporated by reference from Form 10-Q for March 31, 2019, Exhibit 10.50.
- [21](#) - Subsidiaries.
- [23](#) - Consent of independent registered public accounting firm, KPMG LLP, to Form S-8 Registration Statement No. 333-158969 with respect to the Aflac Incorporated 401(k) Savings and Profit Sharing Plan.
- Consent of independent registered public accounting firm, KPMG LLP, to Form S-8 Registration Statement Nos. 333-135327, 333-161269, and 333-202781 with respect to the Aflac Incorporated Executive Deferred Compensation Plan.
- Consent of independent registered public accounting firm, KPMG LLP, to Form S-8 Registration Statement No. 333-200570 with respect to the Aflac Incorporated Market Director Deferred Compensation Plan.
- Consent of independent registered public accounting firm, KPMG LLP, to Form S-8 Registration Statement No. 333-115105 and 333-219888 with respect to the Aflac Incorporated Long-Term Incentive Plan.
- Consent of independent registered public accounting firm, KPMG LLP, to Form S-3 Registration Statement No. 333-219784 with respect to the AFL Stock Plan.

- Consent of independent registered public accounting firm, KPMG LLP, to Form S-3 Registration Statement No. 333-227244 with respect to the Aflac Incorporated shelf registration statement.
- [31.1](#) - Certification of CEO dated February 21, 2020, required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.
- [31.2](#) - Certification of CFO dated February 21, 2020, required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934.
- [32](#) - Certification of CEO and CFO dated February 21, 2020, pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS - XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
- 101.SCH - Inline XBRL Taxonomy Extension Schema.
- 101.CAL - Inline XBRL Taxonomy Extension Calculation Linkbase.
- 101.DEF - Inline XBRL Taxonomy Extension Definition Linkbase.
- 101.LAB - Inline XBRL Taxonomy Extension Label Linkbase.
- 101.PRE - Inline XBRL Taxonomy Extension Presentation Linkbase.
- 104 - Cover Page Interactive Data File - formatted as Inline XBRL and contained in Exhibit 101.

<sup>(1)</sup> Copies of any exhibit are available upon request by calling the Company's Investor Relations Department at 800.235.2667 - option 3

\* Management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 15(b) of this report.

**SCHEDULE II**  
**CONDENSED FINANCIAL INFORMATION OF REGISTRANT**

**Aflac Incorporated (Parent Only)**  
**Condensed Statements of Earnings**

(In millions)	Years ended December 31,		
	2019	2018	2017
<b>Revenues:</b>			
Management and service fees from subsidiaries <sup>(1)</sup>	\$ 151	\$ 190	\$ 297
Net investment income	77	69	30
Interest from subsidiaries <sup>(1)</sup>	4	4	5
Realized investment gains (losses)	98	(16)	(1)
Total revenues	330	247	331
<b>Operating expenses:</b>			
Interest expense	200	188	197
Other operating expenses <sup>(2)</sup>	221	225	180
Total operating expenses	421	413	377
Earnings before income taxes and equity in earnings of subsidiaries	(91)	(166)	(46)
Income tax expense (benefit)	(22)	(12)	(23)
Earnings before equity in earnings of subsidiaries	(69)	(154)	(23)
Equity in earnings of subsidiaries <sup>(1)</sup>	3,373	3,074	4,627
Net earnings	\$ 3,304	\$ 2,920	\$ 4,604

<sup>(1)</sup>Eliminated in consolidation

<sup>(2)</sup>Includes expense of \$13 in 2017 for the early extinguishment of debt

See the accompanying Notes to Condensed Financial Statements.

See the accompanying Report of Independent Registered Public Accounting Firm.

**SCHEDULE II**  
**CONDENSED FINANCIAL INFORMATION OF REGISTRANT**  
**Aflac Incorporated (Parent Only)**  
**Condensed Statements of Comprehensive Income (Loss)**

(In millions)	Years ended December 31,		
	2019	2018	2017
Net earnings	\$ 3,304	\$ 2,920	\$ 4,604
<b>Other comprehensive income (loss) before income taxes:</b>			
Unrealized foreign currency translation gains (losses) during period	252	232	286
Unrealized gains (losses) on fixed maturity securities during period	5,852	(3,109)	1,733
Unrealized gains (losses) on derivatives during period	(12)	2	1
Pension liability adjustment during period	(85)	(25)	9
Total other comprehensive income (loss) before income taxes	6,007	(2,900)	2,029
Income tax expense (benefit) related to items of other comprehensive income (loss)	1,543	(797)	631
Other comprehensive income (loss), net of income taxes	4,464	(2,103)	1,398
Total comprehensive income (loss)	\$ 7,768	\$ 817	\$ 6,002

*See the accompanying Notes to Condensed Financial Statements.*  
*See the accompanying Report of Independent Registered Public Accounting Firm.*

**SCHEDULE II**  
**CONDENSED FINANCIAL INFORMATION OF REGISTRANT**

**Aflac Incorporated (Parent Only)**  
**Condensed Balance Sheets**

(In millions, except for share and per-share amounts)	December 31,	
	2019	2018
<b>Assets:</b>		
Investments and cash:		
Fixed maturity securities available for sale, at fair value (amortized cost \$1,506 in 2019 and \$1,209 in 2018)	\$ 1,567	\$ 1,222
Investments in subsidiaries <sup>(1)</sup>	30,744	26,230
Other investments	36	21
Cash and cash equivalents	2,508	1,767
Total investments and cash	34,855	29,240
Due from subsidiaries <sup>(1)</sup>	170	98
Income taxes receivable	337	176
Other assets	405	390
Total assets	\$ 35,767	\$ 29,904
<b>Liabilities and shareholders' equity:</b>		
Liabilities:		
Employee benefit plans	\$ 323	\$ 310
Notes payable	6,136	5,765
Other liabilities	349	367
Total liabilities	6,808	6,442
Shareholders' equity:		
Common stock of \$.10 par value. In thousands: authorized 1,900,000 shares in 2019 and 2018; issued 1,349,309 shares in 2019 and 1,347,540 shares in 2018	135	135
Additional paid-in capital	2,313	2,177
Retained earnings	34,291	31,788
Accumulated other comprehensive income (loss):		
Unrealized foreign currency translation gains (losses)	(1,623)	(1,847)
Unrealized gains (losses) on fixed maturity securities	8,548	4,234
Unrealized gains (losses) on derivatives	(33)	(24)
Pension liability adjustment	(277)	(212)
Treasury stock, at average cost	(14,395)	(12,789)
Total shareholders' equity	28,959	23,462
Total liabilities and shareholders' equity	\$ 35,767	\$ 29,904

<sup>(1)</sup>Eliminated in consolidation

See the accompanying Notes to Condensed Financial Statements.

See the accompanying Report of Independent Registered Public Accounting Firm.

**SCHEDULE II**  
**CONDENSED FINANCIAL INFORMATION OF REGISTRANT**

**Aflac Incorporated (Parent Only)**  
**Condensed Statements of Cash Flows**

(In millions)	Years ended December 31,		
	2019	2018	2017
<b>Cash flows from operating activities:</b>			
Net earnings	\$ 3,304	\$ 2,920	\$ 4,604
Adjustments to reconcile net earnings to net cash provided from operating activities:			
Equity in earnings of subsidiaries <sup>(1)</sup>	(3,373)	(3,074)	(4,627)
Cash dividends received from subsidiaries	3,466	1,820	2,001
Other, net	(203)	99	(46)
Net cash provided (used) by operating activities	3,194	1,765	1,932
<b>Cash flows from investing activities:</b>			
Fixed maturity securities sold	340	207	263
Fixed maturity securities purchased	(639)	(254)	(329)
Other investments sold (purchased)	(16)	31	(47)
Settlement of derivatives	22	(2)	223
Additional capitalization of subsidiaries <sup>(1)</sup>	(214)	(62)	(69)
Other, net	87	(107)	(218)
Net cash provided (used) by investing activities	(420)	(187)	(177)
<b>Cash flows from financing activities:</b>			
Purchases of treasury stock	(1,627)	(1,301)	(1,351)
Proceeds from borrowings	347	1,020	1,040
Principal payments under debt obligations	0	(550)	(1,161)
Dividends paid to shareholders	(771)	(793)	(661)
Treasury stock reissued	49	58	33
Proceeds from exercise of stock options	29	34	38
Net change in amount due to/from subsidiaries <sup>(1)</sup>	(58)	(4)	(5)
Other, net	(2)	0	0
Net cash provided (used) by financing activities	(2,033)	(1,536)	(2,067)
Net change in cash and cash equivalents	741	42	(312)
Cash and cash equivalents, beginning of period	1,767	1,725	2,037
Cash and cash equivalents, end of period	\$ 2,508	\$ 1,767	\$ 1,725

<sup>(1)</sup>Eliminated in consolidation  
See the accompanying Notes to Condensed Financial Statements.  
See the accompanying Report of Independent Registered Public Accounting Firm.



**SCHEDULE II**  
**CONDENSED FINANCIAL INFORMATION OF REGISTRANT**

**Aflac Incorporated (Parent Only)**  
**Notes to Condensed Financial Statements**

The accompanying condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto of Aflac Incorporated and Subsidiaries included in Part II, Item 8 of this report.

**(A) Notes Payable**

A summary of notes payable as of December 31 follows:

(In millions)	2019	2018
4.00% senior notes due February 2022 <sup>(1)</sup>	\$ 348	\$ 348
3.625% senior notes due June 2023	698	698
3.625% senior notes due November 2024	747	746
3.25% senior notes due March 2025	448	447
2.875% senior notes due October 2026	298	297
6.90% senior notes due December 2039	220	220
6.45% senior notes due August 2040	254	254
4.00% senior notes due October 2046	394	394
4.750% senior notes due January 2049	541	540
Yen-denominated senior notes and subordinated debentures:		
.932% senior notes due January 2027 (principal amount ¥60.0 billion)	545	538
.500% senior notes due December 2029 (principal amount ¥12.6 billion)	114	0
1.159% senior notes due October 2030 (principal amount ¥29.3 billion)	266	262
.843% senior notes due December 2031 (principal amount ¥9.3 billion)	84	0
1.488% senior notes due October 2033 (principal amount ¥15.2 billion)	138	136
.934% senior notes due December 2034 (principal amount ¥9.8 billion)	88	0
1.750% senior notes due October 2038 (principal amount ¥8.9 billion)	81	79
1.122% senior notes due December 2039 (principal amount ¥6.3 billion)	57	0
2.108% subordinated debentures due October 2047 (principal amount ¥60.0 billion)	543	536
Yen-denominated loans:		
Variable interest rate loan due September 2026 (.42% in 2019 and .32 in 2018, principal amount ¥5.0 billion)	45	45
Variable interest rate loan due September 2029 (.57% in 2019 and .47 in 2018, principal amount ¥25.0 billion)	227	225
<b>Total notes payable</b>	<b>\$ 6,136</b>	<b>\$ 5,765</b>

<sup>(1)</sup> Redeemed in January 2020

Amounts in the table above are reported net of debt issuance costs and issuance premiums or discounts, if applicable, that are being amortized over the life of the notes.

In December 2019, the Parent Company issued four series of senior notes totaling ¥38.0 billion through a public debt offering under its U.S. shelf registration statement. The first series, which totaled ¥12.6 billion, bears interest at a fixed rate of .500% per annum, payable semi-annually, and will mature in December 2029. The second series, which totaled ¥9.3 billion, bears interest at a fixed rate of .843% per annum, payable semi-annually, and will mature in December 2031. The third series, which totaled ¥9.8 billion, bears interest at a fixed rate of .934% per annum, payable semi-annually, and will mature in December 2034. The fourth series, which totaled ¥6.3 billion, bears interest at a fixed rate of 1.122% per annum, payable semi-annually, and will mature in December 2039. These notes may only be redeemed before maturity, in whole but not in part, upon the occurrence of certain changes affecting U.S. taxation, as specified in the indenture governing the terms of the issuance.

In September 2019, the Parent Company renewed a ¥30.0 billion senior term loan facility. The first tranche of the facility, which totaled ¥5.0 billion, bears interest at a rate per annum equal to the Tokyo interbank market rate (TIBOR), or alternate TIBOR, if applicable, plus the applicable TIBOR margin and will mature in September 2026. The applicable margin ranges

between .30% and .70%, depending on the Parent Company's debt ratings as of the date of determination. The second tranche, which totaled ¥25.0 billion, bears interest at a rate per annum equal to the TIBOR, or alternate TIBOR, if applicable, plus the applicable TIBOR margin and will mature in September 2029. The applicable margin ranges between .45% and 1.00%, depending on the Parent Company's debt ratings as of the date of determination.

The aggregate contractual maturities of notes payable during each of the years after December 31, 2019, are as follows:

(In millions)	
2020	\$ 0
2021	0
2022	350
2023	700
2024	750
Thereafter	4,386
<b>Total</b>	<b>\$ 6,186</b>

For further information regarding notes payable, see Note 9 of the Notes to the Consolidated Financial Statements.

#### (B) Derivatives

At December 31, 2019, the Parent Company's outstanding freestanding derivative contracts were swaps, foreign currency forwards and options. The swaps are associated with its notes payable, consisting of cross-currency interest rate swaps, also referred to as foreign currency swaps, associated with the Parent Company's senior notes due in February 2022, June 2023, November 2024 and March 2025. The foreign currency forwards and options are designated as derivative hedges of the foreign currency exposure of the Company's net investment in Aflac Japan. The Parent Company does not use derivative financial instruments for trading purposes, nor does it engage in leveraged derivative transactions. For further information regarding these derivatives, see Notes 1, 4 and 9 of the Notes to the Consolidated Financial Statements.

#### (C) Income Taxes

The Parent Company and its eligible U.S. subsidiaries file a consolidated U.S. federal income tax return. Income tax liabilities or benefits are recorded by each principal subsidiary based upon separate return calculations, and any difference between the consolidated provision and the aggregate amounts recorded by the subsidiaries is reflected in the Parent Company financial statements. For further information on income taxes, see Note 10 of the Notes to the Consolidated Financial Statements.

#### (D) Dividend Restrictions

See Note 13 of the Notes to the Consolidated Financial Statements for information regarding dividend restrictions.

#### (E) Supplemental Disclosures of Cash Flow Information

(In millions)	2019	2018	2017
Interest paid	\$ 189	\$ 179	\$ 195
<b>Noncash financing activities:</b>			
Treasury stock issued for shareholder dividend reinvestment	30	8	29

**SCHEDULE III  
SUPPLEMENTARY INSURANCE INFORMATION**

**Aflac Incorporated and Subsidiaries**  
Years ended December 31,

(In millions)	Deferred Policy Acquisition Costs	Future Policy Benefits & Unpaid Policy Claims	Unearned Premiums	Other Policyholders' Funds
<b>2019:</b>				
<b>Aflac Japan</b>	<b>\$ 6,584</b>	<b>\$ 84,341</b>	<b>\$ 4,135</b>	<b>\$ 7,317</b>
<b>Aflac U.S.</b>	<b>3,544</b>	<b>11,184</b>	<b>111</b>	<b>0</b>
<b>All other</b>	<b>0</b>	<b>223</b>	<b>0</b>	<b>0</b>
<b>Intercompany eliminations</b>	<b>0</b>	<b>(754)</b>	<b>(3)</b>	<b>0</b>
<b>Total</b>	<b>\$ 10,128</b>	<b>\$ 94,994</b>	<b>\$ 4,243</b>	<b>\$ 7,317</b>
<b>2018:</b>				
Aflac Japan	\$ 6,384	\$ 80,672	\$ 4,977	\$ 7,145
Aflac U.S.	3,491	10,864	117	0
All other	0	183	0	1
Intercompany eliminations	0	(767)	(4)	0
Total	\$ 9,875	\$ 90,952	\$ 5,090	\$ 7,146

Segment amounts may not agree in total to the corresponding consolidated amounts due to rounding.

Years Ended December 31,

(In millions)	Net Premium Revenue	Net Investment Income	Benefits and Claims, net	Amortization of Deferred Policy Acquisition Costs	Other Operating Expenses	Premiums Written
<b>2019:</b>						
<b>Aflac Japan</b>	<b>\$ 12,772</b>	<b>\$ 2,753</b>	<b>\$ 8,877</b>	<b>\$ 709</b>	<b>\$ 2,465</b>	<b>\$ 12,367</b>
<b>Aflac U.S.</b>	<b>5,808</b>	<b>720</b>	<b>2,871</b>	<b>573</b>	<b>1,834</b>	<b>5,813</b>
<b>All other</b>	<b>200</b>	<b>105</b>	<b>194</b>	<b>0</b>	<b>339</b>	<b>0</b>
<b>Total</b>	<b>\$ 18,780</b>	<b>\$ 3,578</b>	<b>\$ 11,942</b>	<b>\$ 1,282</b>	<b>\$ 4,638</b>	<b>\$ 18,180</b>
<b>2018:</b>						
Aflac Japan	\$ 12,762	\$ 2,639	\$ 8,913	\$ 710	\$ 2,374	\$ 12,298
Aflac U.S.	5,708	727	2,887	534	1,736	5,707
All other	207	76	200	1	420	0
Total	\$ 18,677	\$ 3,442	\$ 12,000	\$ 1,245	\$ 4,530	\$ 18,005
<b>2017:</b>						
Aflac Japan	\$ 12,752	\$ 2,463	\$ 9,087	\$ 630	\$ 2,257	\$ 12,092
Aflac U.S.	5,563	721	2,885	502	1,658	5,565
All other	216	36	209	0	421	0
Total	\$ 18,531	\$ 3,220	\$ 12,181	\$ 1,132	\$ 4,336	\$ 17,657

Segment amounts may not agree in total to the corresponding consolidated amounts due to rounding.  
See the accompanying Report of Independent Registered Public Accounting Firm.

**SCHEDULE IV  
REINSURANCE**  
**Aflac Incorporated and Subsidiaries**  
Years Ended December 31,

(In millions)	Gross Amount	Ceded to Other Companies	Assumed from Other companies	Net Amount	Percentage of Amount Assumed to Net
<b>2019:</b>					
<b>Life insurance in force</b>	<b>\$ 146,585</b>	<b>\$ 6,592</b>	<b>\$ 0</b>	<b>\$ 139,993</b>	<b>0%</b>
<b>Premiums:</b>					
Health insurance	\$ 15,657	\$ 527	\$ 205	\$ 15,335	1%
Life insurance	3,465	20	0	3,445	0
<b>Total earned premiums</b>	<b>\$ 19,122</b>	<b>\$ 547</b>	<b>\$ 205</b>	<b>\$ 18,780</b>	<b>1%</b>
<b>2018:</b>					
Life insurance in force	\$ 151,457	\$ 4,702	\$ 0	\$ 146,755	0%
<b>Premiums:</b>					
Health insurance	\$ 15,330	\$ 541	\$ 214	\$ 15,003	1%
Life insurance	3,688	14	0	3,674	0
<b>Total earned premiums</b>	<b>\$ 19,018</b>	<b>\$ 555</b>	<b>\$ 214</b>	<b>\$ 18,677</b>	<b>1%</b>
<b>2017:</b>					
Life insurance in force	\$ 152,502	\$ 4,121	\$ 0	\$ 148,381	0%
<b>Premiums:</b>					
Health insurance	\$ 14,829	\$ 554	\$ 222	\$ 14,497	1%
Life insurance	4,046	12	0	4,034	0
<b>Total earned premiums</b>	<b>\$ 18,875</b>	<b>\$ 566</b>	<b>\$ 222</b>	<b>\$ 18,531</b>	<b>1%</b>

*Premiums by type may not agree in total to the corresponding consolidated amounts due to rounding.  
See the accompanying Report of Independent Registered Public Accounting Firm.*

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

### **Aflac Incorporated**

By: /s/ Daniel P. Amos

February 21, 2020

(Daniel P. Amos)

Chief Executive Officer,

Chairman of the Board of Directors

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Daniel P. Amos

(Daniel P. Amos)

Chief Executive Officer,

Chairman of the Board of Directors

February 21, 2020

/s/ Max K. Broden

(Max K. Broden)

Executive Vice President,

Chief Financial Officer

February 21, 2020

/s/ June Howard

(June Howard)

Senior Vice President, Financial Services;

Chief Accounting Officer

February 21, 2020

<u>/s/ <b>W. Paul Bowers</b></u> (W. Paul Bowers)	Director	<u>February 21, 2020</u>
<u>/s/ <b>Toshihiko Fukuzawa</b></u> (Toshihiko Fukuzawa)	Director	<u>February 21, 2020</u>
<u>/s/ <b>Robert B. Johnson</b></u> (Robert B. Johnson)	Director	<u>February 21, 2020</u>
<u>/s/ <b>Thomas J. Kenny</b></u> (Thomas J. Kenny)	Director	<u>February 21, 2020</u>
<u>/s/ <b>Georgette D. Kiser</b></u> (Georgette D. Kiser)	Director	<u>February 21, 2020</u>
<u>/s/ <b>Karole F. Lloyd</b></u> (Karole F. Lloyd)	Director	<u>February 21, 2020</u>
<u>/s/ <b>Joseph L. Moskowitz</b></u> (Joseph L. Moskowitz)	Director	<u>February 21, 2020</u>
<u>/s/ <b>Barbara K. Rimer</b></u> (Barbara K. Rimer)	Director	<u>February 21, 2020</u>
<u>/s/ <b>Katherine T. Rohrer</b></u> (Katherine T. Rohrer)	Director	<u>February 21, 2020</u>
<u>/s/ <b>Melvin T. Stith</b></u> (Melvin T. Stith)	Director	<u>February 21, 2020</u>

**DESCRIPTION OF THE REGISTRANT'S SECURITIES  
REGISTERED PURSUANT TO SECTION 12 OF THE  
SECURITIES EXCHANGE ACT OF 1934**

Aflac Incorporated (the "Parent Company") has one class of securities registered under Section 12 of the Securities Exchange Act of 1934: the Parent Company's common stock.

**DESCRIPTION OF COMMON STOCK**

The following summary of the terms of the Parent Company's capital stock is based upon its Articles of Incorporation, as amended (the "Articles of Incorporation") and its Amended and Restated Bylaws (the "Bylaws"). The summary is not complete, and is qualified by reference to the Parent Company's Articles of Incorporation and its Bylaws, each of which are incorporated by reference as an exhibit to the Annual Report on Form 10-K of which this Exhibit 4.1 is a part.

**Capitalization**

The Parent Company is authorized to issue up to 1,900,000,000 shares of common stock, par value \$0.10 per share.

**General**

Holders of the Parent Company's common stock are entitled to cast one vote for each share held of record on each matter submitted to a vote at a meeting of shareholders, until such a share has been held by the same beneficial owner for a continuous period of longer than 48 months prior to the record date of the meeting, at which time each share becomes entitled to 10 votes. A majority of the votes cast is required for all actions to be taken by shareholders, except with respect to contested director elections, which requires a plurality of the votes cast. Subject to preferences that may be applicable to holders of any outstanding shares of preferred stock, holders of the Parent Company's common stock are entitled to such dividends as may be declared by the Parent Company's Board of Directors (the "Board") out of funds legally available therefor. Upon any liquidation, dissolution or winding up of the Parent Company, holders of its common stock are entitled to share equally and ratably in any assets remaining after the payment of all debt and other liabilities, subject to the prior rights of holders of any outstanding shares of preferred stock.

Holders of the Parent Company's common stock do not have any preemptive rights under the Parent Company's Articles of Incorporation or Bylaws. However, under the Shareholders Agreement dated as of February 28, 2019, by and among the Parent Company, Japan Post Holdings Co., Ltd., J&A Alliance Holdings Corporation, in its capacity as trustee of J&A Alliance Trust ("J&A") and General Incorporated Association J&A Alliance (the "Shareholders Agreement"), J&A shall have the right to purchase up to such number of shares of the Parent Company's common stock that would allow it to maintain beneficial ownership of the outstanding shares of the Parent Company's common stock that is no less than its ownership percentage prior to any issuance of new shares of the Parent Company's common stock (subject to certain exceptions pursuant to the Shareholders Agreement). Holders of the Parent Company's common stock do not have any cumulative voting, subscription, redemption, sinking fund or conversion rights. The common stock is not subject to future calls or assessments by the Parent Company.

The Parent Company's common stock is listed on the New York Stock Exchange under the symbol "AFL."

**Anti-Takeover Effects of Certain Provisions**

Certain provisions of the Georgia Business Corporation Code, the Parent Company's Articles of Incorporation and its Bylaws summarized in the paragraphs above and in the following paragraphs may have an

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anti-takeover effect and could make the following transactions difficult: acquisition by means of a tender offer; acquisition by means of a proxy contest or otherwise; or removal of incumbent officers and directors. It is possible that these provisions could make it more difficult to accomplish or could deter transactions that shareholders may otherwise consider to be in their best interest or in the best interests of the Parent Company, including transactions that might result in a premium over the market price for shares of the Parent Company's common stock.

#### *Special Shareholder Meetings*

Unless otherwise permitted by applicable law, the Parent Company's Bylaws provides that special meetings of shareholders may be called only by (i) the Board, (ii) the Chairman of the Board, (iii) the Chief Executive Officer or (iv) the Secretary of the Parent Company upon the written request of shareholders holding at least 25% of all the votes entitled to be cast on each issue to be considered at the special meeting as of the date of submission of the request.

#### *Requirements for Advance Notification of Shareholder Nominations and Proposals*

Under the Parent Company's Bylaws, to be properly brought before an annual meeting of shareholders, any shareholder proposal or nomination for election to the Board must be delivered to the Parent Company's Secretary not less than 90 days nor more than 120 days prior to the one-year anniversary of the preceding year's annual meeting; provided that in the event that the date of the annual meeting is called for a date that is not within 25 days before or after such anniversary date, a shareholder's written notice must be delivered not later than the 10th day following the day on which public announcement of the date of such meeting is first made by the Parent Company. Such notice must contain information specified in the Parent Company's Bylaws as to the director nominee or proposal of other business, information about the shareholder making the nomination or proposal and the beneficial owner, if any, on behalf of whom the nomination or proposal is made.

#### *Georgia Business Corporation Code*

The Parent Company has elected in its Bylaws to be governed by the "business combination" provisions of the Georgia Business Corporation Code (Sections 14-2-1131 through 14-2-1133), which could be viewed as having the effect of discouraging an attempt to obtain control of the Parent Company; however the Parent Company has not elected in its Bylaws to be governed by the "fair price" provisions of the Georgia Business Corporation Code (Sections 14-2-1110 through 14-2-1113), so the "fair price" provisions are not applicable to an attempt to obtain control of the Parent Company. The business combination provision generally would prohibit the Parent Company from engaging in various business combination transactions with any interested shareholder (defined generally as a beneficial owner of 10% or more of the Parent Company's outstanding common stock) for a period of five years after the date of the transaction in which the person became an interested shareholder unless specified board of directors and shareholder approval conditions are met.



**AFLAC INCORPORATED**  
**EXECUTIVE DEFERRED COMPENSATION PLAN**

**As amended and restated  
effective January 1, 2020**

**AFLAC INCORPORATED**  
**EXECUTIVE DEFERRED COMPENSATION PLAN**

Effective as of the 1st day of January, 2020, Aflac Incorporated (the “Controlling Company”) hereby amends and restates the Aflac Incorporated Executive Deferred Compensation Plan (the “Plan”).

**BACKGROUND AND PURPOSE**

**A. Background.** The Plan was initially adopted effective as of January 1, 1999, was most recently restated effective September 1, 2015, and was subsequently amended. Effective January 1, 2020, the Plan, as set forth in this document, is intended and should be construed as a restatement and continuation of the Plan as previously in effect.

**B. Goal.** The Controlling Company desires to provide to key management employees of the participating companies one or more of the following benefits: (i) an opportunity to defer the receipt and income taxation of a portion of such employees’ annual compensation; (ii) additional retirement benefits; and (iii) additional deferred compensation.

**C. Purpose.** The purpose of the Plan document is to set forth the terms and conditions pursuant to which these deferrals may be made and to describe the nature and extent of the employees’ rights to their deferred amounts. The purpose of this restatement is to (i) incorporate amendments adopted since the September 1, 2015, restatement of the Plan; (ii) update the list of Participating Companies; and (iii) reflect the merger of the Aflac Incorporated Sales Leaders Deferred Compensation Plan with and into the Plan and the grandfathering (*i.e.*, the continuation) of certain provisions related to the accounts transferring from that plan.

**D. Type of Plan.** The Plan constitutes an unfunded, nonqualified deferred compensation plan that benefits certain designated employees who are within a select group of key management or highly compensated employees. It is intended that this Plan comply with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended.

**STATEMENT OF AGREEMENT**

To amend and restate the Plan with the purposes and goals as hereinabove described, the Controlling Company hereby sets forth the terms and provisions of the Plan as follows:

**AFLAC INCORPORATED**  
**EXECUTIVE DEFERRED COMPENSATION PLAN**

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**ARTICLE I**  
**DEFINITIONS**

For purposes of the Plan, the following terms, when used with an initial capital letter, will have the meaning set forth below unless a different meaning plainly is required by the context.

**1.1 Account** means, with respect to a Participant or Beneficiary, the total dollar amount or value evidenced by the last balance posted in accordance with the terms of the Plan to the account record established for such Participant or Beneficiary. As determined by the Administrative Committee, an Account may be divided into separate subaccounts.

**1.2 Administrative Committee** means the committee designated by the Compensation Committee to act on behalf of the Controlling Company to administer the Plan. If at any time the Compensation Committee has not designated an Administrative Committee, the Compensation Committee will serve as the Administrative Committee. Subject to the limitation in Section 9.1 relating to decisions that affect solely their own benefits under the Plan, individuals who are management level employees and/or Participants may serve as members of the Administrative Committee. The Administrative Committee will act on behalf of the Controlling Company to administer the Plan, all as provided in Article IX.

**1.3 Affiliate** means the Controlling Company and any corporation or other entity that is required to be aggregated with the Controlling Company under Code Sections 414(b) or (c). Notwithstanding the foregoing, for purposes of determining whether a Separation from Service has occurred with any Participating Company, the term “Affiliate” will include such Participating Company and all entities that would be treated as a single employer with such Participating Company under Code Sections 414(b) or (c), but substituting “at least 50 percent” instead of “at least 80 percent” each place it appears in applying such rules.

**1.4 Annual Bonus** means, for a Participant for any Plan Year, that portion of an Eligible Employee’s compensation for that Plan Year payable before the Participant’s Separation from Service as an annual bonus under (i) the Aflac Management Incentive Plan or any successor plan thereto; or (ii) the Aflac Sales Incentive Plan or any successor plan thereto.

**1.5 Annual Bonus Contributions** means, for a Participant for any Plan Year, that portion of such Participant’s Annual Bonus deferred under the Plan pursuant to Section 3.2.

**1.6 Annual Bonus Election** means a written, electronic or other form of election permitted by the Administrative Committee, pursuant to which a Participant may elect to defer under the Plan all or a portion of his Annual Bonus.

**1.7 Annual Compensation** means, for purposes of the Executive Employer Contributions, the amount earned by a Participant from the Affiliates for services performed as an employee (but not as a consultant) during a relevant calendar year as wages, salaries for professional services, and cash bonuses. For clarification, “Annual Compensation” for a relevant calendar year will include all such earned compensation whether or not paid to the Participant,



including (i) such earned compensation contributed by the Affiliates on behalf of a Participant pursuant to a salary reduction agreement which is not includable in the gross income of the Participant under Code Sections 125, 402(a)(8) or 402(h); (ii) such earned compensation deferred by the Affiliates under the Plan either (A) on behalf of a Participant pursuant to a salary reduction agreement, or (B) as a result of the Affiliates' specific decision to make a deferral of base salary in lieu of paying current cash compensation to the Participant; and (iii) such earned compensation that is comprised of bonuses that would have been paid in cash to the Participant if he had not voluntarily waived them.

**1.8 Base Salary** means, for a Participant for any Plan Year, the total of such Participant's base salary, prior to any deductions, for such Plan Year payable before the Participant's Separation from Service.

**1.9 Base Salary Contributions** means, for a Participant for each Plan Year, the portion of such Participant's Base Salary deferred under the plan pursuant to Section 3.2.

**1.10 Beneficiary** means, with respect to a Participant, the person(s) designated in accordance with Section 11.1 to receive any death benefits that may be payable under the Plan upon the death of the Participant.

**1.11 Board** means the Board of Directors of the Controlling Company.

**1.12 Business Day** means each day on which the Trustee operates, and is open to the public, for its business.

**1.13 Cause** means a Participant's involuntary termination of employment by the Affiliates, or a Participant's voluntary termination of employment with the Affiliates in anticipation that the Participant will be terminated, in any case, for what the Compensation Committee or the Controlling Company's Chief Executive Officer determines is due to the Participant's: (i) continued failure to substantially perform his duties with the Affiliates (other than due to his incapacity due to physical or mental illness) after a written demand to do so by the Board, the Controlling Company's Chief Executive Officer, or the Controlling Company's Senior Human Resources Officer; (ii) engaging in conduct that is injurious to the Controlling Company or any Affiliate; or (iii) conviction of, or plea of guilty or no contest to, a felony or a crime of moral turpitude.

**1.14 Change in Control.**

**(a) General Definition.** For purposes of a Participant's Pre-409A Account, Change in Control means the occurrence of any of the following events:

(i) Any Person is or becomes the beneficial owner, directly or indirectly, of securities of the Controlling Company representing 30% or more of the combined voting power of the Controlling Company's then outstanding securities; provided, for purposes of this subsection (i), securities acquired directly from the Controlling Company or its Affiliates will not be taken into account as securities beneficially owned by such Person;

(ii) During any period of 2 consecutive years, individuals who at the beginning of such period constitute the Board and any new director (other than a director designated by a Person who has entered into an agreement with the Controlling Company to effect a transaction described in subsection (i), (iii) or (iv) hereof) whose election by the Board or nomination for election by the Controlling Company's shareholders was approved by a vote of at least 2/3 of the directors then still in office who either were directors at the beginning of the period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof;

(iii) The shareholders of the Controlling Company approve a merger or consolidation of the Controlling Company with any other corporation, other than (A) a merger or consolidation which would result in the voting securities of the Controlling Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity), in combination with the ownership of any trustee or other fiduciary holding securities under an employee benefit plan of the Controlling Company, at least 75% of the combined voting power of the voting securities of the Controlling Company or such surviving entity outstanding immediately after such merger or consolidation; or (B) a merger or consolidation effected to implement a recapitalization of the Controlling Company (or similar transaction) in which no Person acquires more than 50% of the combined voting power of the Controlling Company's then outstanding securities; or

(iv) The shareholders of the Controlling Company approve a plan of complete liquidation of the Controlling Company or an agreement for the sale or disposition by the Controlling Company of all or substantially all of the Controlling Company's assets.

As used herein, the term "Person" will have the meaning given in Section 3(a)(9) of the Securities Exchange Act of 1934, as modified and used in Sections 13(d) and 14(d) thereof; provided, a Person will not include (A) the Controlling Company or any of its subsidiaries; (B) a trustee or other fiduciary holding securities under an employee benefit plan of the Controlling Company or any of its subsidiaries; (C) an underwriter temporarily holding securities pursuant to an offering of such securities; or (D) a corporation owned, directly or indirectly, by the shareholders of the Controlling Company in substantially the same proportions as their ownership of stock of the Controlling Company.

(b) **Payment Definition Under Code Section 409A.** For purposes of a Participant's Post-409A Account, "Change in Control" means any of the events specified in (i), (ii), (iii) or (iv) below, subject to the rules described in subsection (v) below:

(i) Any one person, or more than one person acting as a group (as described below), acquires ownership of stock of the Controlling Company that, together with stock held by such person or group constitutes more than 50 percent of the total fair market value or total voting power of the stock of the Controlling Company. However, if any one person, or more than one person acting as a group, is considered to own more than 50 percent of the total fair market value or total voting power of the stock of the

Controlling Company, the acquisition of additional stock by the same person or persons is not considered to cause a Change in Control. An increase in the percentage of stock owned by any one person, or persons acting as a group, as a result of a transaction in which the Controlling Company acquires its stock in exchange for property will be treated as an acquisition of stock for purposes of this subsection. This subsection applies only when there is a transfer of stock of the Controlling Company (or issuance of stock of the Controlling Company) and stock in the Controlling Company remains outstanding after the transaction.

(ii) Any one person, or more than one person acting as a group, acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the Controlling Company possessing 30 percent or more of the total voting power of the stock of the Controlling Company. However, if any one person, or more than one person acting as a group, is considered to own more than 50 percent of the total fair market value or total voting power of the stock of the Controlling Company, the acquisition of additional stock by the same person or persons is not considered to cause a Change in Control.

(iii) A majority of members of the Controlling Company's board of directors is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Controlling Company's board of directors before the date of the appointment or election.

(iv) Any one person, or more than one person acting as a group acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) assets from the Controlling Company that have a total gross fair market value equal to or more than 40 percent of the total gross fair market value of all of the assets of the Controlling Company immediately before such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets of the Controlling Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

(A) There is no Change in Control under this subsection (iv) when there is a transfer to an entity that is controlled by the shareholders of the Controlling Company immediately after the transfer, as provided in this subsection. A transfer of assets by the Controlling Company is not treated as a change in the ownership of such assets if the assets are transferred to:

(1) A shareholder of the Controlling Company (immediately before the asset transfer) in exchange for or with respect to its stock;

(2) An entity, 50 percent or more of the total value or voting power of which is owned, directly or indirectly, by the Controlling Company;

(3) A person, or more than one person acting as a group, that owns, directly or indirectly, 50 percent or more of the total value or voting power of all the outstanding stock of the Controlling Company; or

(4) An entity, at least 50 percent of the total value or voting power of which is owned, directly or indirectly, by a person described in subsection (3) above.

(B) For purposes of this subsection (iv) and except as otherwise provided in Treasury Regulations, a person's status is determined immediately after the transfer of the assets. For example, a transfer to a company in which the Controlling Company has no ownership interest before the transaction, but that is a majority-owned subsidiary of the Controlling Company after the transaction, is not treated as a Change in Control.

(v) Additional Rules.

(A) Persons Acting as a Group. Persons will not be considered to be acting as a group solely because they purchase assets of the same corporation at the same time with respect to subsection (iv), or solely because they purchase or own stock of the same corporation at the same time with respect to subsections (i), (ii) and (iii). However, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of assets (with respect to subsection (iv)) or stock (with respect to subsections (i), (ii) and (iii)), or similar business transaction with the Controlling Company. If a person, including an entity shareholder, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of assets (with respect to subsection (iv)) or stock (with respect to subsections (i), (ii) and (iii)), or similar transaction, such shareholder is considered to be acting as a group with other shareholders in a corporation only to the extent of the ownership in that corporation before the transaction giving rise to the change and not with respect to the ownership interest in the other corporation.

(B) Attribution of Stock Ownership. For purposes of this section, Code Section 318(a) applies to determine stock ownership. Stock underlying a vested option is considered owned by the individual who holds the vested option (and the stock underlying an unvested option is not considered owned by the individual who holds the unvested option). For purposes of the preceding sentence, however, if a vested option is exercisable for stock that is not substantially vested (as defined by Treasury Regulations Section 1.83-3(b) and (j)), the stock underlying the option is not treated as owned by the individual who holds the option.

(C) Acquisition of Additional Control. If any one person, or more than one person acting as a group, is considered to effectively control the

Controlling Company (as determined under subsections (ii) and (iii)), the acquisition of additional control of the Controlling Company by the same person or persons is not considered to cause a Change in Control under subsections (i), (ii) or (iii).

**1.15 Code** means the Internal Revenue Code of 1986, as amended, and any succeeding federal tax provisions.

**1.16 Company Stock** means the \$.10 par value common stock of the Controlling Company.

**1.17 Company Stock Fund** means an Investment Fund, the rate of return of which will be determined as if the amounts deemed invested therein have been invested in shares of Company Stock. The aggregate of all Company Stock Units under the Plan will constitute the Company Stock Fund.

**1.18 Company Stock Unit** means an accounting entry that is equal in value at any time to the current fair market value of one share of Company Stock, and that represents an unsecured obligation to pay that amount to a Participant in accordance with the terms of the Plan. A Company Stock Unit will not carry any voting, dividend or other similar rights and will not constitute an option or any other right to acquire any equity securities of the Controlling Company.

**1.19 Compensation Committee** means the Compensation Committee of the Board.

**1.20 Controlling Company** means Aflac Incorporated, a Georgia corporation with its principal place of business in Columbus, Georgia.

**1.21 Deferral Contributions** means, for each Plan Year, a Participant's Base Salary Contributions and Annual Bonus Contributions deferred under the Plan pursuant to Section 3.2.

**1.22 Director** means an individual employed by a Participating Company who is classified by the Participating Company as, and has the job title of, Director.

**1.23 Disability or Disabled** means that a Participant has been determined to be disabled under the group long-term disability plan maintained by the Affiliates in which the Participant participates.

**1.24 Discretionary Contributions** means the amount (if any) credited to a Participant's Account pursuant to Section 3.4.

**1.25 Effective Date** means January 1, 2020, the date that this amendment and restatement of the Plan will be effective. The Plan was initially effective on January 1, 1999.

**1.26 Eligible Employee** means, for a Plan Year, an individual (i) who is a U.S.-based employee of a Participating Company; and (ii) who is either an officer (other than an Assistant Vice President), Director or Market Director of such Participating Company. The Compensation

Committee, from time to time and in its sole discretion, may designate such other individuals, on an individual basis or as part of a specified group, as eligible to participate in the Plan. In addition, the Administrative Committee from time to time and in its sole discretion, may designate such other individuals, on an individual basis or as part of a specified group, as eligible to participate in the Plan but solely for purposes of making Deferral Contributions and not for purposes of receiving Matching Contributions, Discretionary Contributions or Executive Employer Contributions. To be an “Eligible Employee”, such an employee must be a member of a select group of key management or highly compensated employees of the Affiliates.

**1.27 ERISA** means the Employee Retirement Income Security Act of 1974, as amended.

**1.28 Executive Employer Contribution** means the amount (if any) credited to a Participant’s Account pursuant to Section 3.5.

**1.29 FICA Tax** means the Federal Insurance Contributions Act tax imposed under Code Sections 3101, 3121(a) and 3121(v)(2).

**1.30 Financial Hardship** means a severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or of the Participant’s dependent (as defined in Code Section 152(a)) or, with respect to distributions upon Financial Hardship from a Participant’s Post-409A Account, the Participant’s Beneficiary, loss of the Participant’s property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. Financial Hardship will be determined by the Administrative Committee on the basis of the facts of each case, including information supplied by the Participant in accordance with uniform guidelines prescribed from time to time by the Administrative Committee; provided, the Participant will be deemed not to have a Financial Hardship to the extent that such hardship is or may be relieved:

- (a) Through reimbursement or compensation by insurance or otherwise;
- (b) By liquidation of the Participant’s assets, to the extent the liquidation of assets would not itself cause severe financial hardship; or
- (c) By cessation of deferrals under the Plan.

Examples of what are not considered Financial Hardships include the need to send a Participant’s child to college or the desire to purchase a home.

**1.31 Investment Election** means an election, made in such form as the Administrative Committee may direct, pursuant to which a Participant may elect the Investment Funds in which the amounts credited to his Account will be deemed to be invested.

**1.32 Investment Funds** means the investment funds selected from time to time by the Retirement Plans Investment Committee for purposes of determining the rate of return on amounts deemed invested pursuant to the terms of the Plan.

**1.33 Key Employee** means a Participant who is a “specified employee” as defined in Code Section 409A as of: (i) for a Participant who Separates from Service on or after the first day of a calendar year and before the first day of the fourth month of such calendar year, the December 31 of the second calendar year preceding the calendar year in which such Participant Separates from Service; or (ii) for any other Participant, the preceding December 31. For purposes of identifying Key Employees, the Participant’s compensation means all of the items listed in Treasury Regulations Section 1.415(c)-2(b), and excluding all of the items listed in Treasury Regulations Section 1.415(c)-2(c).

**1.34 Matching Contributions** means the amount (if any) credited to a Participant’s Account pursuant to Section 3.3.

**1.35 Participant** means any person who has been admitted to, and has not been removed from, participation in the Plan pursuant to the provisions of Article II.

**1.36 Participating Company** means, as of the Effective Date, each of (i) the Controlling Company, and (ii) each of its Affiliates that are designated on Exhibit A hereto as Participating Companies herein. In addition, any other Affiliate in the future may adopt the Plan with the consent of the Compensation Committee or the Administrative Committee, and such Affiliate’s name will be added to Exhibit A without the necessity of amending the Plan.

**1.37 Payment Date** means the date on which all or a portion of the Participant’s benefit is scheduled to be paid (in the case of a lump-sum payment) or commenced (in the case of installment payments) pursuant to the terms of the Plan.

**1.38 Plan** means the Aflac Incorporated Executive Deferred Compensation Plan, as contained herein and all amendments hereto. For tax purposes and purposes of Title I of ERISA, the Plan is intended to be an unfunded, nonqualified deferred compensation plan covering certain designated employees who are within a select group of key management or highly compensated employees.

**1.39 Plan Year** means the 12-consecutive-month period ending on December 31 of each year.

**1.40 Post 409A Account** means the portion of a Participant’s Account that is not the Participant’s Pre-409A Account.

**1.41 Pre-409A Account** means the portion of a Participant’s Account attributable to the balance of the Participant’s Account that was earned and vested as of December 31, 2004.

**1.42 Retirement Plans Investment Committee** means the committee that will make and effect investment decisions, as provided in Article IX. To the extent that a Retirement Plans Investment Committee is not appointed, any other person or committee appointed by the Compensation Committee may act in lieu thereof.

**1.43 Salary Deferral Election** means a written, electronic or other form of election permitted by the Administrative Committee, pursuant to which a Participant may elect to defer under the Plan a portion of his Base Salary.

**1.44 Separate from Service or Separation from Service** means that a Participant separates from service with the Participating Company that is his employer and its Affiliates, as defined in Code Section 409A and guidance issued thereunder. Generally, a Participant Separates from Service if the Participant dies, retires or otherwise has a termination of employment with all Affiliates, determined in accordance with the following:

(a) **Leaves of Absence.** The employment relationship is treated as continuing intact while the Participant is on military leave, sick leave, or other bona fide leave of absence if the period of such leave does not exceed 6 months, or, if longer, so long as the Participant retains a right to reemployment with an Affiliate under an applicable statute or by contract. A leave of absence constitutes a bona fide leave of absence only while there is a reasonable expectation that the Participant will return to perform services for an Affiliate. If the period of leave exceeds 6 months and the Participant does not retain a right to reemployment under an applicable statute or by contract, the employment relationship is deemed to terminate on the first date immediately following such 6-month period. Notwithstanding the foregoing, where a leave of absence is due to any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 6 months, where such impairment causes the Participant to be unable to perform the duties of his or her position of employment or any substantially similar position of employment, a 29-month period of absence will be substituted for such 6-month period.

(b) **Status Change.** Generally, if a Participant performs services both as an employee and an independent contractor, such Participant must Separate from Service both as an employee, and as an independent contractor pursuant to standards set forth in Treasury Regulations, to be treated as having a Separation from Service. However, if a Participant provides services to Affiliates as an employee and as a member of the Board of Directors, the services provided as a director are not taken into account in determining whether the Participant has a Separation from Service as an employee for purposes of this Plan.

(c) **Termination of Employment.** Whether a termination of employment has occurred is determined based on whether the facts and circumstances indicate that the Affiliates and the Participant reasonably anticipate that (i) no further services will be performed after a certain date, or (ii) the level of bona fide services the Participant will perform after such date (whether as an employee or as an independent contractor) will permanently decrease to less than 50 percent of the average level of bona fide services performed (whether as an employee or an independent contractor) over the immediately preceding 36-month period (or the full period of services to all Affiliates if the Participant has been providing services to all Affiliates less than 36 months). Facts and circumstances to be considered in making this determination include, but are not limited to, whether the Participant continues to be treated as an employee for other purposes (such as continuation of salary and participation in employee benefit programs), whether similarly situated service providers have been treated consistently, and whether the Participant is permitted, and realistically available, to perform services for other service



recipients in the same line of business. For periods during which a Participant is on a paid bona fide leave of absence and has not otherwise terminated employment as described in subsection (a) above, for purposes of this subsection the Participant is treated as providing bona fide services at a level equal to the level of services that the Participant would have been required to perform to receive the compensation paid with respect to such leave of absence. Periods during which a Participant is on an unpaid bona fide leave of absence and has not otherwise terminated employment are disregarded for purposes of this subsection (including for purposes of determining the applicable 36-month (or shorter) period).

**1.45 SLDCP** means the Aflac Incorporated Sales Leaders Deferred Compensation Plan (formerly known as the Aflac Incorporated Market Director Deferred Compensation Plan and originally effective September 30, 2014), which merged with and into the Plan effective as of January 1, 2020.

**1.46 SLDCP Primary Payment Date** will have the meaning provided in Section 5.2(a)(ii)(B).

**1.47 SLDCP Subaccount** means, with respect to a Participant or Beneficiary, the total dollar amount or value credited to the individual's Account which is attributable to (i) pre-tax deferrals, related matching contributions and any discretionary employer contributions made under the SLDCP and transferred to the Plan, plus (ii) any pre-tax deferrals, related matching contributions and discretionary employer contributions posted to the Account on or after January 1, 2020, which would have posted to the SLDCP if that plan had remained in effect as a separate plan instead of merging into the Plan.

**1.48 Surviving Spouse** means, with respect to a Participant, the person who is treated as married to such Participant under the laws of any U.S. or foreign jurisdiction that has the legal authority to sanction marriages. The determination of a Participant's Surviving Spouse will be made as of the date of such Participant's death.

**1.49 Trust or Trust Agreement** means the separate agreement or agreements between the Controlling Company and the Trustee governing the Trust Fund, and all amendments thereto.

**1.50 Trust Fund** means the total amount of cash and other property held by the Trustee (or any nominee thereof) at any time under the Trust Agreement.

**1.51 Trustee** means the party or parties so designated from time to time pursuant to the terms of the Trust Agreement.

**1.52 Valuation Date** means each Business Day; provided, the value of an Account on a day other than a Valuation Date will be the value determined as of the immediately preceding Valuation Date.

**1.53 Years of Employment** means the calendar years in which the Participant is employed by the Affiliates for the entire calendar year. If a Participant terminates employment with the Affiliates and is later rehired, previous Years of Employment will only be taken into

account to the extent determined by the Compensation Committee. The Compensation Committee may grant a Participant additional Years of Employment in its discretion at any time.

**1.54 Years of Participation** means the calendar years in which the Participant is participating in the Executive Employer Contributions portion of the Plan for the entire calendar year. If a Participant terminates employment with the Affiliates and is later rehired, previous Years of Participation will only be taken into account to the extent determined by the Compensation Committee. The Compensation Committee may grant a Participant additional Years of Participation at its discretion at any time.

**ARTICLE II**  
**ELIGIBILITY AND PARTICIPATION**

**2.1 Eligibility for Deferral Contributions**

(a) **Annual Participation.** Each individual who is an Eligible Employee as of the first day of a Plan Year will be eligible to participate in the Plan with respect to Deferral Contributions for the entire Plan Year.

(b) **Interim Plan Year Participation.** If determined in writing by the Chief Executive Officer of the Controlling Company, his duly authorized designee, the Senior Human Resources Officer of the Controlling Company, or the Compensation Committee, in his or its sole discretion, an individual who becomes an Eligible Employee during a Plan Year will be eligible to participate in the Plan with respect to Deferral Contributions. Such individual's participation will become effective as of the date specified in writing by the Chief Executive Officer of the Controlling Company, his duly authorized designee, the Senior Human Resources Officer of the Controlling Company, or the Compensation Committee at the time such individual is selected as a Participant.

**2.2 Procedure for Admission.**

The Administrative Committee may require a Participant to complete such forms and provide such data as the Administrative Committee determines in its sole discretion. Such forms and data may include, without limitation, a Salary Deferral Election, an Annual Bonus Election, the Eligible Employee's acceptance of the terms and conditions of the Plan, and the designation of a Beneficiary to receive any death benefits payable hereunder.

**2.3 Eligibility for Discretionary and Matching Contributions.**

The Compensation Committee, the Chief Executive Officer of the Controlling Company or his duly authorized designee, or the Senior Human Resources Officer of the Controlling Company may select at any time or times any employee of the Affiliates who is a member of a select group of key management or highly compensated employees of the Affiliates for participation in the Plan with respect to Discretionary Contributions and/or Matching Contributions.

**2.4 Eligibility for Executive Employer Contributions.**

The Compensation Committee may select at any time any Eligible Employee for participation in the Plan with respect to Executive Employer Contributions.

**2.5 Cessation of Eligibility.**

The Administrative Committee may remove a Participant from active participation in the Plan with respect to Deferral Contributions if he ceases to satisfy the criteria

which qualified him as an Eligible Employee, in which case his Deferral Contributions under the Plan will not apply to compensation earned in any Plan Year after the Plan Year in which he ceases to satisfy the criteria which qualified him as an Eligible Employee. A Participant's active participation in the Plan with respect to Executive Employer Contributions will end upon the earliest of: (i) the date of his Separation from Service; (ii) the date he incurs a reduction or elimination of officer status; or (iii) the date the Compensation Committee removes such Eligible Employee from active participation in the Plan with respect to Executive Employer Contributions, which the Compensation Committee may do at any time. Even if his active participation in the Plan ends, a Participant will remain an inactive Participant in the Plan until the earlier of (i) the date the full amount of his vested Account (if any) is distributed from the Plan, or (ii) the date he again becomes an Eligible Employee and recommences active participation in the Plan. During the period of time that an individual is an inactive Participant in the Plan, his Account will continue to be adjusted for earnings and losses as provided for in Section 3.7.

## **2.6 Merger of SLDCP.**

Effective January 1, 2020, the SLDCP has been merged with and into the Plan, and the terms of the Plan will apply to accounts transferred to the Plan from the SLDCP. As a result of such merger, the following rules will apply in addition to the rules otherwise set forth in the Plan:

**(a) 409A Compliance.** Notwithstanding anything in the Plan to the contrary, the terms of the Plan are intended to comply with Code Section 409A with regard to the accounts that transferred from the SLDCP, and will be construed and operated accordingly. No changes to payment terms of SLDCP accounts that would violate Code Section 409A are intended by the terms of this Plan.

**(b) Beneficiary Designations.** Beneficiary designations applicable under the SLDCP as of December 31, 2019, will transfer to and apply under the Plan effective January 1, 2020, as if such Beneficiary designations had been made under the Plan.

## ARTICLE III

### PARTICIPANTS' ACCOUNTS; DEFERRALS AND CREDITING

#### **3.1 Participants' Accounts.**

(a) **Establishment of Accounts.** The Administrative Committee will establish and maintain an Account on behalf of each Participant. Each Account will be credited with (i) Deferral Contributions (separated as necessary or helpful into Base Salary Contributions and Annual Bonus Contributions), (ii) Matching Contributions, (iii) Discretionary Contributions, (iv) Executive Employer Contributions, (v) deferred balances transferred to the Plan from the SLDCP, and (vi) earnings attributable to such Account, and will be debited by the amount of all distributions and investment losses attributable to such Account. Each Account will be subdivided into a Pre-409A Account and a Post-409A Account, which will be separately accounted for under the Plan. Each Account of a Participant will be maintained until the value thereof has been distributed to or on behalf of such Participant or his Beneficiary.

(b) **Nature of Contributions and Accounts.** The amounts credited to a Participant's Account will be represented solely by bookkeeping entries. Except as provided in Article VIII, no monies or other assets will actually be set aside for such Participant, and all payments to a Participant under the Plan will be made from the general assets of the Participating Companies.

(c) **Several Liabilities.** Each Participating Company will be severally (and not jointly) liable for the payment of benefits under the Plan in an amount equal to the total of (i) all undistributed Deferral Contributions, (ii) all undistributed Matching Contributions, (iii) all undistributed Discretionary Contributions, (iv) all undistributed Executive Employer Contributions, (v) all undistributed balances transferred to the Plan from the SLDCP, and (vi) all investment earnings attributable to the amounts described in clauses (i)-(v) hereof. The Administrative Committee will allocate the total liability to pay benefits under the Plan among the Participating Companies, and the Administrative Committee's determination will be final and binding.

(d) **General Creditors.** Any assets which may be acquired by a Participating Company in anticipation of its obligations under the Plan will be part of the general assets of such Participating Company. A Participating Company's obligation to pay benefits under the Plan constitutes a mere promise of such Participating Company to pay such benefits, and a Participant or Beneficiary will be and remain no more than an unsecured, general creditor of such Participating Company.

#### **3.2 Deferral Contributions.**

Subject to the suspension period provided in Section 6.4(b), each Eligible Employee who is eligible to participate in the Plan for all or any portion of a Plan Year may elect to have Deferral Contributions made on his behalf for such Plan Year by completing and delivering to the Administrative Committee (or its designee) a Salary Deferral Election and/or an

Annual Bonus Election, setting forth the terms of his election(s). Subject to the terms and conditions set forth below, a Salary Deferral Election may provide for the reduction of an Eligible Employee's Base Salary earned during the Plan Year for which the Salary Deferral Election is in effect, and an Annual Bonus Election will provide for the reduction of an Eligible Employee's Annual Bonus earned during the Plan Year for which the Annual Bonus Election is in effect. The following terms will apply to such elections:

**(a) Effective Date.**

(i) General Deadline. A Participant's Salary Deferral Election and Annual Bonus Election for the compensation earned during a Plan Year must be made before the first day of such Plan Year, except as provided in subsection (ii) below.

(ii) Special Rule for New Participants.

(A) Salary Deferrals. If a Participant initially becomes an Eligible Employee (determined in accordance with Code Section 409A) and does not make an initial Salary Deferral Election within the time period set forth in subsection (i) above, such Participant may make a prospective Salary Deferral Election (but not an Annual Bonus Election) either before or within 30 days after the date on which his participation becomes effective, but only if permitted by the Chief Executive Officer of the Controlling Company, his duly authorized designee, the Senior Human Resources Officer of the Controlling Company, or the Compensation Committee, in his or its sole discretion. Such election will apply to the Participant's Base Salary for services performed after the Salary Deferral Election is made, starting with the second payroll period that begins after the 30-day period commencing on the date on which the Participant's participation becomes effective.

(B) Newly Eligible. If a former Eligible Employee again becomes an Eligible Employee under the Plan within 24 months after he ceased to be eligible under the Plan, such individual will not be treated as newly eligible under the Plan upon return to eligible status for purposes of this subsection (ii). If a former participant in the SLDCP becomes an Eligible Employee under the Plan within 24 months after he ceased to be eligible under the SLDCP (other than due solely to the merger of the SLDCP into the Plan effective as of the Effective Date), such individual will not be treated as newly eligible under the Plan upon so becoming an Eligible Employee, for purposes of this subsection (ii).

**(b) Term and Irrevocability of Election.** An Eligible Employee may change his Salary Deferral Election and/or Annual Bonus Election for the Plan Year any time prior to the deadlines specified in subsections (a)(i) or (a)(ii) above (as applicable to the Participant), only to the extent (if any) permitted by, and subject to any restrictions or procedures determined by, the Administrative Committee. Upon the latest of the deadlines specified in (a)(i) or (a)(ii) above that applies to a Participant, such Participant's Salary Deferral Election and/or Annual Bonus Election, or failure to elect, will become irrevocable for the Plan Year except as provided

under this subsection (b). Each Participant's Salary Deferral Election and Annual Bonus Election will remain in effect only for the Plan Year for which it is made. A Participant's Salary Deferral Election and Annual Bonus Election may be cancelled in the discretion of the Administrative Committee as permitted under Code Section 409A (for example, on the date the Participant receives an unforeseeable emergency distribution pursuant to Code Section 409A). If a Participant is transferred from the employment of one participating company to the employment of another participating company, his Salary Deferral Election and Annual Bonus Election with the first participating company will remain in effect and will apply to his compensation from the second participating company until terminated in accordance with this subsection.

**(c) Amount.**

(i) Salary Deferrals. A Participant may elect to defer his Base Salary payable in each regular paycheck up to a maximum of 75% (or such other maximum percentage and/or amount, if any, established by the Administrative Committee from Plan Year to Plan Year). Notwithstanding the foregoing, a Participant's deferral for a paycheck will not exceed the amount of his Base Salary payable in such paycheck equal to the amount remaining after required withholdings for FICA Taxes.

(ii) Bonus Deferrals. A Participant may elect to defer his Annual Bonus up to 75% (or such other maximum percentage and/or amount, if any, established by the Administrative Committee from Plan Year to Plan Year).

**(d) Crediting of Deferral Contributions.** For each Plan Year that a Participant has a Salary Deferral Election or Annual Bonus Election in effect, the Administrative Committee will credit the amount of such Participant's Deferral Contributions to his Account on, or as soon as practicable after, the Valuation Date on which such amount would have been paid to him but for his Salary Deferral Election or Annual Bonus Election.

**3.3 Matching Contributions.**

If and to the extent the Chief Executive Officer of the Controlling Company, his duly authorized designee, the Senior Human Resources Officer of the Controlling Company, or the Compensation Committee determines that the Controlling Company will make Matching Contributions for some or all Participants, then as of the end of each payroll period (or such other date or time as the Administrative Committee, in its sole discretion, determines from time-to-time), the Administrative Committee will credit to each Participant's Account for such period a Matching Contribution equal to the amount of the Matching Contribution so determined. Notwithstanding the foregoing, the Chief Executive Officer of the Controlling Company and the Senior Human Resources Officer of the Controlling Company may not determine that the Controlling Company will make Matching Contributions for any individuals who are Eligible Employees solely due to their designation as such by the Administrative Committee (as provided under Section 1.26).

### **3.4 Discretionary Contributions.**

The amount of a Discretionary Contribution (if any) will be determined by the Chief Executive Officer of the Controlling Company or his duly authorized designee, the Senior Human Resources Officer of the Controlling Company, or the Compensation Committee, in his or its sole discretion. The Administrative Committee will credit any such Discretionary Contribution to the Account of a Participant as of any Valuation Date.

### **3.5 Executive Employer Contributions.**

With respect to an Eligible Employee who has been selected for active participation in the Plan with respect to Executive Employer Contributions, the amount of such Participant's Executive Employer Contribution (if any) will be determined by the Compensation Committee in its sole discretion from time to time. The Executive Employer Contribution for a Participant for a particular Plan Year will generally be equal to a percentage of the Participant's Annual Compensation earned during the Plan Year. For a Participant to receive an Executive Employer Contribution for a Plan Year, he must either (i) have been employed on the last day of that Plan Year; or (ii) have terminated employment during the Plan Year due to (A) his death, (B) his Disability, or (C) his retirement after having attained (1) 15 Years of Employment, or (2) age 65. The Administrative Committee will credit any such Executive Employer Contribution to the Participant's Account in the Plan Year following the Plan Year for which it is made as of the later of (i) the Valuation Date determined by the Compensation Committee, or (ii) the date the Recordkeeper credits such contribution to the Participant's account.

### **3.6 Debiting of Distributions.**

As of each Valuation Date, the Administrative Committee will debit each Participant's Account for any amount distributed from such Account since the immediately preceding Valuation Date.

### **3.7 Adjustment for Earnings and Losses.**

As of each Valuation Date, the Administrative Committee will credit to each Participant's Account the amount of earnings and/or debit the amount of losses applicable thereto for the period since the immediately preceding Valuation Date. Such adjustment for earnings and/or losses will be effected as of each Valuation Date, as follows:

#### **(a) General Rule.**

(i) Rate of Return. The Administrative Committee will first determine a rate of return for the period since the immediately preceding Valuation Date for each of the Investment Funds;

(ii) Amount Invested. The Administrative Committee next will determine the amount of (A) each Participant's Account that was deemed invested in each Investment Fund as of the immediately preceding Valuation Date; minus (B) the



amount of any distributions debited from the amount determined in clause (A) since the immediately preceding Valuation Date; and

(iii) **Determination of Amount.** The Administrative Committee will then apply the rate of return for each Investment Fund for such Valuation Date (as determined in subsection (a) hereof) to the amount of the Participant's Account deemed invested in such Investment Fund for such Valuation Date (as determined in subsection (b) hereof), and the total amount of earnings and/or losses resulting therefrom will be applied to such Participant's Account as of the applicable Valuation Date.

(b) **Cash Dividends** For Company Stock Units that have been credited to a Participant's Account on or before a record date for Company Stock cash dividends and that remain credited to his Account through the corresponding dividend payment date, the Administrative Committee will credit to such Participant's Account (in the subaccount where the related Company Stock Units are held) a dollar amount equal to the amount of cash dividends that would have been paid on his Company Stock Units if each Company Stock Unit constituted one share of Company Stock. Such dollar amount then will be deemed invested as directed by the Investment Committee.

(c) **Adjustments for Stock Dividends and Splits.** In the event of any subdivision or combination of the outstanding shares of Company Stock, by reclassification, stock split, reverse stock split or otherwise, or in the event of the payment of a stock dividend on Company Stock, or in the event of any other increase or decrease in the number of outstanding shares of Company Stock, other than the issuance of shares for value received by the Controlling Company or the redemption of shares for value, the number of Company Stock Units credited to a Participant's Account will be adjusted upward or downward, as the case may be, to reflect the subdivision or combination of the outstanding shares. The amount of increase or decrease in the number of Company Stock Units in such event will be equal to the adjustment that would have been made if each Company Stock Unit credited to a Participant's Account immediately prior to the event constituted one share of Company Stock.

### **3.8 Value of Account.**

(a) **General Rule.** The value of a Participant's Account as of any date will be equal to the aggregate value of all contributions and all investment earnings deemed credited to his Account as of such date, determined in accordance with this Article.

(b) **Value of Company Stock.**

(i) **New York Stock Exchange.** For all purposes under the Plan for which the value of Company Stock must be determined as of any particular date as of which Company Stock is trading on the New York Stock Exchange, the fair market value per share of Company Stock on such date will be the closing price of Company Stock on the New York Stock Exchange on such date. If, for any reason, the fair market value per share of Company Stock cannot be ascertained or is unavailable for a particular date, the fair market value of Company Stock on such date will be determined as of the nearest

preceding date on which the fair market value can be ascertained pursuant to the terms hereof.

(ii) Other Exchange. For all purposes under the Plan for which the value of Company Stock must be determined as of any particular date on which Company Stock is not trading on the New York Stock Exchange but on which Company Stock is trading on another national securities exchange in the United States, the fair market value per share of Company Stock will be the closing price of the Company Stock on such national securities exchange on such date. If Company Stock is trading on such other national securities exchange in the United States on such date but no sales of shares of Company Stock occurred thereon, the fair market value per share of Company Stock will be the closing price of the Company Stock on the nearest preceding date. If on any particular date a public market will exist for Company Stock but Company Stock is not trading on a national securities exchange in the United States, then, if Company Stock is listed on the National Market List by the National Association of Securities Dealers, Inc. (the "NASD"), the fair market value per share of Company Stock will be the last sale price for such shares reflected on said market list for such date, and if Company Stock is not listed on the National Market List of the NASD, then the fair market value per share of Company Stock will be the mean between the bid and asked quotations in the over-the-counter market for such shares on such date. If there is no bid and asked quotation for Company Stock on such date, the fair market value per share of Company Stock will be the mean between the bid and asked quotations in the over-the-counter market for such shares on the nearest preceding date. If the fair market value per share of Company Stock cannot otherwise be determined under this Section as of a particular date, such value will be determined by the Administrative Committee, in its sole discretion, based on all relevant available facts.

### 3.9 Vesting.

(a) General. A Participant will at all times be fully vested in his Deferral Contributions and his Matching Contributions to the extent such Matching Contributions were made with respect to deferrals of Base Salary and/or Annual Bonuses considered earned before January 1, 2015, and the earnings credited to his Account with respect to such Deferral and Matching Contributions. Except as otherwise provided by the Chief Executive Officer of the Controlling Company, his designee, the Senior Human Resources Officer of the Controlling Company, or the Compensation Committee before or at the time such contributions are made, a Participant will at all times be fully vested in his Discretionary Contributions and other Matching Contributions, and the earnings thereon. A Participant will at all times be fully vested in his SLDCP Subaccount.

#### (b) Executive Employer Contributions.

(i) Vesting Date. Subject to subsection (ii) below, the portion of a Participant's Account that is attributable to Executive Employer Contributions will be 100% vested on the earliest of: (A) December 31 of the Plan Year in which the Participant completes 15 Years of Employment or 5 Years of Participation, whichever

occurs later; (B) the date a Change in Control occurs with respect to the Controlling Company while the Participant is employed by the Affiliates; (C) the date the Participant attains age 65 while employed by the Affiliates; (D) the date of the Participant's death while employed by the Affiliates; or (E) the date the Participant's Disability occurs while employed by the Affiliates; provided, the Compensation Committee may determine a different vesting schedule and/or criteria for any Participant.

(ii) Forfeiture. If a Participant terminates employment with the Affiliates before becoming vested as provided in subsection (i), the portion of such Participant's Account that is attributable to Executive Employer Contributions will be immediately forfeited. In addition, notwithstanding the provisions of subsection (i), whether or not the Participant's Executive Employer Contributions are 100% vested, any remaining balance in a Participant's Executive Employer Contributions subaccount will be immediately forfeited upon:

(A) Termination due to Cause of (1) the Participant's active participation in the Executive Employer Contribution portion of the Plan, or (2) his employment with the Affiliates; or

(B) The Participant's violation of the noncompetition and confidentiality restrictions in subsection (iii) below.

(iii) Noncompetition and Confidentiality.

(A) Noncompetition. Any amounts otherwise payable to a Participant under the Plan attributable to Executive Employer Contributions will be immediately forfeited if the Compensation Committee determines that the Participant, without the prior consent of the Board, the Compensation Committee or the Controlling Company's Chief Executive Officer, directly or indirectly has rendered advisory or any other services to, or has become employed by, or participated or engaged in any business competitive with, any of the business activities of the Controlling Company or any Affiliate in any states, the District of Columbia, any territories, or any foreign countries, in which the Controlling Company or any of its Affiliates do business. For purposes of this Section, "participated or engaged in" means that the Participant has acted as an agent, consultant, representative, officer, director, member, independent contractor or employee; or as an owner, partner, limited partner, joint venturer, creditor or shareholder (except as a shareholder holding no more than a 1% interest in a publicly traded entity). As a condition to receiving benefits attributable to Executive Employer Contributions, the Compensation Committee or the Controlling Company's Chief Executive Officer, in its or his sole discretion and at any time, may require any Participant to enter into a noncompete and/or nonsolicitation agreement with such terms and provisions as the Compensation Committee, or the Controlling Company's Chief Executive Officer, may dictate; and if the Participant does not execute such agreement in a sufficiently timely manner to permit a payment attributable to Executive Employer Contributions to

be made hereunder on the applicable Payment Date, such payment will be forfeited.

(B) **Confidentiality.** Any amounts otherwise payable to a Participant under the Plan attributable to Executive Employer Contributions will be immediately forfeited if the Compensation Committee or the Controlling Company's Chief Executive Officer determines that the Participant, at any time during or following the Participant's employment with the Affiliates, has disclosed any Confidential Information to any other person or entity (except employees of the Affiliates) without the prior written consent of the Board, the Compensation Committee, or the Controlling Company's Chief Executive Officer. For this purpose, "Confidential Information" means (i) all information of or about the Affiliates that would be considered a trade secret under Georgia law; namely, that information which (A) derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, other persons who can obtain economic value from its disclosure or use, and (B) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy (this may include, but will not be limited to, technical or nontechnical data, a formula, pattern, compilation, program, device, method, technique, drawing or process, financial data or plans, product plans, or a list of actual or potential customers or suppliers); and (ii) any other information that is material to the Affiliates and not generally available to the public, including, without limitation, information concerning the Affiliates' methods and plans of operation, production processes, marketing and sales strategies, research and development, know-how, computer programming, style and design technology and plans, non-published product specifications, patent applications, product and raw material costs, pricing strategies, business plans, financial data, personnel records, suppliers and customers (whether or not such information constitutes a trade secret).

(c) **Change in Control.** If a Change in Control occurs with respect to the Controlling Company, Participants will be or become immediately 100% vested in the Matching Contributions and Discretionary Contributions that are not otherwise vested as of the date of such Change in Control. Matching Contributions and Discretionary Contributions that the Chief Executive Officer of the Controlling Company, his designee, the Senior Human Resources Officer of the Controlling Company, or the Compensation Committee determines are not immediately vested and that are credited to Participants' Account after the date of a Change in Control will continue to vest in accordance with the applicable vesting schedules as applied to such Matching and Discretionary Contributions before the Change in Control.

(d) **Other Vesting Schedules.** In addition to the vesting dates provided in subsections (a) and (c), a Participant's Matching Contributions and/or Discretionary Contributions, and the earnings credited with respect thereto, will vest at the time or times provided in any employment agreement, offer letter or other valid written agreement between the Participant and the Affiliates.

**3.10 Notice to Participants of Account Balances.**

At least once for each Plan Year, the Administrative Committee will cause a written statement of a Participant's Account balance to be distributed to the Participant.

**3.11 Good Faith Valuation Binding.**

In determining the value of the Accounts, the Administrative Committee will exercise its best judgment, and all such determinations of value (in the absence of bad faith) will be binding upon all Participants and their Beneficiaries.

**3.12 Errors and Omissions in Accounts.**

If an error or omission is discovered in the Account of a Participant, the Administrative Committee, in its sole discretion, will cause appropriate, equitable adjustments to be made as soon as administratively practicable following the discovery of such error or omission.

**ARTICLE IV**  
**INVESTMENT FUNDS**

**4.1 Selection by Retirement Plans Investment Committee.**

From time to time, the Retirement Plans Investment Committee will select two or more Investment Funds for purposes of determining the rate of return on amounts deemed invested in accordance with the terms of the Plan. The Retirement Plans Investment Committee may change, add or remove Investment Funds on a prospective basis at any time(s) and in any manner it deems appropriate.

**4.2 Participant Direction of Deemed Investments.**

Each Participant generally may direct the manner in which his Account will be deemed invested in and among the Investment Funds; provided, any amounts credited to the Company Stock Fund will at all times remain credited to such fund until the date such amount is distributed to the Participant or his Beneficiary. Any Participant investment directions permitted hereunder will be made in accordance with the following terms:

(a) **Nature of Participant Direction.** The selection of Investment Funds by a Participant will be for the sole purpose of determining the rate of return to be credited to his Account, and will not be treated or interpreted in any manner whatsoever as a requirement or direction to actually invest assets in any Investment Fund or any other investment media. The Plan, as an unfunded, nonqualified deferred compensation plan, at no time will have any actual investment of assets relative to the benefits or Accounts hereunder.

(b) **Investment of Contributions.** Each Participant may make an Investment Election prescribing the percentage of the future contributions that will be deemed invested in each Investment Fund. An initial Investment Election of a Participant will be made as of the date the Participant commences participation in the Plan and will apply to all contributions credited to such Participant's Account after such date. Such Participant may make subsequent Investment Elections as of any Business Day, and each such election will apply to all such specified contributions credited to such Participant's Account after the Administrative Committee (or its designee) has a reasonable opportunity to process such election pursuant to such procedures as the Administrative Committee may determine from time-to-time. Any Investment Election made pursuant to this subsection with respect to future contributions will remain effective until changed by the Participant.

(c) **Investment of Existing Account Balances.** Each Participant may make an Investment Election prescribing the percentage of his existing Account balance that will be deemed invested in each Investment Fund. Such Participant may make such Investment Elections as of any Business Day, and each such election will be effective after the Administrative Committee (or its designee) has a reasonable opportunity to process such election. Each such election will remain in effect until changed by such Participant.

(d) **Administrative Committee Discretion**. The Administrative Committee shall have complete discretion to adopt and revise procedures to be followed in making such Investment Elections. Such procedures may include, but are not limited to, the process of making elections, the permitted frequency of making elections, the incremental size of elections, the deadline for making elections, the effective date of such elections, and the establishment of a default investment selection in the event a Participant fails to make an investment election. Any procedures adopted by the Administrative Committee that are inconsistent with the deadlines or procedures specified in this Section shall supersede such provisions of this Section without the necessity of a Plan amendment.

**ARTICLE V**  
**PAYMENT OF POST-409A ACCOUNT BALANCES**

**5.1 Amount of Benefit Payments for Post-409A Account.**

Payment of a benefit amount from a Participant's Post-409A Account as of any Payment Date hereunder will be calculated by determining the vested amount credited to the Participant's Post-409A Account that is payable on such Payment Date, determined as of the Valuation Date on which the distribution is processed. For purposes of this subsection, the "Valuation Date on which such distribution is processed" refers to the Valuation Date established for such purpose by administrative practice, even if actual payment is made or commenced at a later date due to delays in valuation, administration or any other procedure.

**5.2 Timing and Form of Distribution of Post-409A Account.**

**(a) Timing of Distributions.**

(i) Default Timing of Distribution. Except as provided in Sections 5.3, 5.4, 5.5 and 5.6, and subsections (a)(ii), (a)(iii) and (c) hereof, the Payment Date for a Participant's Post-409A Account will be: (i) within 90 days after the date the Participant Separates from Service, in the case of a Participant who is not a Key Employee on the date he Separates from Service; or (ii) 6 months after the date the Participant Separates from Service, in the case of a Participant who is a Key Employee on the date he Separates from Service.

(ii) Payment Date Election.

(A) Generally. Subject to subsection (B) below, a Participant may elect, at the time he makes a Salary Deferral Election and/or Annual Bonus Election for a Plan Year, to have the Payment Date for the portion of his Post-409A Account balance attributable to Deferral Contributions for such Plan Year (including any vested Matching Contributions related to such Deferral Contributions) be (1) a specified date that is after the 1-year period following the end of the Plan Year to which the election applies; or (2) the earlier of a specified date that is after the 1-year period following the end of the Plan Year to which the election applies or the date provided in subsection (a)(i) above. Notwithstanding the foregoing election timing requirements, if the Participant elected a Payment Date before January 1, 2009, such Payment Date election will apply. Payment Date elections in effect under the SLDCP with respect to a Participant's SLDCP Subaccount will transfer to and apply under the Plan effective January 1, 2020.

(B) Prior Plan Provisions for SLDCP Subaccounts. With respect to plan years beginning before January 1, 2017, under the SLDCP, a Participant was permitted to elect to have the Payment Date(s) for the portion of his SLDCP Subaccount balance attributable to contributions made on his behalf for services performed in such plan year be a specified date that is after the 1-year



period following the end of the plan year to which the election applied. A Participant was permitted to elect different Payment Dates with respect to each type of SLDCP contribution [base salary deferrals, annual bonus deferrals, matching contributions, and discretionary contributions] made on his behalf with respect to services performed during such plan year; provided that if a Participant was not allowed to or did not make a payment election with respect to any matching contributions, such matching contributions will be distributed at the same time as the base salary contributions or annual bonus contributions under the SLDCP to which such matching contributions related. A Participant was permitted to designate a single primary Payment Date (the "SLDCP Primary Payment Date") with respect to each contribution type for a plan year, and in the absence of such an election the date determined under Section 5.2(a)(i) is the SLDCP Primary Payment Date. The SLDCP Primary Payment Date will determine the time and method of payment of all remaining amounts (including undistributed earnings) in Participant's SLDCP Subaccount attributable to the relevant contribution type for the applicable SLDCP plan year. A Participant was also permitted to elect one additional Payment Date for each type of contribution made for such plan year. Such election was required to designate a dollar amount to be paid on such additional Payment Date; provided that (i) such additional Payment Date was not allowed to be later than the date of the final distribution of the Participant's SLDCP Subaccount under the Participant's SLDCP Primary Payment Date election, and (ii) if the dollar amount due on a specified additional Payment Date is more than the balance of the portion of the Participant's SLDCP Subaccount to which such payment election applies, then such payment will be equal to the balance of such portion of the Participant's SLDCP Subaccount.

(iii) Matching Contributions Made after Separation.

(A) Generally. Notwithstanding subsections (i) and (ii) and except as provided in subsection (iii)(B), the Payment Date with respect to Matching Contributions, which are credited to the Participant's Account after the last day of the Plan Year in which the Participant Separates from Service or dies, will be the later of (A) the date determined under subsections (i) and (ii) or Section 5.4 (as applicable), or (B) a date within the calendar year following the calendar year in which the Participant incurs a Separation from Service or dies, respectively; provided, it generally is anticipated that such Payment Date will occur within 60 days following the date such Matching Contributions are credited to the Participant's Account.

(B) Trailing SLDCP Matching Contributions. Notwithstanding the foregoing, in the event that matching contributions are credited to a Participant's SLDCP Subaccount after the last day of the plan year in which the Participant Separated from Service, the Payment Date with respect to such matching contributions will be the later of the date determined under subsections (i) and (ii) or the date on which such matching contributions are credited to the Participant's SLDCP Subaccount.

**(b) Form of Distribution for Post-409A Account Balances.**

(i) Single-Sum Payment. Except as provided in Section 5.5 and 5.6 and subsections (b)(ii) and (c) hereof, the portion of a Participant's Post-409A Account payable on a given Payment Date will be distributed in the form of a single lump-sum payment.

(ii) Annual Installments.

(A) Election of Annual Installments. A Participant may elect, at the time he makes a Salary Deferral Election and/or Annual Bonus Election for a Plan Year, to receive the benefit attributable to Deferral Contributions for such Plan Year (including any vested Matching Contributions related to such Deferral Contributions) in the form of annual installments. Notwithstanding the foregoing election timing requirements, if the Participant elected a form of payment before January 1, 2009, such election will apply. Installment elections in effect under the SLDCP with respect to a Participant's SLDCP Subaccount will transfer to and apply under the Plan effective January 1, 2020.

(B) Installment Periods. The installment payments will be made in substantially equal annual installments over a period of not less than 2 years and not more than 10 years (adjusted for earnings and losses between payments in the manner described in Section 3.7), beginning on the applicable Payment Date. The number of annual installment payments elected by the Participant will be specified at the time the Participant makes the election in which the installment payments are elected.

**(c) Modifications of Form and Timing.**

(i) Availability of Election.

(A) Contributions Related to Plan Years Before 2017. With respect to amounts attributable to Plan Years beginning before January 1, 2017, a Participant may make one or more elections to (i) delay the payment (or commencement) of the portion of his Post-409A Account attributable to a selected Plan Year's Salary Deferral Election or Annual Bonus Election, and/or (ii) change the form of payment to: (A) have such portion of his Post-409A Account paid in the form of annual installment payments as described above, (B) change the number of installment payments elected, or (C) change installments to a lump sum. Solely with respect to an SLDCP Primary Payment Date, a Participant may change the form of payment to: (A) have the amounts payable on such SLDCP Primary Payment Date paid in the form of annual installment payments as described in Section 5.2(b)(ii), (B) change the number of installment payments elected, or (C) change installments to a lump sum. Any election under this subsection will specify the number of installment payments elected, if any.

(B) **Contributions Related to Plan Years After 2016.** With respect to amounts attributable to Plan Years beginning on or after January 1, 2017, a Participant may make one or more elections to (i) delay the payment (or commencement) of the portion of his Post-409A Account attributable to a selected Plan Year's Deferral Contributions, and/or (ii) change the form of payment to: (A) have such portion of his Post-409A Account paid in the form of annual installment payments as described above, (B) change the number of installment payments elected, or (C) change installments to a lump sum. Any election under this subsection will specify the number of installment payments elected, if any.

(ii) **Delay in Payment Date.** In the event of an election under subsection (c)(i) to delay the Payment Date but not to change the form of payment, the Payment Date for the portion of the Participant's Post-409A Account payable on such Payment Date will be delayed as follows: (A) if payment upon Separation from Service pursuant to Section 5.2(a)(i) is being altered, such payment will be delayed to 5 years after the date of payment that would otherwise apply; (B) in the case of a Payment Date that is a specified date, the Payment Date will be delayed to a new specified date that is at least 5 years after such originally specified date; (C) in the case of a Payment Date that is described in subclause (2) of Section 5.2(a)(ii)(A), (1) if the specified date is being altered, such specified date will be delayed to a new specified date that is at least 5 years after the originally specified date, and (2) if the payment upon Separation from Service is being altered, such payment will be delayed to 5 years after the date of payment that would otherwise apply. In the event of an election under subsection (c)(i) that includes a change in the form of payment, the Payment Date for such portion of the Participant's Post-409A Account will be delayed to 5 years after the Payment Date that would have applied (so that, in the case of an election of a Payment Date that is described in subclause (2) of Section 5.2(a)(ii)(A), payment upon Separation from Service and payment upon the specified date will both be delayed to 5 years after the date payment would otherwise be made).

(iii) **Restrictions.** Any election under this subsection (c) will not take effect until 12 months after the date on which the election is made, and, if made within 12 months before the payment was scheduled to begin or be made under the previous payment terms, will not be effective. In the case of an amount payable on a specified date selected under Section 5.2(a)(ii) or subsection (c)(i) (or similar provisions of the SLDCP for periods before January 1, 2020), an election under this subsection (c) will be made at least 1 year before such specified date.

(d) **Medium of Payment.** All distributions will be made in the form of cash, except for amounts deemed invested in the Company Stock Fund, which will be distributed in whole shares of Company Stock with fractional shares paid in cash.

(e) **Order of Distribution.** If any portion of a Participant's Post-409A Account is deemed invested in the Company Stock Fund, any partial distributions from such Participant's Post-409A Account will be made first from such amounts. After all amounts

deemed invested in the Company Stock Fund have been distributed, any remaining amounts will be distributed in cash.

**(f) Cash-out.**

(i) Employee Deferral Cashout. Except as provided in subsection (v) below, if at any time a Participant's Post-409A Account balance attributable to the aggregate of his Deferral Contributions does not exceed the applicable dollar amount under Code Section 402(g)(1)(B), the Administrative Committee may elect, in its sole discretion, to pay the Participant's entire Post-409A Account balance attributable to Deferral Contributions in an immediate single-sum payment. For purposes of determining the amount of Deferral Contributions in a Participant's Post-409A Account in order to apply this provision, any deferrals of compensation that the Participant has elected under this or any other nonqualified deferred compensation plan maintained by an Affiliate that is an "account balance plan" subject to Code Section 409A will be considered as part of the Participant's Post-409A Account balance attributable to Deferral Contributions hereunder.

(ii) Cashout of Employer Contributions. Except as provided in subsection (v) below, if at any time a Participant's Post-409A Account balance, other than amounts attributable to Deferral Contributions, does not exceed the applicable dollar amount under Code Section 402(g)(1)(B), the Administrative Committee may elect, in its sole discretion, to pay such portion of the Participant's Post-409A Account balance in an immediate single-sum payment. For purposes of determining the amount of a Participant's Post-409A Account other than Deferral Contributions in order to apply this provision, any deferrals of compensation other than Participant elective deferrals under this or any other nonqualified deferred compensation plan maintained by an Affiliate that is an "account balance plan" subject to Code Section 409A will be considered as part of the Participant's Post-409A Account balance other than amounts attributable to Deferral Contributions hereunder.

(iii) Documentation of Determination. Any exercise of the Administrative Committee's discretion pursuant to subsections (i) and (ii) will be evidenced in writing no later than the date of the distribution.

(iv) Mandatory Cash-Out.

(A) Portion of Account other than SLDCP Subaccount. Notwithstanding anything in this Section or a Participant's election to the contrary, subject to subsection (v) below, if a Participant's total vested Post-409A Account balance without taking into account the SLDCP Subaccount is less than \$25,000 on the date of the Participant's Separation from Service, such Participant's vested Post-409A Account excluding the SLDCP Subaccount will be distributed in a single lump-sum payment within 90 days after the date of the Participant's Separation from Service.

(B) SLDCP Subaccount Cashout. Notwithstanding anything in this Section or a Participant's election to the contrary, subject to subsection (v) below, if a Participant's total vested SLDCP Subaccount balance is less than \$25,000 on the date of the Participant's Separation from Service, such Participant's SLDCP Subaccount will be distributed in a single lump-sum payment within 90 days after the date of the Participant's Separation from Service.

(v) Six Month Delay for Key Employees. Notwithstanding the foregoing, to the extent provided by Code Section 409A, with respect to a Participant who is a Key Employee on the date he Separates from Service, no payment under this subsection (f) made on account of such Participant's Separation from Service will be made within 6 months after the date the Participant Separates from Service.

### **5.3 Change in Control**

If a Participant who is employed by the Affiliates Separates from Service during the 1-year period immediately following a Change in Control, such Participant's Post-409A Account will be paid in a single lump sum, and the Payment Date for such Participant's Post-409A Account will be (i) the date the Participant Separates from Service (or, in the case of the SLDCP Subaccount, the 30<sup>th</sup> day after the date of Separation from Service), in the case of a Participant who is not a Key Employee on the date he Separates from Service; or (ii) 6 months after the date the Participant Separates from Service, in the case of a Participant who is a Key Employee on the date he Separates from Service; provided, to the extent provided by Code Section 409A, each time a Participant makes an election to change the form or timing of payment of a portion of his Account, the Payment Date under this Section for the portion of the Participant's Account attributable to such election will be delayed to 5 years after the date of payment that applied prior to the election.

### **5.4 Death Benefits**

If a Participant dies before full payment of his Post-409A Account is made, his Beneficiary or Beneficiaries will be entitled to receive a distribution of the entire vested amount credited to such Participant's Post-409A Account. The Post-409A Account will be distributed to such Beneficiary or Beneficiaries in the form of a single-sum payment, and the Payment Date will be the 60th day after the date of the Participant's death.

### **5.5 Distribution of Post-409A Account Discretionary Contributions**

(a) Determination by Grantor. Subject to Sections 5.2(f), 5.3 and 5.4, distribution of any Discretionary Contributions from a Participant's Post-409A Account will be made in the form and at the time specified by the Chief Executive Officer of the Controlling Company (to the extent duly authorized) or his duly authorized designee, the Senior Human Resources Officer of the Controlling Company, or the Compensation Committee, as applicable, when such Discretionary Contribution is declared or otherwise established. For purposes of this

Section, the term “Discretionary Contributions” will include amounts in a Participant’s SLDCP Subaccount that were contributed as “Discretionary Contributions” as defined in the SLDCP.

**(b) Participant Election in Absence of Designation by Grantor.** If the Chief Executive Officer of the Controlling Company (to the extent duly authorized) or his duly authorized designee, the Senior Human Resources Officer of the Controlling Company, or the Compensation Committee, as applicable, does not designate a time and form of payment for Discretionary Contributions as provided in subsection (a), then such Discretionary Contribution will be distributed as provided in this subsection.

(i) Portion of Account other than SLDCP Account. With respect to contributions for Plan Years beginning before January 1, 2017, that are not part of a Participant’s SLDCP Subaccount, such Discretionary Contributions (adjusted for earnings and losses) will be distributed at the same time and in the same form of payment applicable to such Participant’s Salary Deferral Election, if any (including any modifications thereafter made in accordance with the provisions of this Article), applicable to the Plan Year in which the Discretionary Contribution is made, but only if either (i) such Salary Deferral Election was made before the first day of the first Plan Year in which services to which the Discretionary Contribution are attributable are performed, or (ii) such Salary Deferral Election was made pursuant to Section 3.2(a)(ii) and was made before the first day on which services to which the Discretionary Contribution are attributable are performed. With respect to contributions for Plan Years beginning on or after January 1, 2017, that are not part of a Participant’s SLDCP Subaccount, such Discretionary Contributions (adjusted for earnings and losses) will be distributed at the same time and in the same form of payment elected for such Participant’s Deferral Contributions (including any modifications thereafter made in accordance with the provisions of this Article) for the Plan Year in which the Discretionary Contribution is made, or, if the Participant does not make Deferral Contributions for a Plan Year, he or she may make an election regarding time and form of payment as permitted in Section 5.2 for any Discretionary Contribution made for such Plan Year, but in either case only if either (i) the Participant’s election was made before the first day of the first Plan Year in which services to which the Discretionary Contribution are attributable are performed, or (ii) the Participant’s election was made pursuant to Section 3.2(a)(ii) and was made before the first day on which services to which the Discretionary Contribution are attributable are performed.

(ii) SLDCP Subaccount. With respect to contributions for plan years beginning before January 1, 2017, that are part of a Participant’s SLDCP Subaccount, the Participant may have been allowed to elect one or more Payment Dates with respect to such Discretionary Contribution and/or elect a form of payment, in which case such election will apply under the Plan. In the absence of such an election, such Discretionary Contributions (adjusted for earnings and losses) will be distributed in the form provided in Section 5.2(b)(i), and the Payment Date for such Discretionary Contributions will be determined under Section 5.2(a)(i). With respect to contributions for plan years beginning on or after January 1, 2017, that are part of a Participant’s SLDCP Subaccount, such Discretionary Contributions (adjusted for earnings and losses) will be distributed at

the same time and in the same form of payment elected for such Participant's deferral contributions (including any modifications thereafter made in accordance with the provisions of this Article or the provisions of the SLDCP) for the plan year in which the Discretionary Contribution was made under the SLDCP. If the Participant did not make deferral contributions under the SLDCP for a plan year, the Participant was permitted to make an election regarding time and form of payment for the Discretionary Contributions made under the SLDCP for such plan year, in which case such election will apply under the Plan.

(c) **Default Payment.** If no payment elections apply under subsections (a) and (b) for a particular Discretionary Contribution, such Discretionary Contributions will be distributed in the form provided in Section 5.2(b)(i), and the Payment Date for such Discretionary Contributions will be determined under Section 5.2(a)(i), subject to Sections 5.2(f), 5.3 and 5.4.

## **5.6 Distribution of Executive Employer Contributions.**

(a) **Generally.** Except as provided in Sections 5.2(f), 5.3 and 5.4, the Payment Date for the portion of a Participant's Account that is attributable to Executive Employer Contributions will be the date that is 6 months after the date of the Participant's Separation from Service. Except as provided in subsection (b) below, such benefit will be paid in a single lump sum in cash.

(b) **Installment Election.** Subject to Sections 5.2(f), 5.3 and 5.4, a Participant may elect, in accordance with procedures established by the Administrative Committee in its sole discretion, with respect to a given Plan Year, to receive payment of the portion of his Account attributable to Executive Employer Contributions related to services performed during such Plan Year in the form of substantially equal annual installments over a period of not less than 2 years and not more than 20 years (adjusted for earnings and losses between payments in the manner described in Section 3.7), beginning on the applicable Payment Date. Such election must be made before the beginning of the Plan Year to which it relates. A Participant may make a separate election as to form of payment for each Plan Year for which he receives Executive Employer Contributions.

(c) **Change in Form of Payments.** A Participant may make a one-time election to change a form of payment otherwise applicable under subsections (a) and (b) to any other form permitted under this Section, only if such election is made at least 12 months before the Payment Date described in subsection (a) hereof; provided, to the extent any such change in payment form is effective, the Payment Date for the applicable benefit will be delayed 5 years; and provided further, no such election will be effective if any portion of the payment(s) would thereby be delayed beyond 20 years from the 6-month anniversary of the Participant's Separation from Service.

(d) **Other Distribution Rules.** If a Participant's last Executive Employer Contribution is to be credited to his Account after his Separation from Service or death, the Payment Date for such amount will be the later of (i) the date determined in subsection (a) or (c)

hereof or Section 5.4 (as applicable), or (ii) the calendar year following the calendar year in which the Participant incurs a Separation from Service or dies, respectively; provided, it generally is anticipated that such Payment Date will occur both within such calendar year and within 60 days after such Executed Employer Contribution is credited to the Participant's Account. Sections 5.2(d) and (f) and Sections 5.3 and 5.4 will apply to the distribution of a Participant's Executive Employer Contributions.

### **5.7 Hardship Withdrawals.**

Upon receipt of an application for an in-service hardship distribution and the Administrative Committee's decision, made in its sole discretion, that a Participant has suffered a Financial Hardship, the Administrative Committee will cause the applicable Participating Company to pay an in-service distribution to such Participant from the Participant's vested Post-409A Account, excluding any portion of such Account that is attributable to Executive Employer Contributions. Such distribution will be paid in a lump sum payment within 90 days after the date that the Administrative Committee makes its determination that the Participant has suffered a Financial Hardship (assuming that the Financial Hardship exists on that date), which must be prior to the Participant's Separation from Service. The amount of such lump sum payment will be limited to the amount of such Participant's vested Post-409A Account reasonably necessary to meet the Participant's requirements resulting from the Financial Hardship. Determinations of amounts reasonably necessary to satisfy the emergency need will take into account any additional compensation that is available under the Plan due to cancellation of a deferral election upon a payment due to a Financial Hardship. However, the determination of amounts reasonably necessary to satisfy the emergency need will not take into account any additional compensation that due to the Financial Hardship is available under the Plan or another nonqualified deferred compensation plan but has not actually been paid. If payment is made hereunder upon a Financial Hardship, it will be so designated at the time of payment. The amount of such distribution will reduce the Participant's Post-409A Account balance as provided in Section 3.6.

### **5.8 Taxes.**

**(a) Amounts Payable Whether or Not Account is in Pay Status.** If the whole or any part of any Participant's or Beneficiary's Post-409A Account hereunder will become subject to FICA Tax or any state, local or foreign tax obligations, which a Participating Company will be required to pay or withhold prior to the time the Participant's Post-409A Account becomes payable hereunder, the Participating Company will have the full power and authority to withhold and pay such tax and related taxes as permitted under Code Section 409A.

**(b) Amounts Payable Only if Account is in Pay Status.** If the whole or any part of any Participant's or Beneficiary's Post-409A Account hereunder is subject to any taxes which a Participating Company will be required to pay or withhold at the time the Post-409A Account becomes payable hereunder, the Participating Company will have the full power and authority to withhold and pay such tax out of any monies or other property that the Participating Company holds for the account of the Participant or Beneficiary, excluding, except as provided in this Section, any portion of the Participant's Post-409A Account that is not then payable.



**5.9 Offset of Post-409A Account by Amounts Owed to the Affiliates.**

Notwithstanding anything in the Plan to the contrary, the Administrative Committee may, in its sole discretion, offset any benefit payment or payments of a Participant's or Beneficiary's Post-409A Account under the Plan by any amount owed by such Participant or Beneficiary (whether or not such obligation is related to the Plan) to the Affiliates. Notwithstanding the foregoing, no such offset will apply before the Post-409A Account is otherwise payable under the Plan, unless the following requirements are satisfied: (i) the debt owed to the Affiliates was incurred in the ordinary course of the relationship between the Participant and the Affiliates, (ii) the entire amount of offset under this sentence and any similar provision in any plan that is required to be aggregated with the Plan under Code Section 409A in a single taxable year does not exceed \$5,000, and (iii) the offset occurs at the same time and in the same amount as the debt otherwise would have been due and collected from the Participant or Beneficiary.

**5.10 No Acceleration of Post-409A Account Payments.**

Except as otherwise provided in this Section, no payment scheduled to be made under this Article may be accelerated. Notwithstanding the foregoing, the Administrative Committee, in its sole discretion, may accelerate any payment scheduled to be made under this Article in accordance with Code Section 409A (for example, upon certain terminations of the Plan, limited cashouts or to avoid certain conflicts of interest); provided, a Participant may not elect whether his scheduled payment will be accelerated pursuant to this sentence.

**ARTICLE VI**  
**PAYMENT OF PRE-409A ACCOUNT BALANCES**

**6.1 Benefit Payments of Pre-409A Accounts Upon Termination of Service for Reasons Other Than Death.**

**(a) General Rule Concerning Benefit Payments.** In accordance with the terms of subsection (b) hereof, if a Participant terminates his employment with the Controlling Company and all of its Affiliates for any reason other than death, he (or his Beneficiary, if he dies after such termination of employment but before distribution of his Account) will be entitled to receive or begin receiving a distribution of the entire vested amount credited to his Pre-409A Account, determined as of the Valuation Date on which such distribution is processed. For purposes of this subsection, the “Valuation Date on which such distribution is processed” refers to the Valuation Date established for such purpose by administrative practice, even if actual payment is made or commenced at a later date due to delays in valuation, administration or any other procedure.

**(b) Timing of Distribution.**

(i) Except as provided in subsection (b)(ii) hereof, the Pre-409A Account payable to a Participant under this Section will be distributed as soon as administratively feasible after the date the Participant terminates his employment with the Controlling Company and all of its Affiliates for any reason other than death.

(ii) A Participant was permitted to elect, at the time he made his initial Salary Deferral or Annual Bonus Election or other deferral election under the Plan, to have his Pre-409A Account payable under this Section paid (or commenced) on any date (whether before or after the date his employment terminates, but not earlier than 1 year after the end of the Plan Year for which such election applies) specified in such election. A Participant was permitted to elect a different benefit commencement date with respect to his Salary Deferral and Annual Bonus Elections; provided, unless determined otherwise by the Administrative Committee, a Participant may elect no more than 2 different benefit commencement dates with respect to his Salary Deferral and Annual Bonus Elections. The Administrative Committee will pay (or commence the payment of) the Participant’s Pre-409A Account as soon as administratively feasible after the time specified in such election; provided, with respect to each initial scheduled benefit commencement date, (as determined in accordance with the preceding sentence or subsection (b)(i) hereof), the Participant may make a one-time election in writing, at least 1 year before such initial scheduled benefit commencement date, to delay the payment (or commencement) of his total benefit payable on such date to a later date, and such total benefit will be paid (or commenced) as soon as administratively feasible after such delayed date.

## **6.2 Form of Distribution for Pre-409A Account.**

**(a) Single-Sum Payment.** Except as provided in subsection (b) hereof, the Pre-409A Account payable to a Participant under Section 6.1 will be distributed in the form of a single-sum payment.

**(b) Annual Installments.** A Participant was permitted to elect, at the time he made his initial Salary Deferral or Annual Bonus Election or other deferral election under the Plan, to have his Pre-409A Account payable under Section 6.1 paid in the form of annual installment payments. If a Participant did not initially elect the installment form of distribution for any portion of his benefit, that portion of his benefit will be paid in the form of a lump sum payment unless, at least 1 year before his initial scheduled benefit commencement date (as determined in accordance with Section 6.1), the Participant makes a one-time election in writing to receive such benefit in the form of installment payments (in accordance with the terms of this subsection). The following terms and conditions will apply to installment payments made with respect to a Participant's Pre-409A Account under the Plan:

(i) The installment payments will be made in substantially equal annual installments (adjusted for investment income between payments in the manner described in Section 3.6); provided, in no event will such payments be made over a period in excess of 10 years. The initial value of the obligation for the installment payments will be equal to the amount of the Participant's Pre-409A Account balance calculated in accordance with the terms of Section 6.1(a).

(ii) If a Participant dies after payment of his benefit from the Plan has begun, but before his entire benefit has been distributed, the remaining amount of his Pre-409A Account balance will be distributed to the Participant's designated Beneficiary in the form of a single-sum payment.

(iii) Notwithstanding any election under this Section 6.2(b) to the contrary, with respect to any Participant whose Pre-409A Account distribution as of the date it is scheduled to commence in accordance with Section 6.1(b) is less than \$10,000 per year, or such other minimum amount as may be determined by the Administrative Committee in its sole discretion, such benefit will be paid in a lump sum payment.

**(c) Multiple Forms of Distribution.** To the extent a Participant elects multiple benefit commencement dates in accordance with Section 6.1(b)(ii), such Participant may elect, with respect to the total benefit corresponding to each benefit commencement date, to receive such total benefit in the form of either a single-sum payment or annual installments as set forth above.

**(d) Change in Control.** Notwithstanding anything in Section 6.1 or this Section 6.2 or any election made by the Participant to the contrary, any Participant (i) who terminates employment with all Affiliates for a reason other than his death within the 12 month period beginning on the date a Change in Control occurs, or (ii) whose installment payments as elected under Section 6.2(b) have commenced or are scheduled to commence as of the date of

the Change in Control, will receive a full distribution of the Pre-409A Account payable under Section 6.1(a) in the form of a lump sum payment. Such payment will be made as soon as administratively feasible after the date the Participant terminates employment with all Affiliates for any reason other than death or the date of the Change in Control, as applicable.

(e) **Form of Assets.** All distributions will be made in the form of cash, except for amounts deemed invested in the Company Stock Fund (which will be distributed in whole shares of Company Stock with fractional shares paid in cash).

(f) **Order of Distribution.** If any portion of a Participant's Pre-409A Account is deemed invested in the Company Stock Fund, any partial distributions from such Participant's Pre-409A Account will be made first from such amounts. After all amounts deemed invested in the Company Stock Fund have been distributed, any remaining amounts will be distributed in cash, as provided for in subsection (e) hereof.

### **6.3 Death Benefits.**

If a Participant dies before payment of his Pre-409A Account from the Plan is made or commenced, the Beneficiary or Beneficiaries designated by such Participant in his latest beneficiary designation form filed with the Administrative Committee will be entitled to receive a distribution of the total of the entire vested amount credited to such Participant's Pre-409A Account, determined as of the Valuation Date on which such distribution is processed. For purposes of this Section, the "Valuation Date on which such distribution is processed" refers to the Valuation Date established for such purpose by administrative practice, even if actual payment is made or commenced at a later date due to delays in valuation, administration or any other procedure. The Pre-409A Account will be distributed to such Beneficiary or Beneficiaries, as soon as administratively feasible after the date of the Participant's death, in the form of a single-sum payment in cash or Company Stock as prescribed in Section 6.2(e).

### **6.4 In-Service Distributions.**

(a) **Hardship Distributions.** Upon receipt of an application for an in-service hardship distribution and the Administrative Committee's decision, made in its sole discretion, that a Participant has suffered a Financial Hardship, the Administrative Committee will cause the Controlling Company to pay an in service distribution to such Participant from such Participant's Pre-409A Account. Such distribution will be paid in a lump sum payment, in cash or Company Stock as prescribed in Section 6.2(e), as soon as administratively feasible after the Administrative Committee determines that the Participant has incurred a Financial Hardship. The amount of such lump sum payment will be limited to the amount reasonably necessary to meet the Participant's requirements resulting from the Financial Hardship. The amount of such distribution will reduce the Participant's Pre-409A Account balance as provided in Section 3.5.

(b) **Distributions with Forfeiture.** Notwithstanding any other provision of this Article VI to the contrary, a Participant may elect, at any time prior to termination of his employment with the Controlling Company and all of its Affiliates, to receive a distribution of a portion of the total of the entire vested amount credited to his Pre-409A Account, determined as

of the Valuation Date on which such distribution is processed. Such distribution will be made in the form of a single-sum payment, in cash or Company Stock as prescribed in Section 6.2(e), as soon as administratively feasible after the date of the Participant's election under this subsection (b). At the time such distribution is made, an amount equal to 10% of the amount distributed will be permanently and irrevocably forfeited (and, if the distribution request is for 90% or more of such Participant's Pre-409A Account, the forfeiture amount will be deducted from his distribution amount to the extent there otherwise will be an insufficient remaining Pre-409A Account balance from which to deduct this forfeiture). In addition, the Participant receiving such distribution will not be eligible to actively participate in the Plan during the Plan Year next following the Plan Year in which the distribution is made.

#### **6.5 Taxes.**

If the whole or any part of any Participant's or Beneficiary's Pre-409A Account hereunder will become subject to any estate, inheritance, income or other tax which the Participating Company will be required to pay or withhold, the Participating Company will have the full power and authority to withhold and pay such tax out of any monies or other property in its hand for the account of the Participant or Beneficiary whose interests hereunder are so affected, except any portion of the Post-409A Account that is not then payable. Prior to making any payment, the Participating Company may require such releases or other documents from any lawful taxing authority as it will deem necessary.

## ARTICLE VII CLAIMS

### 7.1 Rights.

If a Participant or Beneficiary has any grievance, complaint or claim concerning any aspect of the operation or administration of the Plan, including but not limited to claims for benefits (collectively referred to herein as “claim” or “claims”), such claimant will submit the claim in accordance with the procedures set forth in this Article. All such claims must be submitted within the “applicable limitations period.” The “applicable limitations period” will be 2 years, beginning on (i) in the case of any lump-sum payment, the date on which the payment was made, (ii) in the case of a periodic payment, the date of the first in the series of payments, or (iii) for all other claims, the date on which the action complained of occurred. Additionally, upon denial of an appeal pursuant to Section 7.2(b), a Participant or Beneficiary will have 90 days within which to bring suit for any claim related to such denied appeal; any such suit initiated after such 90-day period will be precluded.

### 7.2 Claim Procedure.

(a) **Initial Claim.** Claims for benefits under the Plan may be filed in writing with the Administrative Committee on forms or in such other written documents (if any) as the Administrative Committee may prescribe. The Administrative Committee will furnish to the claimant written notice of the disposition of a claim within 90 days after the application therefor is filed; provided, if special circumstances require an extension, the Administrative Committee may extend such 90-day period by up to an additional 90 days, by providing a notice of such extension to the claimant before the end of the initial 90-day period. In the event the claim is denied, the notice of the disposition of the claim will provide the specific reasons for the denial, citations of the pertinent provisions of the Plan, and, where appropriate, an explanation as to how the claimant can perfect the claim and/or submit the claim for review (where appropriate), and a statement of the claimant’s right to bring a civil action under ERISA Section 502(a) following an adverse determination on review.

(b) **Appeal.** Any Participant or Beneficiary who has been denied a benefit, or his duly authorized representative, will be entitled, upon request to the Administrative Committee, to appeal the denial of his claim. The claimant (or his duly authorized representative) may review pertinent documents related to the Plan and in the Administrative Committee’s possession in order to prepare the appeal. The request for review, together with a written statement of the claimant’s position, must be filed with the Administrative Committee no later than 60 days after receipt of the written notification of denial of a claim provided for in subsection (a). The Administrative Committee’s decision will be made within 60 days following the filing of the request for review; provided, if special circumstances require an extension, the Administrative Committee may extend such 60-day period by up to an additional 60 days, by providing a notice of such extension to the claimant before the end of the initial 60-day period. If unfavorable, the notice of decision will explain the reasons for denial, indicate the provisions

of the Plan or other documents used to arrive at the decision, and state the claimant's right to bring a civil action under ERISA Section 502(a).

### **7.3 Satisfaction of Claims.**

Any payment to a Participant or Beneficiary will to the extent thereof be in full satisfaction of all claims hereunder against the Administrative Committee and the Participating Companies, any of whom may require such Participant or Beneficiary, as a condition to such payment, to execute a receipt and release therefor in such form as will be determined by the Administrative Committee or the Participating Companies. If receipt and release is required but the Participant or Beneficiary (as applicable) does not provide such receipt and release in a timely enough manner to permit a timely distribution in accordance with the general timing of distribution provisions in the Plan, such payment will be forfeited.

**ARTICLE VIII**  
**SOURCE OF FUNDS; TRUST**

**8.1 Source of Funds.**

Except as provided in this Section and Section 8.2 (relating to the Trust), each Participating Company will provide the benefits described in the Plan from its general assets. However, to the extent that funds in such Trust allocable to the benefits payable under the Plan are sufficient, the Trust assets may be used to pay benefits under the Plan. If such Trust assets are not sufficient to pay all benefits due under the Plan, then the appropriate Participating Company will have the obligation, and the Participant or Beneficiary who is due such benefits will look to such Participating Company to provide such benefits.

**8.2 Trust.**

(a) **Establishment.** To the extent determined by the Controlling Company, the Participating Companies will transfer the funds necessary to fund benefits accrued hereunder to the Trustee to be held and administered by the Trustee pursuant to the terms of the Trust Agreement. Except as otherwise provided in the Trust Agreement, each transfer into the Trust Fund will be irrevocable as long as a Participating Company has any liability or obligations under the Plan to pay benefits, such that the Trust property is in no way subject to use by the Participating Company; provided, it is the intent of the Controlling Company that the assets held by the Trust are and will remain at all times subject to the claims of the general creditors of the Participating Companies.

(b) **Distributions.** Pursuant to the Trust Agreement, the Trustee will make payments to Plan Participants and Beneficiaries in accordance with a payment schedule provided by the Participating Company. The Participating Company will make provisions for the reporting and withholding of any federal, state or local taxes that may be required to be withheld with respect to the payment of benefits pursuant to the terms of the Plan and will pay amounts withheld to the appropriate taxing authorities or determine that such amounts have been reported, withheld and paid by the Participating Company.

(c) **Status of the Trust.** No Participant or Beneficiary will have any interest in the assets held by the Trust or in the general assets of the Participating Companies other than as a general, unsecured creditor. Accordingly, a Participating Company will not grant a security interest in the assets held by the Trust in favor of the Participants, Beneficiaries or any creditor.

(d) **Change in Control.** Notwithstanding anything in this Article to the contrary, in the event of a Change in Control, each of the Participating Companies will immediately transfer to the Trustee an amount equal to the aggregate of all benefit amounts (determined as of the Valuation Date as of which the Change in Control occurs) of all Participants for which such Participating Company is liable for payment in accordance with the terms of Section 3.1(c). The funds so transferred will be held and administered by the Trustee pursuant to the terms of the Trust Agreement and the foregoing provisions of this Section.



### **8.3 Funding Prohibition under Certain Circumstances.**

Notwithstanding anything in this Article to the contrary, no assets will be set aside to fund benefits under the Plan if such setting aside would be treated as a transfer of property under Code Section 83 pursuant to Code Section 409A(b).

**ARTICLE IX**  
**ADMINISTRATIVE AND RETIREMENT PLANS INVESTMENT**  
**COMMITTEES**

**9.1 Action of Administrative Committee.**

Action of the Administrative Committee may be taken with or without a meeting of committee members; provided, action will be taken only upon the vote or other affirmative expression of a majority of the committee members qualified to vote with respect to such action. If a member of the committee is a Participant or Beneficiary, he will not participate in any decision which solely affects his own benefit under the Plan. For purposes of administering the Plan, the Administrative Committee will choose a secretary who will keep minutes of the committee's proceedings and all records and documents pertaining to the administration of the Plan. The secretary may execute any certificate or any other written direction on behalf of the Administrative Committee.

**9.2 Rights and Duties of Administrative Committee.**

The Administrative Committee will administer the Plan and will have all the powers necessary to accomplish that purpose, including (but not limited to) the following:

- (a) To construe, interpret and administer the Plan;
- (b) To make determinations required by the Plan, and to maintain records regarding Participants' and Beneficiaries' benefits hereunder;
- (c) To compute and certify to the Participating Company the amount and kinds of benefits payable to Participants and Beneficiaries, and to determine the time and manner in which such benefits are to be paid;
- (d) To authorize all disbursements by the Participating Company pursuant to the Plan;
- (e) To maintain all the necessary records of the administration of the Plan;
- (f) To make and publish such rules for the regulation of the Plan as are not inconsistent with the terms hereof;
- (g) To delegate to other individuals or entities from time to time the performance of any of its duties or responsibilities hereunder;
- (h) To have all powers elsewhere conferred upon it; and
- (i) To hire agents, accountants, actuaries, consultants and legal counsel to assist in operating and administering the Plan.

The Administrative Committee will have the exclusive right in its discretion to construe and interpret the Plan, to decide all questions of eligibility for benefits and to determine the amount of such benefits, and its decisions on such matters will be final and conclusive on all parties.

### **9.3 Compensation, Indemnity and Liability.**

The Administrative Committee and the Retirement Plans Investment Committee and their members will serve as such without bond and without compensation for services hereunder. All expenses of the Administrative Committee and Retirement Plans Investment Committee will be paid by the Participating Companies. No member of the committees will be liable for any act or omission of any other member of the committees, nor for any act or omission on his own part, except with regard to his own willful misconduct. The Participating Companies will indemnify and hold harmless the Administrative Committee and the Retirement Plans Investment Committee, and each member thereof, against any and all expenses and liabilities, including reasonable legal fees and expenses, arising out of his membership on the Administrative Committee and/or Retirement Plans Investment Committee, excepting only expenses and liabilities arising out of his own willful misconduct.

### **9.4 Retirement Plans Investment Committee.**

(a) **Appointment.** The Retirement Plans Investment Committee will initially consist of those individuals who have been so appointed by the Board or one of its Committees. A member may resign at any time by written resignation to the remaining members of the Retirement Plans Investment Committee. Members of the Retirement Plans Investment Committee may be added, removed and/or replaced pursuant to the membership procedures that are established for the Retirement Plans Investment Committee from time to time.

(b) **Duties.** The Retirement Plans Investment Committee will have the following responsibility and authority:

(i) To appoint one or more persons to serve as investment manager with respect to all or part of the Trust, if any; and

(ii) To provide the Trustee with general investment policy guidelines and directions to assist the Trustee respecting investments made pursuant to the terms of the Plan.

### **9.5 Delegation and Discretion.**

(a) **Delegation.** The Board, the Compensation Committee, the Controlling Company's Chief Executive Officer, the Controlling Company's Senior Human Resources Officer, the Administrative Committee, and Retirement Plans Investment Committee may delegate any authority or responsibilities they may have under the Plan to any other person.

(b) **Discretion.** The Board, the Compensation Committee, the Controlling Company's Chief Executive Officer, the Controlling Company's Senior Human Resources Officer, the Administrative Committee, and Retirement Plans Investment Committee (and their

designees) will have full and complete discretion to exercise all authority and carry out all responsibilities given to them under the Plan, and their decisions and actions will be binding on all Participants, Beneficiaries and other persons.

**ARTICLE X**  
**AMENDMENT AND TERMINATION**

**10.1 Amendments.**

The Administrative Committee or the Compensation Committee will have the right, in its sole discretion, to amend the Plan in whole or in part at any time and from time to time; provided, any amendment that may result in significantly increased expenses under the Plan must be approved by the Compensation Committee. Any amendment will be in writing and executed by a duly authorized officer of the Controlling Company. An amendment to the Plan may modify its terms in any respect whatsoever; provided, no such action may reduce the amount already credited to a Participant's Account without the affected Participant's written consent. All Participants and Beneficiaries will be bound by such amendment.

**10.2 Termination of Plan.**

(a) **Freezing.** The Controlling Company, through action of the Board or the Compensation Committee, reserves the right to discontinue and freeze the Plan at any time, for any reason. Any action to freeze the Plan will be taken by the Board in the form of a written Plan amendment executed by a duly authorized officer of the Controlling Company. Upon the freezing of the Plan, Salary Deferral Elections and Annual Bonus Elections will not apply to Base Salary or Annual Bonuses earned after the Plan Year in which the Plan is frozen.

(b) **Termination.** The Controlling Company expects to continue the Plan but reserves the right to terminate the Plan and fully distribute all Accounts under the Plan at any time, for any reason; provided, the distribution of Post-409A Accounts will be subject to the restrictions provided under Code Section 409A (including, to the extent required by Code Section 409A, the 6-month delay that applies to distributions to Key Employees following Separation from Service). Any action to terminate the Plan will be taken by the Board or the Compensation Committee in the form of a written Plan amendment executed by a duly authorized officer of the Controlling Company. If the Plan is terminated, each Participant will become 100 percent vested in his Account. Such termination will be binding on all Participants and Beneficiaries.

**ARTICLE XI**  
**MISCELLANEOUS**

**11.1 Beneficiary Designation.**

(a) **General.** Participants will designate and from time to time may redesignate their Beneficiaries in such form and manner as the Administrative Committee may determine.

(b) **No Designation or Designee Dead or Missing.** In the event that:

(i) a Participant dies without designating a Beneficiary;

(ii) the Beneficiary designated by a Participant is not surviving when a payment is to be made to such person under the Plan, and no contingent Beneficiary has been designated; or

(iii) the Beneficiary designated by a Participant cannot be located by the Administrative Committee within the maximum time limit for payment of benefits to such person (or within 1 year from the date benefits are to be paid to such person in the case of the Participant's Pre-409A Account);

then, in any of such events, the Beneficiary of such Participant with respect to any benefits that remain payable under the Plan will be the Participant's Surviving Spouse, if any, and if not, the estate of the Participant.

**11.2 Distribution Pursuant to Domestic Relations Order.**

Upon receipt of a valid domestic relations order (determined in accordance with the rules applicable to a tax-qualified retirement plan under Code Section 401(a)) requiring the distribution of all or a portion of a Participant's vested Account to an alternate payee, the Administrative Committee will cause the Controlling Company to pay a distribution to such alternate payee.

**11.3 Taxation.**

It is the intention of the Controlling Company that the benefits payable hereunder will not be deductible by the Participating Companies nor taxable for federal income tax purposes to Participants or Beneficiaries until such benefits are paid by the Participating Company, or the Trust, as the case may be, to such Participants or Beneficiaries. When such benefits are so paid, it is the intention of the Controlling Company that they will be deductible by the Participating Companies under Code Section 162. The Plan is intended to satisfy the requirements of Code Section 409A with respect to Post-409A Accounts, the Plan will be interpreted in all ways consistent with such intention, and the Administrative Committee will use

its reasonable best efforts to interpret and administer the Plan in accordance with such requirements.

#### **11.4 Elections Prior to 2009.**

To the extent not consistent with the terms of this Plan, Salary Deferral Election forms and Annual Bonus Election forms submitted under the Plan prior to January 1, 2009, for Plan Years beginning after December 31, 2004, will be deemed modified to conform to the provisions of this document. Without limiting the generality of the foregoing, (i) any reference to payment as soon as administratively feasible following separation from service will be deemed to mean within 90 days following separation from service; (ii) any statement that the election will remain in effect for all future years until changed will be deemed modified to conform to subsection 3.2(b); (iii) any statement that if payments are less than \$10,000 annually they will be paid in a single lump sum will be modified to provide for the cash-out distributions described in subsection 5.2(f) instead; and (iv) any statement that benefits will be paid beginning on the first day of the calendar quarter following Separation from Service will be deemed to provide for payment within 90 days after Separation from Service instead.

#### **11.5 No Employment Contract.**

Nothing herein contained is intended to be nor will be construed as constituting a contract or other arrangement between a Participating Company and any Participant to the effect that the Participant will be employed by the Participating Company for any specific period of time.

#### **11.6 Headings.**

The headings of the various articles and sections in the Plan are solely for convenience and will not be relied upon in construing any provisions hereof. Any reference to a section will refer to a section of the Plan unless specified otherwise.

#### **11.7 Gender and Number.**

Use of any gender in the Plan will be deemed to include all genders when appropriate, and use of the singular number will be deemed to include the plural when appropriate, and vice versa in each instance.

#### **11.8 Assignment of Benefits.**

The right of a Participant or his Beneficiary to receive payments under the Plan may not be anticipated, alienated, sold, transferred, pledged, encumbered, attached or garnished by creditors of such Participant or Beneficiary, except: (i) by will or by the laws of descent and distribution and then only to the extent permitted under the terms of the Plan; or (ii) pursuant to a valid domestic relations order, in accordance with Section 11.2.

**11.9 Legally Incompetent.**

The Administrative Committee, in its sole discretion, may direct that payment be made to an incompetent or disabled person, whether because of minority or mental or physical disability, to the guardian of such person or to the person having custody of such person, without further liability on the part of the Participating Company for the amount of such payment to the person on whose account such payment is made.

**11.10 Governing Law.**

The Plan will be construed, administered and governed in all respects in accordance with applicable federal law (including ERISA) and, to the extent not preempted by federal law, in accordance with the laws of the State of Georgia. If any provisions of this instrument are held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereof will continue to be fully effective.

IN WITNESS WHEREOF, the Controlling Company has caused the Plan to be executed by its duly authorized officer on the 20 day of November, 2019.

**AFLAC INCORPORATED**

By: /s/ Daniel P. Amos

Title: Chief Executive Officer, Aflac Inc.



**EXHIBIT A**

**Participating Companies**

(See §1.36)

<b><u>Company Names</u></b>	<b><u>Effective Date</u></b>
Communicorp, Inc.	Original Effective Date of the Plan
American Family Life Assurance Company of New York	Original Effective Date of the Plan
American Family Life Assurance Company of Columbus	Participated through April 2, 2018, when it merged into American Family Life Assurance Company of Columbus (Aflac) (formerly known as Nebraska Life Assurance Company)
Aflac International, Inc.	Original Effective Date of the Plan
Continental American Insurance Company	August 1, 2010
Aflac Benefits Advisors, Inc. (formerly known as Aflac Benefits Solutions, Inc.)	February 1, 2012
Aflac Corporate Ventures LLC	January 1, 2017
American Family Life Assurance Company of Columbus (Aflac) (formerly known as Nebraska Life Assurance Company)	April 2, 2017
Aflac Asset Management LLC	January 1, 2018
Empoweredbenefits, LLC	January 1, 2020
Empowered.Insure LLC	Date it first has one or more Employees
Aflac InfoSec Services LLC	Date it first has one or more Employees
Tier One Insurance Company	Date it first has one or more Employees

### **Aflac Life Insurance Japan Ltd. Officer Retirement Plan**

Aflac Life Insurance Japan Ltd. (“Aflac Japan”) maintains an unwritten retirement plan (“Retirement Allowance”) available to certain officers of Aflac Japan who have served as officers for at least two years. The Chairman and Representative Director of Aflac Japan and the President and Representative Director of Aflac Japan are participants in the Retirement Allowance. The retirement benefit for the plan is calculated as follows: for each year of service (with a minimum of two years and maximum of twelve), a Japan participating officer would receive one month salary plus one year salary for the last year. The total amount calculated is paid in a lump sum at retirement.

Effective January 1 , 2020, the Retirement Allowance was amended to provide that in addition to the amount described above, executives who have SVP or higher titles would receive a certain amount for each year of service.

**FIRST AMENDMENT TO  
EMPLOYMENT AGREEMENT**

THIS FIRST AMENDMENT, made and entered into effective as of the 1st day of January 2020, by and between **AFLAC INCORPORATED**, a Georgia Corporation (hereinafter referred to as “Corporation”); and **CHARLES D. LAKE II**, a resident of Japan (hereinafter referred to as “Employee”);

WITNESSETH THAT:

WHEREAS, Employee and Corporation entered into an Employment Agreement, dated January 1, 2018 (the “Employment Agreement”);

WHEREAS, under the Employment Agreement, Employee serves as an employee of Aflac Japan (as defined in the Employment Agreement) with the titles of Chairman and Representative Director of Aflac Japan, and as President of Aflac International;

WHEREAS, Employee and the Corporation have agreed that the Employee should participate in a new retirement program to be established and maintained for officers of Aflac Japan, and that his base salary should be adjusted so that his overall compensation remains approximately the same;

WHEREAS, the Compensation Committee of the Board of Directors of the Corporation has approved said changes; and

NOW, THEREFORE, the parties, for and in consideration of the mutual covenants and agreements hereinafter contained, do contract and agree as follows, to-wit, effective as of January 1, 2020:

1. Section 5 of the Employment Agreement is amended to read as follows:

5. Base salary. For all the services rendered by Employee, Japan Operation shall pay Employee a base salary of fifty-three million, seven hundred thousand yen (¥53.7 million) per year, said salary to be payable in accordance with Japan Operation’s normal payroll procedures. Employee’s base salary may be increased annually during the term of this Agreement and any extensions hereof as determined by the Compensation Committee of the Board of Directors of Corporation (the “Compensation Committee of the Board”).

2. Section 8.B(3) of the Employment Agreement is amended to read as follows:

(3) a retirement benefit to Employee in the total amount of (i) one hundred percent (100%) of base salary as in effect at the time of such retirement, plus (ii) twelve (12) multiplied by the employer’s cost for one month’s accrual under the Japan Retirement Allowance at the time of such retirement, plus (iii) twelve (12) multiplied by one month’s

base salary as in effect at the time of such retirement, plus (iv) twelve (12) multiplied by the employer's cost for one month's accrual under the Japan Retirement Allowance at the time of such retirement. Payment of such total amount shall be made in a lump sum upon the day after the six (6)-month anniversary of his separation from service.

3. A new subsection (6) is added to Section 8.B to read as follows:

(6) Employee will be entitled to participate in the Retirement Allowance Program for Aflac Japan Officers, or any successor plan (the "Japan Retirement Allowance").

4. Section 13.A(2)(a) of the Employment Agreement is amended to read as follows:

(a) upon Employee's separation from service, pay Employee his base salary as provided for in Paragraph 5 of this Agreement plus the employer's cost for monthly accruals under the Japan Retirement Allowance up to the end of the scheduled term of this Agreement. Such amount, if any, payable under this subparagraph (a) for the period after his Actual Termination Date will be paid in accordance with the regular payroll schedule applicable to all other similarly situated active executive employees of Japan Operation commencing with the next regularly scheduled payday, with any portion of such amount that is not exempt from Section 409A and that is payable within the six (6)-month period beginning on the date of his separation from service being paid in a lump sum upon the day after the six (6)-month anniversary of his separation from service;

5. Section 14 of the Employment Agreement is amended to read as follows:

14. Death of Employee. In the event of Employee's death during the term of this agreement or any extension hereof, this Agreement shall terminate immediately, and Employee's estate shall be entitled to receive terminal pay in an amount equal to the amount of Employee's base salary, the employer's monthly cost for accruals under the Japan Retirement Allowance, and any performance bonus compensation actually paid by Japan Operation to Employee during the last thirty-six (36) months of his life, said terminal pay to be paid in thirty-six (36) equal monthly installments beginning on the first day of the month next following the month during which Employee's death occurs. If the Employee's death occurs before he has been employed for thirty-six (36) months, the terminal pay shall be based on an amount equal (i) to the Employee's base salary, the employer's monthly cost for accruals under the Japan Retirement Allowance, and any performance bonus actually paid by Japan Operation to Employee during the period of his employment, plus (ii) the amount of base salary, the employer's monthly cost for accruals under the Japan Retirement Allowance, and performance bonus the Employee would have been paid had he survived for the full initial thirty-six (36)-month period. Terminal pay as herein provided for in this Paragraph shall be in addition to amounts otherwise receivable by Employee or his estate under this or any other agreements with Japan Operation or under any employee benefits or retirement plans established by the Japan Operation and in which Employee is participating at the time of his death. In addition, Japan Operation shall honor

all Equity Awards, subject to the terms thereof, granted to Employee prior to his death; and Employee or his estate shall, if not otherwise vested, become fully vested in said options as of the date of Employee's death.

6. Section 18.B(3) of the Employment Agreement is amended to read as follows:

(3) In lieu of any further salary payments to Employee for periods subsequent to the Termination Date, Japan Operation shall pay to Employee, immediately after the Termination Date, a lump sum payment, in cash, equal to three (3) times the sum of (i) Employee's annual base salary in effect immediately prior to the Change in Control, (ii) the employer's cost for one year's accrual under the Japan Retirement Allowance determined immediately prior to the Change in Control, and (iii) the higher of the amount paid to Employee pursuant to the Aflac Incorporated Management Incentive Plan (or any successor plan thereto) for the year preceding the year in which the Termination Date occurs or paid in the year preceding the year in which the Change in Control occurs; provided, if Employee's separation from service occurs more than twenty-four (24) months after the Change in Control, only the portion of such lump-sum severance payment in excess of the total amount that would have been payable under Paragraphs 13.A(2)(a) and (b) shall be paid pursuant to the terms hereinabove, and the remainder shall be paid pursuant to the terms of Paragraphs 13.A(2)(a) and (b) as if no Change in Control had occurred; and, provided further, to the extent any amount of such lump-sum amount payable after the Termination Date is not exempt from section 409A, such amount will be paid upon the day after the six (6)-month anniversary of Employee's separation from service.

7. Except as specified herein, the Employment Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, Corporation has hereunto caused its name to be signed and its seal to be affixed by its duly authorized officers, and Employee has hereunto set his hand and seal, all being done in duplicate originals, with one original being delivered to each party, this the 22 day of November, 2019.

AFLAC INCORPORATED

BY: /s/ Daniel P. Amos

DANIEL P. AMOS

Chairman and Executive Officer

ATTEST: /s/ J.Matthew Loudermilk

J. MATTHEW LOUDERMILK

Vice President, Corporate Secretary

/s/ Charles D. Lake II

CHARLES D. LAKE II

Employee

**Aflac Incorporated 2019 Form 10-K**

**EXHIBIT 21**

**Aflac Incorporated**  
**SUBSIDIARIES**

The following list sets forth the subsidiaries of Aflac Incorporated:

Company	Jurisdiction
American Family Life Assurance Company of Columbus (Aflac)	Nebraska
American Family Life Assurance Company of New York <sup>(1)</sup>	New York
Aflac Asset Management LLC	Delaware
Aflac Asset Management Japan Ltd. <sup>(2)</sup>	Japan
Aflac International, Inc.	Georgia
Aflac Information Technology, Inc.	Georgia
Simple Technology, LLC <sup>(3)</sup>	Delaware
Aflac Corporate Ventures LLC	Delaware
Empoweredbenefits, LLC <sup>(4)</sup>	North Carolina
Aflac Ventures Labs LLC <sup>(4)</sup>	Delaware
Aflac Ventures Seed Fund LLC <sup>(4)</sup>	Delaware
Aflac InfoSec Services LLC <sup>(4)</sup>	Delaware
Empowered.Insure LLC <sup>(4)</sup>	North Carolina
Aflac Innovation Partners G.K. <sup>(4)</sup>	Japan
Aflac Ventures LLC <sup>(4)</sup>	Delaware
Lapetus Solutions, Inc. <sup>(5)</sup>	Delaware
Picwell, Inc. <sup>(5)</sup>	Delaware
Wellthie, Inc. <sup>(5)</sup>	Delaware
Medical Note, Inc. <sup>(5)</sup>	Japan
Sensely Corporation <sup>(5)</sup>	California
Aflac Benefits Advisors, Inc.	Georgia
Communicorp, Inc.	Georgia
Continental American Insurance Company	Nebraska
Continental American Group, LLC <sup>(6)</sup>	Georgia
Aflac Holdings LLC	Nebraska
Aflac Life Insurance Japan Ltd. <sup>(7)</sup>	Japan
Octagon Delaware Trust <sup>(8)</sup>	Delaware
Apollo AF Loan Trust <sup>(8)</sup>	Delaware
Global Investment Fund I <sup>(8)</sup>	Delaware
Tsusan Co., Ltd. <sup>(8)</sup>	Japan
Aflac Insurance Services Co., Ltd. <sup>(8)</sup>	Japan
Aflac Payment Services Co., Ltd. <sup>(8)</sup>	Japan
Aflac Heartful Services Co., Ltd. <sup>(9)</sup>	Japan
Global Alternatives Private Equity Sub-Trust A <sup>(10)</sup>	Cayman Islands
Tier One Insurance Company	Nebraska
Aflac Northern Ireland, Ltd.	Northern Ireland, U.K.
Argus Holdings, LLC	Florida
Argus Dental & Vision, Inc. <sup>(11)</sup>	Florida

<sup>(1)</sup> Subsidiary of Aflac

<sup>(2)</sup> Subsidiary of Aflac Asset Management LLC

<sup>(3)</sup> Subsidiary of Aflac Information Technology, Inc.

<sup>(4)</sup> Subsidiary of Aflac Corporate Ventures LLC

<sup>(5)</sup> Investment of Aflac Ventures LLC

<sup>(6)</sup> Subsidiary of Continental American Insurance Company

<sup>(7)</sup> Subsidiary of Aflac Holdings LLC

<sup>(8)</sup> Subsidiary of Aflac Life Insurance Japan Ltd.

<sup>(9)</sup> 80% owned by Aflac Life Insurance Japan Ltd.

10% owned by Aflac Insurance Services Co., Ltd., and

10% owned by Aflac Payment Services Co., Ltd.

<sup>(10)</sup> 90% owned by Aflac Life Insurance Japan Ltd. and

10% owned by Aflac

<sup>(11)</sup> Subsidiary of Argus Holdings, LLC

**EXHIBIT 23**

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
Aflac Incorporated:

We consent to the incorporation by reference in the registration statement No. 333-219784, and 333-227244 on Form S-3; and No. 333-135327, 333-161269, 333-202781, 333-158969, 333-200570, 333-115105, and 333-219888 on Form S-8 of Aflac Incorporated of our reports dated February 21, 2020, with respect to the consolidated balance sheets of Aflac Incorporated as of December 31, 2019 and 2018, and the related consolidated statements of earnings, comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes and financial statement schedules II, III, and IV (collectively, the "consolidated financial statements"), and the effectiveness of internal control over financial reporting as of December 31, 2019, which reports appear in the December 31, 2019 annual report on Form 10-K of Aflac Incorporated.

/s/ KPMG LLP

Atlanta, Georgia  
February 21, 2020



**EXHIBIT 31.1**

**Certification of Chief Executive Officer**

I, Daniel P. Amos, certify that:

1. I have reviewed this annual report on Form 10-K of Aflac Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 21, 2020

*/s/ Daniel P. Amos*

Daniel P. Amos

Chairman and Chief Executive Officer

**EXHIBIT 31.2**

**Certification of Chief Financial Officer**

I, Max K. Broden, certify that:

1. I have reviewed this annual report on Form 10-K of Aflac Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 21, 2020

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*/s/ Max K. Broden*

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Max K. Broden

Executive Vice President, Chief Financial Officer

**EXHIBIT 32**

**Certification of CEO and CFO Pursuant to  
18 U.S.C. Section 1350,  
as Adopted Pursuant to  
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of Aflac Incorporated (the "Company") for the annual period ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Daniel P. Amos, as Chief Executive Officer of the Company, and Max K. Broden, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

*/s/ Daniel P. Amos*

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Name: Daniel P. Amos  
Title: Chief Executive Officer  
Date: February 21, 2020

*/s/ Max K. Broden*

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Name: Max K. Broden  
Title: Chief Financial Officer  
Date: February 21, 2020