Aflac Incorporated's Task Force on Climate-Related Financial Disclosures Report 2019

Aflac

Introduction

As a market leader in the supplemental insurance industry, Aflac is committed to making business decisions that balance the needs of our many constituencies, including our policyholders, employees, sales force and shareholders, while recognizing the obligation we have to the global community.

This document discusses our approach to evaluating and managing climate change risks and opportunities and is guided by the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). The recommendations of the TCFD focus on four thematic areas that represent core operational elements, including: (1) governance, (2) strategy, (3) risk management, and (4) metrics and targets.

In this document, we may refer to Aflac Incorporated's businesses collectively as "Aflac" or the "Company," the Company's U.S. businesses as "Aflac U.S." and the Company's Japan businesses as "Aflac Japan." As a supplemental insurance company, we have determined that we are not as susceptible to climate-related risks or opportunities as other companies in the insurance industry, such as property and casualty insurers. However, we will continue to evaluate how climate change impacts our operations and will update this document to reflect any changes. Further, as part of our long-standing commitment to corporate social responsibility and environmental conservation, we will continue to take steps to reduce our operational greenhouse gas emissions.

This report includes financial and nonfinancial information from Aflac U.S. and Aflac Japan about activities, data, statistics, awards and accolades related to environmental sustainability for the 2019 calendar year, unless otherwise noted. Disclosures that fulfill these standards are noted by indicators within the report and in the ESG Tear Sheet. An internal steering committee oversaw the report preparation with guidance from board of directors' Corporate Social Responsibility and Sustainability Committee, executive leadership and internal subject matter experts. We invite you to contact us with questions or requests for more information about this report at AflacCSR@aflac.com.

Forward-looking Information

The Private Securities Litigation Reform Act of 1995 provides a "safe harbor" to encourage companies to provide prospective information, so long as those informational statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those included in the forward-looking statements. The company desires to take advantage of these provisions. This document contains cautionary statements identifying important factors that could cause actual results to differ materially from those projected herein and in any other statements made by company officials in communications with the financial community and contained in documents filed with the Securities and Exchange Commission (SEC). Forward-looking statements are not based on historical information and relate to future operations, strategies, financial results or other developments. Furthermore, forward-looking information is subject to numerous assumptions, risks and uncertainties. In particular, statements containing words such as "expect," "anticipate," "believe," "goal," "objective," "may," "should," "estimate," "intends," "projects," "will," "assumes," "potential," "target," "outlook" or similar words as well as specific projections of future results generally qualify as forward-looking. Aflac undertakes no obligation to update such forward-looking statements. For a discussion of assumptions, risks, uncertainties and other important factors that could cause actual results to differ materially from those expressed in the forward-looking statements, see our most recent reports on Form 10-K and Form 10-Q filed with the SEC.

Governance

Management-level responsibility

ESG working group | **Enterprise risk management**

Board Oversight

CSR&S Committee | **Risk Committee**

Board's oversight of climate change

The board of directors' Corporate Social Responsibility and Sustainability (CSR&S) Committee provides guidance and oversight regarding Aflac Incorporated's sustainability actions, including climate change. This committee is charged with monitoring and reviewing the company's policies, procedures and practices to foster the sustainable growth of the company on a global basis; monitoring and reviewing the company's strategies, policies, procedures and practices related to environmental and related health and safety matters; monitoring and reviewing the company's policies, procedures and practices that enable it to proactively respond to evolving public sentiment and government regulations with regard to sustainability, especially in the areas of environmental stewardship, energy use, recycling and carbon emissions; and reviewing the goals and objectives of the company's environmental stewardship policy.

The CSR&S Committee generally meets at all board meetings other than the Annual Shareholders Board Meeting. The board monitors progress made against sustainability goals and gives guidance regarding goals and overall strategy. Through the CSR&S Committee, climate-related risks are integrated into our organizational strategy, plans of action, management policies, performance objectives, and how we monitor progress against targets and goals.

Management's role in assessing and managing climate change

Global Risk Committee

The Enterprise Risk Management (ERM) Department, in partnership with Internal Audit, conducts an annual enterprisewide risk assessment (see the Strategy and Risk Management section below for a detailed discussion of this process). Should the ERM determine that climate change is becoming a major or extreme risk to Aflac Incorporated, the ERM will elevate it to the management Global Risk Committee (GRC). Internal Audit is both a corporate and business unit function, accountable to senior leadership up to and including the president and C-suite levels, reflecting those with profit and loss responsibility. This provides visibility, awareness, management and oversight at all key levels of the organization, up to and including the board.

Incentive compensation

The compensation of certain employees is linked to achieving climate-related targets.

Senior vice president, chief ESG and communications officer: Elements of the ESG program's growth include reduction in GHG emissions related to climate change, and the chief ESG officer is responsible for ensuring visibility to the CSR&S Committee of ESG economic impact.

Vice president of Facilities: Component of bonus is connected to achieving reduction of total Scope 1 and 2 emissions.

Energy and sustainability manager: Communicating and advocating corporate sustainability initiatives to the employee base, including those related to energy management.

All employees: Various rewards and recognition programs, such as the SmartGreen idea, encourage employees to submit ideas that will improve Aflac's sustainability programs. This includes an employee program where employees acting as "green ambassadors" are allowed to provide prizes when they "catch" someone behaving "green."

See the following sources for additional information regarding our governance structure of ESG-related matters

- 2018 Form 10-K Item 1 – Business – Environmental and Social Responsibility and Corporate Governance
- 2019 Proxy Statement

Strategy and risk management

Processes for identifying and assessing climate-related risks

Enterprise risk

Through an annual enterprisewide risk assessment, Aflac Incorporated uses a risk scale to evaluate the materiality of all risks; this scale considers both the impact and probabilities of identified risks. On the impact scale, risks are categorized as minor, moderate, adverse, major or extreme. The likelihood scale considers the occurrence of each risk by categorizing each risk as an event that occurs once every one to two years (frequent), once every two to five years (likely), once every five to 10 years (possible), once every 10-20 years (unlikely) or once in more than 20 years (rare). This process is used to ensure that risks judged to be major and/or extreme are elevated to Aflac Incorporated's board of directors for guidance and direction to ensure that Aflac Incorporated's earnings, solvency and brand are protected.

The process requires that all business unit owners be interviewed to examine risks within and outside of their business units. The objective is to understand whether identified risks will have an impact on the organization's objectives. After the risks are identified, we assess the impact and likelihood of these risks to arrive at the residual risk. The risks are summarized by their overall score, with the largest number being the greatest risk. When assessing whether or not a risk will have a substantive and/or material impact, the company uses a scale that considers likelihood of occurrence and impact on earnings, solvency and brand.

Business continuity

Business continuity planning (BCP) considers the impact that climate change could have on our existing contingency plans. The ERM function monitors the BCP activities to ensure that there is a process in place to mitigate our BCP risk related to climate change such as natural disasters that can cause business interruption through damaging or destroying property. The business continuity plan is designed to identify and mitigate potential exposure to the business and ensure that Aflac Incorporated maintains the ability to resume operations in a timely manner.

Underwriting

Underwriting risk considers the impact climate change can have on morbidity and mortality rates. Aflac Incorporated's Actuarial department monitors actual versus expected morbidity and mortality occurrences and seeks to understand the cause of variances for future planning to ensure the long-term sustainability of the company.

Corporate Social Responsibility and Sustainability Committee

Aflac Incorporated's corporate social responsibility takes into consideration its direct impact on the environment. The ERM function periodically meets with Global Risk Committee and the Corporate Social Responsibility and Sustainability Committee and ensures efforts continue to reduce Aflac Incorporated's carbon footprint such as waste reduction and energy conservation.

Climate change risks

Based on our risk management identification process and given that Aflac Incorporated's primary market is supplemental insurance, climate change has minimal impacts on our operations. The tables below provide an explanation of how we reached this conclusion in regard to both the physical and transition risks.

TOPIC	EXPLANATION
Current regulation	Using the above-described ERM risk scale, Aflac Incorporated has not identified any current regulation that substantially impacts our business. This determination was reached in consultation with the Government Affairs department and takes into consideration feedback from various insurance trade organizations that monitor regulatory matters that could impact the insurance industry.
Emerging regulations	In considering risks driven by changes in regulation, Aflac Incorporated considered the potential over the next three years for the possibility of carbon taxes, cap and trade regulations, and fuel/energy surcharges for the United States. We considered and evaluated whether such regulations would substantially increase the cost of operating our business. Aflac Incorporated's Government Affairs department works with a one- to three-year time frame when analyzing regulatory matters. Using the above-described risk scale and given that Aflac's operational spend on energy is less than one-tenth of 1% of expenses or revenue, Aflac Incorporated did not identify any regulatory or legislative risks that will substantially increase the cost of operating our business.
Technology	As a supplemental insurance company, we have not found risks associated with technological improvements or innovations that support the transition to a lower-carbon, energy-efficient economic system to be relevant to our operations.
Legal	As a supplemental insurance company with a relatively small and decreasing carbon footprint, we do not believe climate-related litigation claims are relevant to our business.
Market	Shifts in supply and demand for certain commodities, products and services based upon a transition to a low-carbon economy and the risks of physical climate change are not believed to have an impact on the supplemental insurance market. We believe that the demand for our insurance products will continue under all climate scenarios.
Chronic physical and upstream	Aflac Incorporated has not found that climate change is affecting people's health for the forms of insurance that Aflac Incorporated issues, and we have not found evidence that it will lead to substantial change in the near or long term. Should it have an impact, it is our belief that it will happen gradually and that there will be time to adjust underwriting and take other risk management actions.
Downstream	As insurance is an intangible product, any downstream climate change risks are not relevant.

However, Aflac does consider reputational risks and acute physical risks. We believe that environmentally friendly and prudent business actions serve to enhance our corporate reputation, improve talent recruitment and retention, and reduce business expenses, making them integral to our business strategy.

Acute physical risks are taken into account, and our business continuity planning (BCP) group considers the impact that climate change could have on our existing contingency plans. The ERM function monitors the BCP activities to ensure that there is a process in place to mitigate our BCP risk related to climate change such as natural disasters that can cause business interruption through damaging or destroying property.

Impact on business

TOPIC	EXPLANATION
Products and services	The insurance benefits that can be sold by a supplemental insurance company are governed by minimum standard regulations of state insurance law. Within the scope of products offered, no relevant opportunities have been identified for the enhancement of existing products or the development of new products in response to anticipated changes in climate change in the U.S.
Supply chain and/or value chain	Aflac has considered the degree to which climate change could impact its supply chain and does not foresee material risks or opportunities.
Adaptation and mitigation activities	While Aflac has not identified specific material adaptation and mitigation activities, Aflac continually works to reduce its greenhouse gas emissions. Since 2007, Aflac has reduced its Scope 1 and 2 emissions by more than 50%.
Investment in research and development	Aflac is a supplemental insurance company. The insurance benefits that it can sell are governed by minimum standard regulations of state insurance law. As a result, we have not identified research and development opportunities or risks associated with our core business of supplemental insurance.
Operations	Aflac has not identified risks or opportunities that it considers material.

Impact on financial planning process

TOPIC	EXPLANATION
Revenues	The insurance benefits that can be sold by a supplemental insurance company are governed by minimum standard regulations of state insurance law. Within the scope of products offered, we view the climate-related risks and opportunities associated with our business to be low and thereby have very little impact on revenues. Therefore, we do not specifically factor such climate-related risks or opportunities pertaining to revenues into our financial planning process.
Operating costs	Energy-related costs represent less than 1% of operating costs. We continue to invest in energy-efficient projects that reduce our energy spend and decrease our environmental footprint. These efforts have enabled us to reduce our kilowatt usage per square foot by approximately 50% and have helped us avoid more than $18 million in electricity expenses since 2007. However, given that we have not identified climate-related risks and opportunities with a potential substantive financial or strategic impact on our business, we do not specifically factor such climate-related risks or opportunities pertaining to operating costs into our financial planning process.
Capital expenditures and capital allocation	While we continue to improve our property and equipment to reduce our carbon footprint, we view the climate-related risks and opportunities associated with our business to be low and thereby have very little impact on capital expenditure and allocation. Therefore, we do not specifically factor such climate-related risks or opportunities pertaining to capital expenditure and capital allocation into our financial planning process.
Acquisitions and divestments	Our business, which is supplemental insurance, largely grows through organic means. We view the climate-related risks and opportunities associated with our business to be low and thereby have very little impact on our corporate development. Therefore, we do not specifically factor such climate-related risks or opportunities pertaining to acquisitions and divestments into our financial planning process.
Access to capital	Our business, which is supplemental insurance, has operated with a strong credit profile, allowing us to access capital as needed. We view the climate-related risks and opportunities associated with our business to be low and thereby have very little impact on our access to capital. Therefore, we do not specifically factor such climate-related risks or opportunities pertaining to access to capital into our financial planning process.
Assets and liabilities	We maintain a high-quality, diversified portfolio of assets to back our liabilities. We view the climate-related risks and opportunities associated with our business to be low and thereby have very little impact on our assets. For additional information on our assets, please see the Aflac asset management section.

Aflac asset management

There is increasing evidence that taking an active and responsible approach to environmental, social and governance (ESG) issues can impact performance for investors, particularly over the longer term. An insurer's ability to pay claims is critical to its reputation. The primary objective of Aflac's investment strategy is to fulfill the fiduciary responsibility to invest assets in a prudent manner in order to meet present and future policyholder obligations and to realize the appropriate risk-adjusted long-term financial return on invested assets available to all stakeholders. Investment strategies are designed to meet these objectives within specific risk management limits and practices, including parameters around quality, diversification and liquidity. We consider the impact of climate change as one of many factors applied in assessing and monitoring risks and opportunities in investments. Our standard underwriting incorporates the impact of various factors when determining a specific investment's risk profile and appropriateness for the portfolio, including environmental and other social considerations. Our portfolio holds investments diversified across multiple sectors, each of which may be uniquely affected by multiple parameters on the issue of climate change, including reputational risk, changes in regulation, changing consumer trends, cost of production, etc.

Aflac Global Investments has a multipronged approach to ESG investing and continues to evolve our ESG integration processes. Our internal ESG scoring system uses a mixture of E, S and G external and internal factor indicators to construct a rating for securities. These ESG scores are viewed as supplementary data to the numerous financial metrics we use in our credit underwriting analysis. Low ESG scores of an issuer will be discussed in a typical credit discussion so far as it could impact the credit quality or future cash flows of an issuer. We also seek to engage with management teams on ESG issues through our internally and externally managed portfolios whenever possible.

Additionally, we have invested in various green bonds and other clean energy projects and will continue to look for similar opportunities so long as they meet our strict credit underwriting process and return requirements.

Our investment portfolio also includes investments in real assets that are often exposed to potential climate change-related events, including floods, wildfires and hurricanes. While we cannot fully protect our investments, our internal investment team and external manager partners generally seek to mitigate these risks by relying on third-party experts to conduct engineering and weather analysis and insurance reviews.

Corporate efforts to reduce operational GHG emissions

Aflac is dedicated to the health and well-being of the people we serve and the environment. As such, we strive to balance effective and efficient management of our operations with responsible environmental stewardship. The aspects of climate change that have most influenced Aflac's strategy are the opportunity to enhance the company's reputation, prepare for compliance with potential future regulations and the desire to avoid costs.

Aflac invests in energy-efficient projects aimed at lowering electricity consumption and associated costs along with GHG emissions. In 2018, Aflac committed additional capital dollars to projects such as solar energy, LED lighting upgrades and energy management software for our data center HVAC system. For 2018, this resulted in a 2.75% reduction in electricity in U.S. properties compared to 2017. In addition, Aflac has been ISO 50001:2011 Energy Management Systems registered since 2013, which supports our commitment to operating efficiently and reducing our carbon footprint. Aflac became recertified in 2019 with zero nonconformance issues. Aflac's U.S. operations are also ISO 14001:2015 Environmental Management Systems certified.

Aflac is looking to achieve long-term "sustainable growth," which means the ability to meet the needs of our shareholders and customers while taking into account the needs of the future generation and also equates to the long-term preservation and enhancement of the company's financial, environmental and social capital. From the materials Aflac uses in our daily operations to the construction and renovation of facilities, Aflac carefully considers the environmental impact our actions will have not only today, but also in the years to come.

Aflac's SmartGreen Philosophy is centered around continuing Aflac's leadership in corporate responsibility by limiting the company's carbon footprint and ultimately helping make our communities, cities and planet a better place. We continue to invest in energy-efficient projects that reduce our energy spend and decrease our environmental footprint.

Greenhouse gas reductions and goals

Aflac Incorporated has established greenhouse gas emissions goals for Scope 1 and Scope 2 emissions. Aflac U.S. has established objectives for reducing its Scope 2 greenhouse gas emissions. Aflac Japan has objectives for reducing its Scope 1 and Scope 2 greenhouse gas emissions. Aflac believes that having reduction targets is consistent with our ESG activities and enhances our reputation.

We have installed 500 solar panels on one of our Columbus, Georgia, buildings, and in the U.S., 86% of our eligible space has earned the Environmental Protection Agency's Energy Star rating. Our data center was the 10th data center in the U.S. to become Energy Star certified.

Through sustained and deliberate energy saving measures, the company has reduced our total electricity consumption for corporate real estate by 3.5% in 2018.

Since 2007, electricity consumption in Aflac U.S. has been reduced by over 50% KWH per square foot. This has saved Aflac U.S. nearly $18 million in expenses and successfully marks the goal of reducing electricity consumption in the U.S. by 50% by 2025 against the 2007 baseline. This year, we plan to revise our goal and expand to our Japanese buildings and facilities.

Aflac U.S. absolute Scope 1 emissions (by facilities) in 2018 were 2,653 mtCO2e (metric tons of carbon dioxide equivalents). This represent more than a 60% reduction since the 2007 baseline (6,805 mtCO2e).

Aflac U.S. Scope 2 emissions (location-based) for 2018 were 11,396 mtCO2e, representing an 8.5% decrease year over year and a 61.7% reduction from the 2007 baseline of 29,765 mtCO2e. We've received attestation for our Scope 1 and Scope 2 emissions from auditor KPMG for Aflac's U.S. operations for the year ending Dec. 31, 2018.

In 2018, Aflac Japan's Scope 1 and Scope 2 (location-based for Aflac Chofu Square) emissions decreased by about 48% since our 2004 baseline of 5,815 mtCO2e. Aflac Japan's 3,040 mtCO2e Scope 1 and Scope 2 emissions in 2018 represent a 5.3% decrease from 2017.

Aflac Japan's Chofu Square building is subject to Tokyo's Cap and Trade program. However, we have set carbon emission targets compliant with mandatory emissions stipulated by the Tokyo Metropolitan Environmental Security Ordinance and have been promoting activities for reducing total emissions. As a result of our emissions reduction efforts, we have 4,569 mtCO2e excess emission reductions available for credit issuance as of March 31, 2018. In addition, in Aflac Japan, we have increased the ratio of hybrid cars used by sales employees, reducing gasoline consumption by 34% since 2016.

Aflac U.S. and Aflac Japan Scope 1 and 2 Emissions In MT

YEAR	SCOPE 1	SCOPE 2	TOTAL	CHANGE
2007	7,617	33,795	41,412	
2017	4,038	14,325	18,363	
2018	3,200	13,890	17,090	-24,322
REDUCTION	58.0%	58.9%	58.7%	

Aflac U.S. Scope 1 and 2 Emissions In MT

YEAR	SCOPE 1	SCOPE 2	TOTAL	CHANGE
2007	6,805	29,765	36,570	
2017	3,436	11,718	15,154	
2018	2,653	11,396	14,049	-22,521
REDUCTION	61.0%	61.7%	61.6%	

Aflac Japan Scope 1 and 2 Emissions In MT

YEAR	SCOPE 1	SCOPE 2	TOTAL	CHANGE
2007	812	4,030	4,842	
2017	602	2,607	3,209	
2018	547	2,494	3,041	-1,801
REDUCTION	32.6%	38.1%	37.2	

In 2020, the plan is to revise the Company's carbon footprint goals.

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