

# Glossary

**Basic Earnings Per Share** – Net or operating earnings divided by the weighted-average number of shares outstanding for the period.

**Benefit Ratio** – Incurred claims plus the increase in reserves for future policy benefits, as a percent of total revenues.

**Corporate Agency** – The marketing system we use in Japan comprises affiliated corporate, independent corporate and individual agencies. An affiliated corporate agency is one that is directly affiliated with a specific corporation. A corporation establishes the agency to sell our insurance policies to its employees on payroll deduction. In turn, we pay the agency a commission. Corporate agencies are responsible for the majority of AFLAC Japan's sales.

**Deferred Acquisition Costs (DAC)** – Generally accepted accounting principles call for the matching of revenues and expenses. Therefore, the costs of acquiring new business and converting existing policies, principally agents' commissions in excess of renewal year commissions, and certain policy issue, underwriting and marketing expenses, have been capitalized and deferred. These deferred policy acquisition costs are being amortized over the premium period of the related policies in approximate proportion of annual premium income to the total premium income anticipated.

**Diluted Earnings Per Share** – Net or operating earnings divided by the weighted-average number of shares outstanding for the period plus the shares for the dilutive effect of stock options.

**Future Policy Benefits** – This is the largest liability on the balance sheet. The company accumulates reserves during the life of a policy to meet expected claim payments covered by the policy. Most policies sold in Japan also have cash value benefits for which reserves are accrued.

**Incurred Claims** – The amount of claims paid plus the change in the unpaid claim liability.

**Lapse Ratio** – The percentage of premiums that are terminated due to the policyholder's failure to continue premium payments as a percent of total amount exposed for payment (beginning-of-period premiums in force, plus premiums from new sales, conversions and rate increases).

**Net Earnings** – Profits, including net realized investment gains or losses, after taxes.

**New Annualized Premium Sales** – The annual premiums on policies sold and additional premiums on policies converted during the reporting period.

**Operating Earnings** – Profits after taxes but before realized investment gains or losses and the gain from the sale of our television business in 1996 and 1997. In 1998 and 1999, operating earnings also excluded contributions to the policyholder protection fund in Japan and the releases of deferred taxes following Japanese income tax rate reductions. In 2000, operating earnings excluded the gain from the termination of a retirement liability.

**Operating Expense Ratio** – Total operating expenses including amortization of DAC, total administrative costs and commissions as a percent of total revenues.

**Operating Return on Average Shareholders' Equity** – Operating earnings as a percentage of the average of shareholders' equity at the beginning of the period and at the end of the period, excluding the shareholders' equity component of unrealized gains on investment securities.

**Persistency** – The percentage of premiums remaining in force at the end of a period, usually one year. 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.

**Price/Earnings Ratio** – Market price of shares divided by annual operating earnings per diluted share. The investment community standard is to compute the price/earnings ratio using operating earnings per share rather than net earnings per share.

**Profit Margin** – Operating earnings either before taxes or after taxes as a percent of total revenues.

**Profit Repatriation** – Profits of AFLAC Japan that are transferred to AFLAC U.S.

**Return on Investments and Cash** – Net investment income as a percentage of average investments and cash at amortized cost.

**Total Return to Shareholders** – The appreciation of a shareholder's investment over a period of time, including reinvested cash dividends paid during that time.