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AFLAC INC

Form 10-Q

April 26, 2019

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## UNITED STATES

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### FORM 10-Q

(Mark One)

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

For the quarterly period ended March 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)

**706.323.3431**

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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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 (§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, 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 ☐ Accelerated filer ☐  
 Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐  
 Emerging growth company ☐

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 Exchange Act). ☐ Yes ☒ No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	April 17, 2019
Common Stock, \$.10 Par Value	745,469,119



**Aflac Incorporated and Subsidiaries**  
**Quarterly Report on Form 10-Q**  
**For the Quarter Ended March 31, 2019**  
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Items other than those listed above are omitted because they are not required or are not applicable.

## **PART I. FINANCIAL INFORMATION**

### **Item 1. Financial Statements.**

#### **Review by Independent Registered Public Accounting Firm**

The March 31, 2019, and 2018, consolidated financial statements included in this filing have been reviewed by KPMG LLP, an independent registered public accounting firm, in accordance with established professional standards and procedures for such a review.

The report of KPMG LLP commenting upon its review is included on the following page.

1

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## Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors  
Aflac Incorporated:

### *Results of Review of Interim Financial Information*

We have reviewed the consolidated balance sheet of Aflac Incorporated and subsidiaries (the Company) as of March 31, 2019, the related consolidated statements of earnings, comprehensive income (loss), shareholders' equity, and cash flows for the three-month periods ended March 31, 2019 and 2018, and the related notes (collectively, the consolidated interim financial information). Based on our reviews, we are not aware of any material modifications that should be made to the consolidated interim financial information for it to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheet of the Company as of December 31, 2018, and the related consolidated statements of earnings, comprehensive income (loss), shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 25, 2019, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2018, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

### *Basis for Review Results*

This consolidated interim financial information is the responsibility of the Company's management. 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 reviews in accordance with the standards of the PCAOB. A review of consolidated interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ KPMG LLP

Atlanta, Georgia  
April 26, 2019

**Aflac Incorporated and Subsidiaries**  
**Consolidated Statements of Earnings**

	Three Months Ended March 31,	
(In millions, except for share and per-share amounts - Unaudited)	2019	2018
<b>Revenues:</b>		
Net premiums, principally supplemental health insurance	\$4,691	\$4,745
Net investment income	878	837
Realized investment gains (losses):		
Other-than-temporary impairment losses realized	(2 )	(7 )
Other gains (losses)	73	(127 )
Total realized investment gains (losses)	71	(134 )
Other income (loss)	17	16
Total revenues	5,657	5,464
<b>Benefits and expenses:</b>		
Benefits and claims, net	2,967	3,042
Acquisition and operating expenses:		
Amortization of deferred policy acquisition costs	340	314
Insurance commissions	331	337
Insurance and other expenses	719	733
Interest expense	58	56
Total acquisition and operating expenses	1,448	1,440
Total benefits and expenses	4,415	4,482
Earnings before income taxes	1,242	982
Income taxes	314	265
Net earnings	\$928	\$717
<b>Net earnings per share:</b>		
Basic	\$1.23	\$.92
Diluted	1.23	.91
<b>Weighted-average outstanding common shares used in computing earnings per share (In thousands):</b>		
Basic	751,423	778,550
Diluted	755,790	783,852
<b>Cash dividends per share</b>	<b>\$.27</b>	<b>\$.26</b>

See the accompanying Notes to the Consolidated Financial Statements.

**Aflac Incorporated and Subsidiaries**  
**Consolidated Statements of Comprehensive Income (Loss)**

	Three Months Ended March 31,	
(In millions - Unaudited)	<b>2019</b>	2018
Net earnings	<b>\$928</b>	\$717
<b>Other comprehensive income (loss) before income taxes:</b>		
Unrealized foreign currency translation gains (losses) during period	(1 )	824
Unrealized gains (losses) on fixed maturity securities:		
Unrealized holding gains (losses) on fixed maturity securities during period	<b>3,196</b>	(1,931)
Reclassification adjustment for realized (gains) losses on fixed maturity securities included in net earnings	(17 )	(2 )
Unrealized gains (losses) on derivatives during period	(3 )	6
Pension liability adjustment during period	<b>7</b>	(3 )
Total other comprehensive income (loss) before income taxes	<b>3,182</b>	(1,106)
Income tax expense (benefit) related to items of other comprehensive income (loss)	<b>852</b>	(763 )
Other comprehensive income (loss), net of income taxes	<b>2,330</b>	(343 )
Total comprehensive income (loss)	<b>\$3,258</b>	\$374

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

## Aflac Incorporated and Subsidiaries

### Consolidated Balance Sheets

(In millions, except for share and per-share amounts)

	March 31, 2019 (Unaudited)	December 31, 2018
<b>Assets:</b>		
Investments and cash:		
Fixed maturity securities available for sale, at fair value (amortized cost \$74,950 in 2019 and \$73,007 in 2018)	\$83,381	\$78,429
Fixed maturity securities available for sale - consolidated variable interest entities, at fair value (amortized cost \$3,756 in 2019 and \$3,849 in 2018)	4,543	4,466
Fixed maturity securities held to maturity, at amortized cost (fair value \$37,446 in 2019 and \$36,722 in 2018)	30,163	30,318
Equity securities, at fair value	1,041	987
Commercial mortgage and other loans (includes \$5,892 in 2019 and \$5,528 in 2018 of consolidated variable interest entities)	7,180	6,919
Other investments (includes \$374 in 2019 and \$328 in 2018 of consolidated variable interest entities)	1,238	787
Cash and cash equivalents	3,892	4,337
Total investments and cash	131,438	126,243
Receivables	858	851
Accrued investment income	728	773
Deferred policy acquisition costs	9,892	9,875
Property and equipment, at cost less accumulated depreciation <sup>(1)</sup>	559	443
Other	2,204	2,221
Total assets	\$145,679	\$140,406
<b>Liabilities and shareholders' equity:</b>		
Liabilities:		
Policy liabilities:		
Future policy benefits	\$87,011	\$86,368
Unpaid policy claims	4,625	4,584
Unearned premiums	4,859	5,090
Other policyholders' funds	7,185	7,146
Total policy liabilities	103,680	103,188
Income taxes	5,182	4,020
Payables for return of cash collateral on loaned securities	1,969	1,052
Notes payable and lease obligations <sup>(1)</sup>	5,900	5,778
Other	2,899	2,906
Total liabilities	119,630	116,944
Commitments and contingent liabilities (Note 12)		
Shareholders' equity:		
Common stock of \$.10 par value. In thousands: authorized 1,900,000 shares in 2019 and 2018; issued 1,348,600 shares in 2019 and 1,347,540 shares in 2018	135	135
Additional paid-in capital	2,208	2,177
Retained earnings	32,513	31,788
Accumulated other comprehensive income (loss):		
Unrealized foreign currency translation gains (losses)	(1,848 )	(1,847 )
Unrealized gains (losses) on fixed maturity securities	6,561	4,234
Unrealized gains (losses) on derivatives	(26 )	(24 )
Pension liability adjustment	(206 )	(212 )
Treasury stock, at average cost	(13,288 )	(12,789 )
Total shareholders' equity	26,049	23,462
Total liabilities and shareholders' equity	\$145,679	\$140,406

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<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 - Unaudited)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
<b>Balance at December 31, 2018</b>	\$ 135	\$ 2,177	\$ 31,788	\$ 2,151	\$(12,789)	\$ 23,462
Net earnings	0	0	928	0	0	928
Unrealized foreign currency translation gains (losses) during period, net of income tax	0	0	0	(1	) 0	(1
Unrealized gains (losses) on fixed maturity securities during period, net of income taxes and reclassification adjustments	0	0	0	2,327	0	2,327
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	6	0	6
Dividends to shareholders (\$0.27 per share)	0	0	(203	) 0	0	(203
Exercise of stock options	0	11	0	0	0	11
Share-based compensation	0	8	0	0	0	8
Purchases of treasury stock	0	0	0	0	(517	) (517
Treasury stock reissued	0	12	0	0	18	30
<b>Balance at March 31, 2019</b>	\$ 135	\$ 2,208	\$ 32,513	\$ 4,481	\$(13,288)	\$ 26,049

(In millions, except for per share amounts - Unaudited)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Shareholders' Equity
<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	717	0	0	717
Unrealized foreign currency translation gains (losses) during period, net of income tax	0	0	0	447	0	447
Unrealized gains (losses) on fixed maturity securities during period, net of income taxes and reclassification adjustments <sup>(1)</sup>	0	0	0	(984	) 0	(984
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	(34	) 0	(34
Dividends to shareholders (\$0.26 per share)	0	0	(203	) 0	0	(203
Exercise of stock options	0	14	0	0	0	14
Share-based compensation	0	10	0	0	0	10
Purchases of treasury stock	0	0	0	0	(309	)(309
Treasury stock reissued	0	13	0	0	16	29
<b>Balance at March 31, 2018</b>	\$ 135	\$ 2,089	\$ 30,183	\$ 3,685	\$(11,805)	\$ 24,287



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<sup>(1)</sup> See Note 1 of the Notes to the Consolidated Financial Statements in the Company's 2018 Annual Report on Form 10-K  
See the accompanying Notes to the Consolidated Financial Statements.

**Aflac Incorporated and Subsidiaries**  
**Consolidated Statements of Cash Flows**

(In millions - Unaudited)	Three Months Ended March 31,	
	2019	2018
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 928	\$ 717
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Change in receivables and advance premiums	35	14
Capitalization of deferred policy acquisition costs	(357 )	(349 )
Amortization of deferred policy acquisition costs	340	314
Increase in policy liabilities	468	572
Change in income tax liabilities	316	(131 )
Realized investment (gains) losses	(71 )	134
Other, net	(115 )	(33 )
Net cash provided (used) by operating activities	1,544	1,238
<b>Cash flows from investing activities:</b>		
Proceeds from investments sold or matured:		
Available-for-sale fixed maturity securities	760	943
Equity securities	153	157
Held-to-maturity fixed maturity securities	155	50
Commercial mortgage and other loans	493	146
Costs of investments acquired:		
Available-for-sale fixed maturity securities	(2,548 )	(3,975 )
Equity securities	(151 )	(166 )
Commercial mortgage and other loans	(669 )	(1,772 )
Other investments, net	(442 )	(125 )
Settlement of derivatives, net	(3 )	(1 )
Cash received (pledged or returned) as collateral, net	976	4,578
Other, net	(15 )	(34 )
Net cash provided (used) by investing activities	(1,291 )	(199 )
<b>Cash flows from financing activities:</b>		
Purchases of treasury stock	(490 )	(296 )
Proceeds from borrowings	0	2
Dividends paid to shareholders	(195 )	(195 )
Change in investment-type contracts, net	(13 )	7
Treasury stock reissued	12	14
Other, net	0	(5 )
Net cash provided (used) by financing activities	(686 )	(473 )
Effect of exchange rate changes on cash and cash equivalents	(12 )	23
Net change in cash and cash equivalents	(445 )	589
Cash and cash equivalents, beginning of period	4,337	3,491
Cash and cash equivalents, end of period	\$ 3,892	\$ 4,080
<b>Supplemental disclosures of cash flow information:</b>		
Income taxes paid	\$(2 )	\$ 396
Interest paid	36	36
Noncash interest	22	21
Impairment losses included in realized investment losses	2	7
<b>Noncash financing activities:</b>		
Lease obligations	1	1

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Treasury stock issued for:

Associate stock bonus	6	5
Shareholder dividend reinvestment	8	8
Share-based compensation grants	4	2

See the accompanying Notes to the Consolidated Financial Statements.

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

(Interim period data – Unaudited)

**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 and Japan. The Company's insurance business is marketed and administered through American Family Life Assurance Company of Columbus (Aflac) in the United States 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 United States 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 68% and 71% of the Company's total revenues in the three-month periods ended March 31, 2019 and 2018, respectively. The percentage of the Company's total assets attributable to Aflac Japan was 84% at March 31, 2019 and December 31, 2018, respectively.

**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 unaudited 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.

In the opinion of management, the accompanying unaudited consolidated financial statements of the Company contain all adjustments, consisting of normal recurring accruals, which are necessary to fairly present the consolidated balance sheets as of March 31, 2019, and December 31, 2018, the consolidated statements of earnings and comprehensive income (loss), shareholders' equity and cash flows for the three-month periods ended March 31, 2019 and 2018. Results of operations for interim periods are not

necessarily indicative of results for the entire year. As a result, these financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2018 (2018 Annual Report).

**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) 2018-15</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

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,</b> and <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>

Accounting Pronouncements Pending Adoption

Standard	Description	Effect on Financial Statements or Other Significant Matters
<b>ASU 2018-17</b> Consolidation: Targeted Improvements to Related Party Guidance for Variable Interest Entities	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.	The adoption of this guidance is not expected to have a significant impact on the Company's financial position, results of operations or disclosures.
<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. The amendments are effective for public business entities for fiscal years beginning after December 15, 2020. Early adoption is permitted.	The adoption of this guidance is not expected to have a significant impact on the Company's financial position, results of operations, or disclosures.
<b>ASU 2018-13</b> Fair Value Measurement, Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement	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.	The adoption of this guidance is not expected to have a significant impact on the Company's financial position, results of operations, or disclosures.
<b>ASU 2018-12</b> Financial Services - Insurance, Targeted Improvements to the Accounting for Long-Duration Contracts	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. The amendments are effective for public business entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early application of the amendments is permitted.	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.
<b>ASU 2017-04</b> Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment	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	The adoption of this guidance is not expected to have a significant impact on the Company's financial position, results of operations, or disclosures.



permitted for any goodwill impairment tests performed on testing dates after January 1, 2017.

Standard	Description	Effect on Financial Statements or Other Significant Matters
<b>ASU 2016-13</b> Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments	<p>In June 2016, the FASB issued amendments that require a financial asset (or a group of financial assets) measured on an amortized cost basis to be presented net of an allowance for credit losses 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 to inform about a credit loss. Credit losses on available-for-sale debt securities will continue to 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 amount of credit deterioration since origination (PCD financial assets). The amendments are 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>The Company has identified certain financial instruments in scope of this guidance to include certain fixed maturity securities, loans and loan receivables and reinsurance recoverables (See Notes 3 and 7 for current balances of instruments in scope). The Company is continuing its progress towards updating its credit loss projection models and accounting systems in order to comply with the required changes in measurement of credit losses. The Company currently expects loans and loan receivables and held-to-maturity fixed maturity securities to be the asset classes most significantly impacted upon adoption of the guidance. The Company continues to evaluate the impact of adoption of this guidance on its financial position, results of operations, and disclosures.</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.

For additional information on new accounting pronouncements and recent accounting guidance and their 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 the 2018 Annual Report.

## 2. BUSINESS SEGMENT 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, follows:

		Three Months Ended March 31,	
(In millions)		2019	2018
<b>Revenues:</b>			
Aflac Japan:			
Net earned premiums		<b>\$3,180</b>	\$3,263
Net investment income, less amortized hedge costs		<b>610</b>	588
Other income		<b>12</b>	12
Total Aflac Japan		<b>3,802</b>	3,863
Aflac U.S.:			
Net earned premiums		<b>1,461</b>	1,427
Net investment income		<b>177</b>	175
Other income		<b>2</b>	2
Total Aflac U.S.		<b>1,640</b>	1,604
Corporate and other		<b>95</b>	79
Total adjusted revenues		<b>5,537</b>	5,546
Realized investment gains (losses) <sup>(1),(2),(3)</sup>		<b>120</b>	(82 )
Total revenues		<b>\$5,657</b>	\$5,464

<sup>(1)</sup> Amortized hedge costs of \$62 and \$55 for the three-month periods ended March 31, 2019, and 2018, 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> Amortized hedge income of \$20 and \$2 for the three-month periods ended March 31, 2019, and 2018, respectively, 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>(3)</sup> Net interest cash flows from derivatives associated with certain investment strategies of \$(7) for the three-month period ended March 31, 2019 and an immaterial amount in 2018, respectively, have been reclassified from realized investment gains (losses) and included in adjusted earnings as a component of net investment income.

(In millions)	Three Months Ended March 31,	
	2019	2018
<b>Pretax earnings:</b>		
Aflac Japan	<b>\$834</b>	\$818
Aflac U.S.	<b>323</b>	337
Corporate and other	<b>(18)</b>	(46 )
Pretax adjusted earnings	<b>1,139</b>	1,109
Realized investment gains (losses) <sup>(1),(2),(3),(4)</sup>	<b>103</b>	(98 )
Other income (loss)	<b>0</b>	(29 )
Total earnings before income taxes	<b>\$1,242</b>	\$982
Income taxes applicable to pretax adjusted earnings	<b>\$291</b>	\$289
Effect of foreign currency translation on after-tax adjusted earnings	<b>(8)</b>	) 21

<sup>(1)</sup> Amortized hedge costs of \$62 and \$55 for the three-month periods ended March 31, 2019, and 2018, respectively, related to certain foreign currency management strategies have been reclassified from realized investment gains (losses) and reported as a deduction from pretax adjusted earnings when analyzing operations.

<sup>(2)</sup> Amortized hedge income of \$20 and \$2 for the three-month periods ended March 31, 2019, and 2018, respectively, related to certain foreign currency management strategies has been reclassified from realized investment gains (losses) and reported as an increase in pretax adjusted earnings when analyzing operations.

<sup>(3)</sup> Net interest cash flows from derivatives associated with certain investment strategies of \$(7) for the three-month period ended March 31, 2019 and an immaterial amount in 2018, respectively, have been reclassified from realized investment gains (losses) and included in adjusted earnings as a component of net investment income.

<sup>(4)</sup> A gain of \$17 and \$17 for the three-month periods ended March 31, 2019, and 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 when analyzing operations

Assets were as follows:

(In millions)	March 31, 2019	December 31, 2018
<b>Assets:</b>		
Aflac Japan	<b>\$123,042</b>	\$ 118,342
Aflac U.S.	<b>19,965</b>	19,100
Corporate and other	<b>2,672</b>	2,964
Total assets	<b>\$145,679</b>	\$ 140,406

**3. INVESTMENTS****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 are shown in the following tables.

(In millions)	<b>March 31, 2019</b>			
	<b>Cost or Amortized Cost</b>	<b>Gross Unrealized Gains</b>	<b>Gross Unrealized Losses</b>	<b>Fair Value</b>
<b>Securities available for sale, carried at fair value through other comprehensive income:</b>				
Fixed maturity securities:				
Yen-denominated:				
Japan government and agencies	\$31,238	\$ 4,813	\$ 2	\$36,049
Municipalities	509	93	3	599
Mortgage- and asset-backed securities	233	27	0	260
Public utilities	1,822	344	0	2,166
Sovereign and supranational	740	65	0	805
Banks/financial institutions	5,664	597	139	6,122
Other corporate	5,043	824	20	5,847
Total yen-denominated	45,249	6,763	164	51,848
U.S. dollar-denominated:				
U.S. government and agencies	190	11	1	200
Municipalities	1,204	105	0	1,309
Mortgage- and asset-backed securities	147	7	0	154
Public utilities	3,841	522	32	4,331
Sovereign and supranational	276	73	0	349
Banks/financial institutions	2,798	484	13	3,269
Other corporate	25,001	2,061	598	26,464
Total U.S. dollar-denominated	33,457	3,263	644	36,076
Total securities available for sale	\$78,706	\$ 10,026	\$ 808	\$87,924

(In millions)	December 31, 2018			
	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

(In millions)	March 31, 2019			
	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	\$21,961	\$ 6,018	\$ 0	\$27,979
Municipalities	814	247	0	1,061
Mortgage- and asset-backed securities	20	1	0	21
Public utilities	2,728	340	0	3,068
Sovereign and supranational	1,154	178	0	1,332
Banks/financial institutions	949	100	10	1,039
Other corporate	2,537	414	5	2,946
Total yen-denominated	30,163	7,298	15	37,446
Total securities held to maturity	\$30,163	\$ 7,298	\$ 15	\$37,446





(In millions)	December 31, 2018			Fair Value
	Cost or	Gross	Gross	
	Amortized	Unrealized	Unrealized	
	Cost	Gains	Losses	
<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)	March 31, 2019	December 31, 2018
	Fair Value	Fair Value
<b>Equity securities, carried at fair value through net earnings:</b>		
Equity securities:		
Yen-denominated	\$ 662	\$ 641
U.S. dollar-denominated	379	346
Total equity securities	\$ 1,041	\$ 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 the first quarter of 2019 and 2018, respectively, the Company did not reclassify any investments from the held-to-maturity category to the available-for-sale category.

#### **Contractual and Economic Maturities**

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

(In millions)	<b>Amortized Cost</b>	<b>Fair Value</b>
<b>Available for sale:</b>		
Due in one year or less	\$ 889	\$950
Due after one year through five years	8,483	8,624
Due after five years through 10 years	10,111	11,034
Due after 10 years	58,843	66,902
Mortgage- and asset-backed securities	380	414
Total fixed maturity securities available for sale	\$ 78,706	\$87,924
<b>Held to maturity:</b>		
Due in one year or less	\$ 135	\$137
Due after one year through five years	1,112	1,187
Due after five years through 10 years	678	739
Due after 10 years	28,218	35,362
Mortgage- and asset-backed securities	20	21
Total fixed maturity securities held to maturity	\$ 30,163	\$37,446

Economic maturities are the expected maturity date created by the combination of features in the financial instrument. Expected maturities may differ from contractual maturities because some issuers have the right to call or prepay obligations with or without call or prepayment penalties.

### 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 were as follows:

(In millions)	<b>March 31, 2019</b>			<b>December 31, 2018</b>		
	<b>Credit Rating</b>	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Credit Rating</b>	<b>Amortized Cost</b>	<b>Fair Value</b>
Japan National Government <sup>(1)</sup>	<b>A+</b>	<b>\$51,775</b>	<b>\$62,275</b>	<b>A+</b>	<b>\$51,207</b>	<b>\$59,945</b>

<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 is as follows:

Three  
Months  
Ended  
March 31,  
**2019** 2018

(In millions)

Realized investment gains (losses):

Fixed maturity securities:

Available for sale:

Gross gains from sales	<b>\$12</b>	\$10
Gross losses from sales	(8 )	(2 )
Foreign currency gains (losses) on sales and redemptions	<b>13</b>	(5 )
Total fixed maturity securities	<b>17</b>	3
Equity securities	<b>58</b>	(46 )
Loan receivables:		
Loan loss reserves	(2 )	(7 )
Total loan receivables	(2 )	(7 )
Derivatives and other:		
Derivative gains (losses)	<b>0</b>	144
Foreign currency gains (losses)	(2 )	(228 )
Total derivatives and other	(2 )	(84 )
Total realized investment gains (losses)	<b>\$71</b>	\$(134 )

The unrealized holding gains, net of losses, recorded as a component of realized investment gains and losses for the three-month period ended March 31, 2019, that relates to equity securities still held at the March 31, 2019, reporting date was \$47 million.

**Unrealized Investment Gains and Losses****Effect on Shareholders' Equity**

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

(In millions)	<b>March</b>	December 31,
	<b>31, 2019</b>	2018
Unrealized gains (losses) on securities available for sale	<b>\$9,218</b>	\$ 6,039
Deferred income taxes	<b>(2,657 )</b>	(1,805 )
Shareholders' equity, unrealized gains (losses) on fixed maturity securities	<b>\$6,561</b>	\$ 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.

(In millions)	<b>March 31, 2019</b>		<b>Less than 12 months</b>		<b>12 months or longer</b>	
	<b>Total Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
<b>Fixed maturity securities:</b>						
U.S. government and agencies:						
U.S. dollar-denominated	<b>\$65</b>	<b>\$ 1</b>	<b>\$ 65</b>	<b>\$ 1</b>	<b>\$ 0</b>	<b>\$ 0</b>
Japan government and agencies:						
Yen-denominated	<b>139</b>	<b>2</b>	<b>139</b>	<b>2</b>	<b>0</b>	<b>0</b>
Municipalities:						
Yen-denominated	<b>70</b>	<b>3</b>	<b>70</b>	<b>3</b>	<b>0</b>	<b>0</b>
Mortgage- and asset-backed securities:						
U.S. dollar-denominated	<b>53</b>	<b>0</b>	<b>53</b>	<b>0</b>	<b>0</b>	<b>0</b>
Public utilities:						
U.S. dollar-denominated	<b>808</b>	<b>32</b>	<b>306</b>	<b>14</b>	<b>502</b>	<b>18</b>
Banks/financial institutions:						
U.S. dollar-denominated	<b>345</b>	<b>13</b>	<b>209</b>	<b>10</b>	<b>136</b>	<b>3</b>
Yen-denominated	<b>2,229</b>	<b>149</b>	<b>2,229</b>	<b>149</b>	<b>0</b>	<b>0</b>
Other corporate:						
U.S. dollar-denominated	<b>9,182</b>	<b>598</b>	<b>3,149</b>	<b>213</b>	<b>6,033</b>	<b>385</b>
Yen-denominated	<b>525</b>	<b>25</b>	<b>525</b>	<b>25</b>	<b>0</b>	<b>0</b>
Total	<b>\$13,416</b>	<b>\$ 823</b>	<b>\$ 6,745</b>	<b>\$ 417</b>	<b>\$ 6,671</b>	<b>\$ 406</b>

(In millions)	December 31, 2018		Less than 12 months		12 months or longer	
	Total 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.

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 transitional real estate loans (TREs), commercial mortgage loans (CMLs) and middle market loans (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.

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The following table reflects the composition of commercial mortgage and other loans by portfolio segment as of the periods presented.

(In millions)	<b>March 31, 2019</b>	December 31, 2018
<b>Commercial mortgage and other loans:</b>		
Transitional real estate loans	<b>\$4,398</b>	\$4,394
Commercial mortgage loans	<b>1,085</b>	1,065
Middle market loans	<b>1,726</b>	1,487
Total gross commercial mortgage and other loans	<b>7,209</b>	6,946
Valuation allowance	<b>(29 )</b>	(27 )
Total net commercial mortgage and other loans	<b>\$7,180</b>	\$6,919

Commercial mortgage and transitional real estate loans were secured by properties entirely within the United States. Middle market loans are issued only to companies domiciled within the United States.

#### *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 has guidelines that limit the average loan-to-value at origination to be 70% or lower with individual loan-to-value limits at origination of 80% or less. As of March 31, 2019, the Company had \$733 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 has guidelines that limit the average loan-to-value at origination to be 65% or lower with individual loan-to-value limits at origination of 70% or less. As of March 31, 2019, the Company had \$28 million in 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 an unfunded amount of \$127 million and \$56 million, as of March 31, 2019, and December 31, 2018, respectively, that is reflected in other liabilities on the consolidated balance sheets.

As of March 31, 2019, the Company had commitments of approximately \$677 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. There was no specific loan loss reserve as of March 31, 2019, and December 31, 2018. As of March 31, 2019, and December 31, 2018, the Company's general allowance for loan losses was \$29 million and \$27 million, respectively.



The following table presents the rollforward of the allowance for loan losses by portfolio segment during the three-month period ended March 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	0	(1 )	(1 )	(2 )
Allowance for loan losses at March 31, 2019	\$ (1 )	\$ (18 )	\$ (10 )	\$(29 )

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 our 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. The performance of the loans are monitored and reviewed periodically, but not less than quarterly.

As of March 31, 2019, and December 31, 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 March 31, 2019, and December 31, 2018. The Company had no troubled debt restructurings during the three months ended March 31, 2019 and 2018.

## Other Investments

The table below reflects the composition of the carrying value for other investments as of the periods presented.

(In millions)	<b>March 31, 2019</b>	<b>December 31, 2018</b>
<b>Other investments:</b>		
Policy loans	<b>\$ 236</b>	\$ 232
Short-term investments <sup>(1)</sup>	<b>543</b>	152
Limited partnerships	<b>434</b>	377
Other	<b>25</b>	26
Total other investments	<b>\$ 1,238</b>	\$ 787

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

As of March 31, 2019, the Company had \$915 million 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 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.

**Investments in Consolidated Variable Interest Entities**

(In millions)	March 31, 2019		December 31, 2018	
	Cost or Amortized Cost	Fair Value	Cost or Amortized Cost	Fair Value
<b>Assets:</b>				
Fixed maturity securities, available for sale	\$3,756	\$4,543	\$3,849	\$4,466
Equity securities	180	180	160	160
Commercial mortgage and other loans	5,892	5,894	5,528	5,506
Other investments <sup>(1)</sup>	374	374	328	328
Other assets <sup>(2)</sup>	178	178	182	182
Total assets of consolidated VIEs	\$10,380	\$11,169	\$10,047	\$10,642
<b>Liabilities:</b>				
Other liabilities <sup>(2)</sup>	\$108	\$108	\$102	\$102
Total liabilities of consolidated VIEs	\$108	\$108	\$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.

**Investments in Variable Interest Entities Not Consolidated**

(In millions)	March 31, 2019		December 31, 2018	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
<b>Assets:</b>				
Fixed maturity securities, available for sale	\$4,455	\$5,025	\$4,575	\$4,982
Fixed maturity securities, held to maturity	2,006	2,331	2,007	2,254
Other investments <sup>(1)</sup>	59	59	49	49
Total investments in VIEs not consolidated	\$6,520	\$7,415	\$6,631	\$7,285

<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.

Details of collateral by loaned security type and remaining maturity of the agreements were as follows:

**Securities Lending Transactions Accounted for as Secured**

**Borrowings**

**March 31, 2019**

**Remaining Contractual Maturity of the Agreements**

(In millions)	Overnight and Continuous <sup>(1)</sup>	Up to 30 days	Greater than 90 days	Total
<b>Securities lending transactions:</b>				
Fixed maturity securities:				
Japan government and agencies	\$ 0	\$1,101	\$1,901	\$3,002
Public utilities	15	0	0	15
Banks/financial institutions	74	0	0	74
Other corporate	764	0	0	764
Equity securities	15	0	0	15
Total borrowings	\$ 868	\$1,101	\$1,901	\$3,870

Gross amount of recognized liabilities for securities lending transactions **\$1,969**

Amounts related to agreements not included in offsetting disclosure in Note 4 **\$1,901**

<sup>(1)</sup> The related loaned security, under the Company's U.S. securities lending program, can be returned to the Company at the transferee's discretion; therefore, they are classified as Overnight and Continuous.

**Securities Lending Transactions Accounted for as Secured Borrowings**

**December 31, 2018**

**Remaining Contractual Maturity of the Agreements**

(In millions)	Overnight and Continuous <sup>(1)</sup>	Up to 30 days	Greater than 90 days	Total
<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
Total borrowings	\$ 665	\$387	\$1,190	\$2,242

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 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 March 31, 2019, and December 31, 2018, respectively.

Certain fixed maturity securities can be pledged as collateral as part of derivative transactions, or pledged to support state deposit requirements or certain investment programs. For additional information regarding

pledged securities related to derivative transactions, see Note 4.

#### 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.

Prior to April 1, 2018, foreign currency forwards and options (through a collar strategy, as discussed above) were used to hedge the currency risk associated with the net investment in Aflac Japan. In these forward transactions, Aflac agreed 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 used 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 created 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.

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. 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)	March 31, 2019			December 31, 2018		
		Asset Derivatives	Liability Derivatives		Asset Derivatives	Liability Derivatives
Hedge Designation/ Derivative Type	Notional Amount	Fair Value	Fair Value	Notional Amount	Fair Value	Fair Value
<b>Cash flow hedges:</b>						
Foreign currency swaps - VIE	\$75	\$ 0	\$ 6	\$75	\$ 1	\$ 4
<b>Total cash flow hedges</b>	<b>75</b>	<b>0</b>	<b>6</b>	<b>75</b>	<b>1</b>	<b>4</b>
<b>Fair value hedges:</b>						
Foreign currency forwards	691	0	24	2,086	0	34
Foreign currency options	10,887	0	2	9,070	3	1
Interest rate swaptions	1,500	0	1	500	0	1
<b>Total fair value hedges</b>	<b>13,079</b>	<b>0</b>	<b>27</b>	<b>11,656</b>	<b>3</b>	<b>36</b>
<b>Non-qualifying strategies:</b>						
Foreign currency swaps	2,800	96	98	2,800	103	129
Foreign currency swaps - VIE	2,587	178	102	2,587	181	101
Foreign currency forwards	15,208	119	132	16,057	126	117
Foreign currency options	552	0	0	430	0	0
Interest rate swaps	4,750	8	0	4,750	3	0
<b>Total non-qualifying strategies</b>	<b>25,897</b>	<b>401</b>	<b>332</b>	<b>26,624</b>	<b>413</b>	<b>347</b>
<b>Total derivatives</b>	<b>\$39,051</b>	<b>\$ 401</b>	<b>\$ 365</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 eight 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

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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.

### Fair Value Hedging Relationships

(In millions)

(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>Three Months Ended March 31, 2019:</b>							
Foreign currency forwards	Fixed maturity securities	\$9	\$ (10 )	\$ 19	\$ (18 )	\$ 1	
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)		\$4	\$ (15 )	\$ 19	\$ (18 )	\$ 1	
<b>Three Months Ended March 31, 2018:</b>							
Foreign currency forwards	Fixed maturity securities	\$414	\$ (39 )	\$ 453	\$ (464 )	\$ (11 )	
Foreign currency options	Fixed maturity securities	(1 )	(1 )	0	0	0	
Total gains (losses)		\$413	\$ (40 )	\$ 453	\$ (464 )	\$ (11 )	

<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 are reported within net investment income. For the three-month period ended March 31, 2019, those gains and losses 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.

(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)	
	March 31, 2019	December 31, 2018	March 31, 2019	December 31, 2018
Fixed maturity securities	\$ 5,285	\$ 6,593	\$ 276	\$ 294

<sup>(1)</sup> The balance includes hedging adjustment on discontinued hedging relationships of \$276 in 2019 and \$294 in 2018.

The total notional amount of the Company's interest rate swaptions was \$1,500 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 8) have been designated as non-derivative hedges and, prior to April 1, 2018, foreign currency forwards and options have been 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 three-month periods ended March 31, 2019 and 2018, respectively.

### 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 March 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 of the Notes to the Consolidated Financial Statements in the 2018 Annual Report.

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.

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.

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.

(In millions)	Three Months Ended March 31,					
	2019	2019	2019	2018	2018	2018
	Net Investment Income Loss <sup>(1)</sup>	Realized Investment Gains (Losses)	Other Comprehensive Income (Loss) <sup>(2)</sup>	Net Investment Income Loss <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	\$ (1 )	\$ 0	\$ (2 )	\$ 0	\$ 1	\$ 6
<b>Total cash flow hedges</b>	(1 )	0 <sup>(3 )</sup>	(2 )	0	1 <sup>(3 )</sup>	6
<b>Fair value hedges:</b>						
Foreign currency forwards <sup>(4)</sup>		(9 )			(50 )	
Foreign currency options <sup>(4)</sup>		(4 )			(1 )	
Interest rate swaptions <sup>(4)</sup>	0	0	(1 )	0	0	0
<b>Total fair value hedges</b>	0	(13)	(1 )	0	(51 )	0
<b>Net investment hedge:</b>						
Non-derivative hedging instruments		0	0		0	(84 )
Foreign currency options		0	0		0	(8 )
<b>Total net investment hedge</b>		0	0		0	(92 )
<b>Non-qualifying strategies:</b>						
Foreign currency swaps		44			(110 )	
Foreign currency swaps - VIE		(16)			124	
Foreign currency forwards		(21)			179	
Foreign currency options		0			1	
Interest rate swaps		6			0	
<b>Total non-qualifying strategies</b>		13			194	
<b>Total</b>	<b>\$ (1 )</b>	<b>\$ 0</b>	<b>\$ (3 )</b>	<b>\$ 0</b>	<b>\$ 144</b>	<b>\$ (86 )</b>

<sup>(1)</sup> Net investment income (loss) includes net interest on swaps.

<sup>(2)</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>(3)</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 three-month periods ended March 31, 2019 and 2018, respectively.

<sup>(4)</sup> Impact shown net of effect of hedged items (see Fair Value Hedges section of this Note 4 for further detail)

The impact on earnings from derivatives in cash flow hedge relationships includes a loss of an immaterial amount during the three-month periods ended March 31, 2019 and 2018, respectively, resulting from reclassifications from accumulated other comprehensive income (loss) to net investment income. As of March 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 March 31, 2019, there were 16 counterparties to the Company's derivative agreements, with four comprising 65% of the aggregate notional amount. As of March 31, 2019, all 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 \$133 million and \$139 million as of March 31, 2019, and December 31, 2018, respectively. If the credit-risk-related contingent features underlying these agreements had been triggered on March 31, 2019, the Company estimates that it would be required to post a maximum of \$23 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.

The tables below summarize the Company's derivatives and securities lending transactions, 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 Asset**

March 31, 2019

(In millions)	Gross Amounts Not Offset in Balance Sheet						
	Gross Amount of Recognized Assets	Gross Amount Offset in Balance Sheet	Net Amount of Assets Presented in Balance Sheet	Financial Instruments	Securities Collateral	Cash Collateral Received	Net Amount
<b>Derivative assets:</b>							
Derivative assets subject to a master netting agreement or offsetting arrangement							
OTC - bilateral	\$215	\$ 0	\$ 215	\$(118)	\$ (10 )	\$(80 )	\$ 7
OTC - cleared	8	0	8	0	0	(1 )	7
Total derivative assets subject to a master netting agreement or offsetting arrangement	223	0	223	(118 )	(10 )	(81 )	14
Derivative assets not subject to a master netting agreement or offsetting arrangement							
OTC - bilateral	178		178				178
Total derivative assets not subject to a master netting agreement or offsetting arrangement	178		178				178
<b>Total derivative assets</b>	<b>401</b>	<b>0</b>	<b>401</b>	<b>(118 )</b>	<b>(10 )</b>	<b>(81 )</b>	<b>192</b>
<b>Securities lending and similar arrangements</b>	<b>1,959</b>	<b>0</b>	<b>1,959</b>	<b>0</b>	<b>0</b>	<b>(1,959 )</b>	<b>0</b>
<b>Total</b>	<b>\$2,360</b>	<b>\$ 0</b>	<b>\$ 2,360</b>	<b>\$(118)</b>	<b>\$ (10 )</b>	<b>\$(2,040)</b>	<b>\$ 192</b>

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December 31, 2018

(In millions)	Gross Amounts Not Offset in Balance Sheet						
	Gross Amount of Recognized Assets	Gross Amount Offset in Balance Sheet	Net Amount of Assets Presented in Balance Sheet	Financial Instruments	Securities Collateral	Cash Collateral Received	Net Amount
<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>	417	0	417	(152 )	(23 )	(58 )	184
<b>Securities lending and similar arrangements</b>	1,029	0	1,029	0	0	(1,029 )	0
<b>Total</b>	\$1,446	\$ 0	\$ 1,446	\$(152 )	\$ (23 )	\$(1,087 )	\$ 184



**Offsetting of Financial Liabilities and Derivative Liabilities**

March 31, 2019

(In millions)	Gross Amounts Not Offset in Balance Sheet						
	Gross Amount of Recognized Liabilities	Gross Amount Offset in Balance Sheet	Net Amount of Liabilities Presented in Balance Sheet	Financial Instruments	Securities Collateral	Cash Collateral Pledged	Net Amount
<b>Derivative liabilities:</b>							
Derivative liabilities subject to a master netting agreement or offsetting arrangement							
OTC - bilateral	\$257	\$ 0	\$ 257	\$(118 )	\$ (65 )	\$ (45 )	\$ 29
Total derivative liabilities subject to a master netting agreement or offsetting arrangement	257	0	257	(118 )	(65 )	(45 )	29
Derivative liabilities not subject to a master netting agreement or offsetting arrangement							
OTC - bilateral	108		108				108
Total derivative liabilities not subject to a master netting agreement or offsetting arrangement	108		108				108
<b>Total derivative liabilities</b>	<b>365</b>	<b>0</b>	<b>365</b>	<b>(118 )</b>	<b>(65 )</b>	<b>(45 )</b>	<b>137</b>
<b>Securities lending and similar arrangements</b>	<b>1,969</b>	<b>0</b>	<b>1,969</b>	<b>(1,959 )</b>	<b>0</b>	<b>0</b>	<b>10</b>
<b>Total</b>	<b>\$2,334</b>	<b>\$ 0</b>	<b>\$ 2,334</b>	<b>\$(2,077 )</b>	<b>\$ (65 )</b>	<b>\$ (45 )</b>	<b>\$ 147</b>

December 31, 2018

(In millions)	Gross Amounts Not Offset in Balance Sheet						
	Gross Amount of Recognized Liabilities	Gross Amount Offset in Balance Sheet	Net Amount of Liabilities Presented in Balance Sheet	Financial Instruments	Securities Collateral	Cash Collateral Pledged	Net Amount
<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 and Notes 1, 3 and 5 of the Notes to the Consolidated Financial Statements in the 2018 Annual Report.

## 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.

March 31, 2019				
(In millions)	Quoted Prices in Active Markets for Identical Assets (Level 1)			Total Fair Value
	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
<b>Assets:</b>				
Securities available for sale, carried at fair value:				
Fixed maturity securities:				
Government and agencies	\$34,727	\$ 1,522	\$ 0	\$36,249
Municipalities	0	1,908	0	1,908
Mortgage- and asset-backed securities	0	236	178	414
Public utilities	0	6,412	85	6,497
Sovereign and supranational	0	1,154	0	1,154
Banks/financial institutions	0	9,368	23	9,391
Other corporate	0	32,027	284	32,311
Total fixed maturity securities	34,727	52,627	570	87,924
Equity securities	925	70	46	1,041
Other investments	543	0	0	543
Cash and cash equivalents	3,892	0	0	3,892
Other assets:				
Foreign currency swaps	0	96	178	274
Foreign currency forwards	0	119	0	119
Interest rate swaps	0	8	0	8
Total other assets	0	223	178	401
Total assets	\$40,087	\$ 52,920	\$ 794	\$93,801
<b>Liabilities:</b>				
Other liabilities:				
Foreign currency swaps	\$0	\$ 98	\$ 108	\$206
Foreign currency forwards	0	156	0	156
Foreign currency options	0	2	0	2
Interest rate swaptions	0	1	0	1
Total liabilities	\$0	\$ 257	\$ 108	\$365



(In millions)	December 31, 2018			
	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

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.

**March 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:					
<b>Fixed maturity securities:</b>					
Government and agencies	\$21,961	\$27,629	\$ 350	\$ 0	\$27,979
Municipalities	814	0	1,061	0	1,061
Mortgage and asset-backed securities	20	0	8	13	21
Public utilities	2,728	0	3,068	0	3,068
Sovereign and supranational	1,154	0	1,332	0	1,332
Banks/financial institutions	949	0	1,039	0	1,039
Other corporate	2,537	0	2,946	0	2,946
Commercial mortgage and other loans	7,180	0	0	7,185	7,185
Other investments <sup>(1)</sup>	25	0	25	0	25
Total assets	\$37,368	\$27,629	\$ 9,829	\$ 7,198	\$44,656
<b>Liabilities:</b>					
Other policyholders' funds	\$7,185	\$0	\$ 0	\$ 7,110	\$7,110
Notes payable (excluding leases)	5,766	0	5,809	270	6,079
Total liabilities	\$12,951	\$0	\$ 5,809	\$ 7,380	\$13,189

<sup>(1)</sup> Excludes policy loans of \$236 and equity method investments of \$434, at carrying value

(In millions)	December 31, 2018				
	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:					
<b>Fixed maturity securities:</b>					
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
Total assets	\$37,263	\$27,030	\$ 9,703	\$ 6,908	\$43,641
<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
Total liabilities	\$12,911	\$0	\$ 5,606	\$ 7,337	\$12,943

<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; or 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 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.

(In millions)	March 31, 2019			
	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	\$34,727	\$ 1,522	\$ 0	\$36,249
Total government and agencies	34,727	1,522	0	36,249
Municipalities:				
Third party pricing vendor	0	1,908	0	1,908
Total municipalities	0	1,908	0	1,908
Mortgage- and asset-backed securities:				
Third party pricing vendor	0	236	0	236
Broker/other	0	0	178	178
Total mortgage- and asset-backed securities	0	236	178	414
Public utilities:				
Third party pricing vendor	0	6,412	0	6,412
Broker/other	0	0	85	85
Total public utilities	0	6,412	85	6,497
Sovereign and supranational:				
Third party pricing vendor	0	1,154	0	1,154
Total sovereign and supranational	0	1,154	0	1,154
Banks/financial institutions:				
Third party pricing vendor	0	9,323	0	9,323
Broker/other	0	45	23	68
Total banks/financial institutions	0	9,368	23	9,391
Other corporate:				
Third party pricing vendor	0	31,964	0	31,964
Broker/other	0	63	284	347
Total other corporate	0	32,027	284	32,311
Total securities available for sale	\$34,727	\$ 52,627	\$ 570	\$87,924
<b>Equity securities, carried at fair value:</b>				
Third party pricing vendor	\$925	\$ 70	\$ 0	\$995
Broker/other	0	0	46	46
Total equity securities	\$925	\$ 70	\$ 46	\$1,041

(In millions)	March 31, 2019			
	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	\$27,629	\$ 350	\$ 0	\$27,979
Total government and agencies	27,629	350	0	27,979
Municipalities:				
Third party pricing vendor	0	1,061	0	1,061
Total municipalities	0	1,061	0	1,061
Mortgage- and asset-backed securities:				
Third party pricing vendor	0	8	0	8
Broker/other	0	0	13	13
Total mortgage- and asset-backed securities	0	8	13	21
Public utilities:				
Third party pricing vendor	0	3,068	0	3,068
Total public utilities	0	3,068	0	3,068
Sovereign and supranational:				
Third party pricing vendor	0	1,332	0	1,332
Total sovereign and supranational	0	1,332	0	1,332
Banks/financial institutions:				
Third party pricing vendor	0	1,039	0	1,039
Total banks/financial institutions	0	1,039	0	1,039
Other corporate:				
Third party pricing vendor	0	2,946	0	2,946
Total other corporate	0	2,946	0	2,946
Total securities held to maturity	\$27,629	\$ 9,804	\$ 13	\$37,446

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(In millions)	December 31, 2018			
	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	\$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



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(In millions)	December 31, 2018			
	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 associated with certain investments; the foreign currency forwards and options used to hedge foreign exchange risk from the Company's net investment in Aflac Japan and economically hedge certain portions of forecasted cash flows denominated in yen; and the foreign currency swaps associated with certain senior notes are based on the amounts the

Company would expect to receive or pay. The determination of the fair value of these derivatives is 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 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**

During the three-month periods ended March 31, 2019 and 2018, respectively, 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.

The following tables present the changes in fair value of the Company's investments and derivatives carried at fair value classified as Level 3.

**Three Months Ended  
March 31, 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	0	0	(8 )	0	(8 )
Unrealized gains (losses) included in other comprehensive income (loss)	1	1	0	1	0	(2 )	0	1
Purchases, issuances, sales and settlements:								
Purchases	0	0	0	63	0	0	0	63
Issuances	0	0	0	0	0	0	0	0
Sales	0	0	0	(2 )	0	0	0	(2 )
Settlements	0	0	0	0	0	0	0	0
Transfers into Level 3	0	0	0	25	<sup>(2)</sup> 0	0	0	25
Transfers out of Level 3	0	(25 )	<sup>(2)</sup> 0	(16 )	<sup>(3)</sup> 0	0	0	(41 )
Balance, end of period	\$178	\$85	\$ 23	\$ 284	\$ 46	\$ 70	\$ 0	\$686
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	\$ (8 )	\$ 0	\$ (8 )

<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

**Three Months Ended  
March 31, 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	0	126	0	126
Unrealized gains (losses) included in other comprehensive income (loss)	11	(1 )	(1 )	(2 )	0	6	0	13
Purchases, issuances, sales and settlements:								
Purchases	0	16	0	0	0	0	0	16
Issuances	0	0	0	0	0	0	0	0
Sales	0	0	0	0	0	0	0	0
Settlements	0	0	0	(1 )	0	0	0	(1 )
Transfers into Level 3	0	0	0	0	0	0	0	0

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Transfers out of Level 3	0	0	0	0	0	0	0	0
Balance, end of period	\$ 186	\$ 83	\$ 24	\$ 143	\$ 16	\$ 154	\$ 1	\$ 607
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	\$ 126	\$ 0	\$ 126

(1) 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. Included in the tables are the inputs or range of possible inputs that have an effect on the overall valuation of the financial instruments.

March 31, 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	(a)
Public utilities	85	Discounted cash flow	Credit spreads	N/A	(a)
Banks/financial institutions	23	Consensus pricing	Offered quotes	N/A	(a)
Other corporate	284	Discounted cash flow	Credit spreads	N/A	(a)
<b>Equity securities</b>	<b>46</b>	<b>Net asset value</b>	<b>Offered quotes</b>	<b>N/A</b>	<b>(a)</b>
<b>Other assets:</b>					
Foreign currency swaps	117	Discounted cash flow	Interest rates (USD)	2.48% - 2.66%	(b)
			Interest rates (JPY)	.13% - .57%	(c)
			CDS spreads	13 - 109 bps	
	61	Discounted cash flow	Interest rates (USD)	2.48% - 2.66%	(b)
			Interest rates (JPY)	.13% - .57%	(c)
Total assets	\$794				
<b>Liabilities:</b>					
<b>Other liabilities:</b>					
Foreign currency swaps	\$102	Discounted cash flow	Interest rates (USD)	2.48% - 2.66%	(b)
			Interest rates (JPY)	.13% - .57%	(c)
			CDS spreads	30 - 187 bps	
	6	Discounted cash flow	Interest rates (USD)	2.48% - 2.66%	(b)
			Interest rates (JPY)	.13% - .57%	(c)
Total liabilities	\$108				

(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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December 31, 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>	46	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)
Total assets	\$750				
<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)
Total liabilities	\$102				

(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



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 interest and 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 and Notes 1, 3 and 4 of the Notes to the Consolidated Financial Statements in the 2018 Annual Report.

## **6. POLICY LIABILITIES**

Changes in the liability for unpaid policy claims were as follows:

	Three Months Ended March 31,	
(In millions)	2019	2018
Unpaid supplemental health claims, beginning of period	<b>\$3,952</b>	\$3,884
Less reinsurance recoverables	<b>29</b>	30
Net balance, beginning of period	<b>3,923</b>	3,854
Add claims incurred during the period related to:		
Current year	<b>1,825</b>	1,842
Prior years	<b>(167 )</b>	(192 )
Total incurred	<b>1,658</b>	1,650
Less claims paid during the period on claims incurred during:		
Current year	<b>506</b>	518
Prior years	<b>1,137</b>	1,116
Total paid	<b>1,643</b>	1,634
Effect of foreign exchange rate changes on unpaid claims	<b>0</b>	142
Net balance, end of period	<b>3,938</b>	4,012
Add reinsurance recoverables	<b>29</b>	31
Unpaid supplemental health claims, end of period	<b>3,967</b>	4,043
Unpaid life claims, end of period	<b>658</b>	587
Total liability for unpaid policy claims	<b>\$4,625</b>	\$4,630

The incurred claims development related to prior years reflects favorable claims experience compared to previous estimates. The favorable claims development of \$167 million for the three-month period ended March 31, 2019 comprises approximately \$91 million from Japan, which represents approximately 54% of the total. The impact of foreign currency exchange for the period December 31, 2018 to March 31, 2019 was immaterial.

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.

The remainder of the favorable claims development related to prior years for the three-month period ended March 31, 2019, reflects Aflac U.S. favorable claims experience compared to previous estimates, primarily in the cancer and accident lines of business.

## 7. 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 March 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 \$944 million and \$941 million as of March 31, 2019, and December 31, 2018, respectively. The increase in the reinsurance recoverable balance was driven by the growth in reserves related to the business that has been reinsured as the policies age. The ceded reserves increased approximately .3% from December 31, 2018, to March 31, 2019.

The following table reconciles direct premium income and direct benefits and claims to net amounts after the effect of reinsurance.

(In millions)	Three Months Ended March 31,	
	2019	2018
Direct premium income	<b>\$4,776</b>	\$4,833
Ceded to other companies:		
Ceded Aflac Japan closed blocks	(121 )	(129 )
Other	(15 )	(15 )
Assumed from other companies:		
Retrocession activities	50	54
Other	1	2
Net premium income	<b>\$4,691</b>	\$4,745
Direct benefits and claims	<b>\$3,041</b>	\$3,119
Ceded benefits and change in reserves for future benefits:		
Ceded Aflac Japan closed blocks	(111 )	(117 )
Eliminations	10	12
Other	(11 )	(12 )
Assumed from other companies:		
Retrocession activities	48	52
Eliminations	(10 )	(12 )
Benefits and claims, net	<b>\$2,967</b>	\$3,042

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 yen of reserves. This reinsurance facility agreement was renewed in 2018 and is effective until December 31, 2019. 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 March 31, 2019, the Company has not executed a reinsurance treaty under this committed reinsurance facility.

## 8. NOTES PAYABLE AND LEASE OBLIGATIONS

A summary of notes payable and lease obligations follows:

(In millions)	March 31, 2019	December 31, 2018
4.00% senior notes due February 2022	\$ 348	\$ 348
3.625% senior notes due June 2023	698	698
3.625% senior notes due November 2024	746	746
3.25% senior notes due March 2025	448	447
2.875% senior notes due October 2026	297	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	540	540
Yen-denominated senior notes and subordinated debentures:		
.932% senior notes due January 2027 (principal amount 60.0 billion yen)	538	538
1.159% senior notes due October 2030 (principal amount 29.3 billion yen)	262	262
1.488% senior notes due October 2033 (principal amount 15.2 billion yen)	136	136
1.750% senior notes due October 2038 (principal amount 8.9 billion yen)	79	79
2.108% subordinated debentures due October 2047 (principal amount 60.0 billion yen)	536	536
Yen-denominated loans:		
Variable interest rate loan due September 2021 (.32% in 2019 and 2018, principal amount 5.0 billion yen)	45	45
Variable interest rate loan due September 2023 (.47% in 2019 and 2018, principal amount 25.0 billion yen)	225	225
Finance lease obligations payable through 2025	12	13
Operating lease obligations payable through 2028 <sup>(1)</sup>	122	0
Total notes payable and lease obligations	\$ 5,900	\$ 5,778

<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.

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.

The following table presents the contractual maturities and present value of lease liabilities.

	March 31, 2019		
(In millions)	Operating Leases	Finance Leases	Total
2019	\$ 33	\$ 3	\$ 36
2020	30	3	33
2021	20	2	22
2022	17	2	19
2023	9	1	10
After 2023	24	1	25
Total lease payments	\$ 133	\$ 12	\$ 145
Less: Interest	\$ 11	\$ 0	\$ 11
Present value of lease liabilities	\$ 122	\$ 12	\$ 134



The following table presents the weighted average remaining lease term and weighted average discount rate for lease liabilities.

	<b>March 31, 2019</b>
Weighted average remaining lease term (years):	
Operating leases	4.4
Finance leases	3.8
Weighted average discount rate:	
Operating leases	2.55%
Finance leases	1.56%

Operating lease cost for the three-month period ended March 31, 2019 was \$14 million. Operating cash outflow for operating leases for the three-month period ended March 31, 2019 was \$14 million.

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A summary of the Company's lines of credit as of March 31, 2019 follows:

Borrower	Type	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 27, 2019	\$100 million	\$0 million	The rate quoted by the bank and agreed upon at the time of borrowing. 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. A rate per annum equal to, at the Company's option, either, (a) London Interbank Offered Rate (LIBOR) adjusted for certain costs 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 for such day announced by Mizuho Bank, Ltd. as its prime rate, or (3) the eurocurrency rate for an interest period of one month plus 1.00%, in each case plus an applicable margin. 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. USD three-month LIBOR plus 75 basis points per annum. Three-month TIBOR plus 80 basis points per annum.	Up to 3 months	None	General corporate purposes
Aflac Incorporated	unsecured revolving	5 years	or the date commitments are terminated pursuant to an event of default	100.0 billion yen	0.0 billion yen		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	April 4, 2023, or the date commitments are terminated pursuant to an event of default	55.0 billion yen, or the equivalent amount in U.S. dollars	0.0 billion yen		No later than April 4, 2023	.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		Up to 3 months	None	General corporate purposes
Aflac <sup>(1)</sup>	uncommitted revolving	364 days	November 29, 2019	\$250 million	\$0 million		3 months	None	General corporate purposes
Aflac Incorporated <sup>(1)</sup>	uncommitted revolving	364 days	April 2, 2019 <sup>(2)</sup>	50.0 billion yen	0.0 billion yen		3 months	None	General corporate purposes

<sup>(1)</sup> Intercompany credit agreement



*(2) Renewed in April 2019 with an expiration date of April 2, 2020*

The Company was in compliance with all of the covenants of its notes payable and lines of credit at March 31, 2019. No events of default or defaults occurred during the three-month period ended March 31, 2019.

For additional information, see Notes 4 and 9 of the Notes to the Consolidated Financial Statements in the 2018 Annual Report.

**9.SHAREHOLDERS' EQUITY**

The following table is a reconciliation of the number of shares of the Company's common stock for the three-month periods ended March 31.

(In thousands of shares)	2019	2018
<b>Common stock - issued:</b>		
Balance, beginning of period	<b>1,347,540</b>	1,345,762
Exercise of stock options and issuance of restricted shares	<b>1,060</b>	1,014
Balance, end of period	<b>1,348,600</b>	1,346,776
<b>Treasury stock:</b>		
Balance, beginning of period	<b>592,254</b>	564,852
Purchases of treasury stock:		
Open market	<b>10,237</b>	6,640
Other	<b>561</b>	315
Dispositions of treasury stock:		
Shares issued to AFL Stock Plan	<b>(430)</b>	(384)
Exercise of stock options	<b>(231)</b>	(305)
Other	<b>(278)</b>	(99)
Balance, end of period	<b>602,113</b>	571,019
Shares outstanding, end of period	<b>746,487</b>	775,757

Outstanding share-based awards are excluded from the calculation of weighted-average shares used in the computation of basic earnings per share (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 for the following periods.

	Three	
	Months	
	Ended	
	March	
	31,	
(In thousands)	<b>2019</b>	<b>2018</b>
Anti-dilutive share-based awards	<b>22</b>	<b>9</b>

**Share Repurchase Program**

During the first three months of 2019, the Company repurchased 10.2 million shares of its common stock in the open market for \$490 million as part of its share repurchase program. During the first three months of 2018, the Company repurchased 6.6 million shares of its common stock in the open market for \$296 million as part of its share repurchase program. As of March 31, 2019, a remaining balance of 58.8 million shares of the Company's common stock was available for purchase under share repurchase authorizations by its board of directors.

## Reclassifications from Accumulated Other Comprehensive Income

The tables below are reconciliations of accumulated other comprehensive income by component for the following periods.

### Changes in Accumulated Other Comprehensive Income

#### Three Months Ended March 31, 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	(1 )	2,340	(2 )	3	2,340
Amounts reclassified from accumulated other comprehensive income (loss)	0	(13 )	0	3	(10 )
Net current-period other comprehensive income (loss)	(1 )	2,327	(2 )	6	2,330
<b>Balance, end of period</b>	<b>\$ (1,848 )</b>	<b>\$ 6,561</b>	<b>\$ (26 )</b>	<b>\$ (206 )</b>	<b>\$ 4,481</b>

All amounts in the table above are net of tax.

#### Three Months Ended March 31, 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
Other comprehensive income (loss) before reclassification	447	(983 )	2	(37 )	(571 )
Amounts reclassified from accumulated other comprehensive income (loss)	0	225 <sup>(1)</sup>	0	3	228
Net current-period other comprehensive income (loss)	447	(758 )	2	(34 )	(343 )

income (loss)

**Balance, end of period**                      \$ (1,303 )    \$ 5,206                      \$ (21 )    \$ (197 )    \$ 3,685

*(1) Includes amounts reclassified due to changes in accounting principles of \$(148) related to financial instruments and \$374 related to*

*tax effects from tax reform*

*All amounts in the table above are net of tax.*

The tables below summarize the amounts reclassified from each component of accumulated other comprehensive income into net earnings for the following periods.

**Reclassifications Out of Accumulated Other Comprehensive Income**

(In millions)	Three Months Ended March 31, 2019 Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statements of Earnings
Details about Accumulated Other Comprehensive Income Components		
Unrealized gains (losses) on available-for-sale securities	\$ 0	Other-than-temporary impairment losses realized
	17	Other gains (losses)
	17	Total before tax
	(4 )	Tax (expense) or benefit <sup>(1)</sup>
	\$ 13	Net of tax
Amortization of defined benefit pension items:		
Actuarial gains (losses)	\$ (4 )	Acquisition and operating expenses <sup>(2)</sup>
Prior service (cost) credit	0	Acquisition and operating expenses <sup>(2)</sup>
	1	Tax (expense) or benefit <sup>(1)</sup>
	\$ (3 )	Net of tax
Total reclassifications for the period	\$ 10	Net of tax

<sup>(1)</sup> Based on 25% blended tax rate<sup>(2)</sup> These accumulated other comprehensive income components are included in the computation of net periodic pension cost (see Note 11 for additional details).

(In millions)	Three Months Ended March 31, 2018 Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Statements of Earnings
Details about Accumulated Other Comprehensive Income Components		
Unrealized gains (losses) on available-for-sale securities	\$ 0	Other-than-temporary impairment losses realized
	2	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)	\$ (4 )	Acquisition and operating expenses <sup>(2)</sup>
Prior service (cost) credit	0	Acquisition and operating expenses <sup>(2)</sup>
	1	Tax (expense) or benefit <sup>(1)</sup>
	\$ (3 )	Net of tax
Total reclassifications for the period	\$ (2 )	Net of tax

<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 11 for additional details).

## 10. SHARE-BASED COMPENSATION

As of March 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, restricted stock, and stock appreciation rights. As of March 31, 2019, approximately 39.4 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 March 31, 2019, the only performance-based awards issued and outstanding were restricted stock awards.

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 years 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.

The following table provides information on stock options outstanding and exercisable at March 31, 2019.

	Stock Option Shares (in thousands)	Weighted-Average Remaining Term (in years)	Aggregate Intrinsic Value (in millions)	Weighted-Average Exercise Price Per Share
Outstanding	4,558	5.0	\$ 94	\$ 29.36
Exercisable	4,097	4.6	88	28.54

The Company received cash from the exercise of stock options in the amount of \$17 million during the first three months of 2019, compared with \$23 million in the first three months of 2018. The tax benefit realized as a result of stock option exercises and restricted stock releases was \$22 million in the first three months of 2019, compared with \$12 million in the first three months of 2018.

As of March 31, 2019, total compensation cost not yet recognized in the Company's financial statements related to restricted stock awards was \$70 million, of which \$33 million (824 thousand 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 1.4 years. There are no other contractual terms covering restricted stock awards once vested.

The following table summarizes restricted stock activity during the three-month period ended March 31.

	Shares	Weighted-Average Grant-Date Fair Value Per Share
(In thousands of shares)		
Restricted stock at December 31, 2018	3,407	\$ 36.52

Granted in 2019	940	49.17
Canceled in 2019	(18 )	37.98
Vested in 2019	(1,732 )	32.16
Restricted stock at March 31, 2019	2,597	\$ 44.02

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 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 the 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.



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.

For additional information on the Company's long-term share-based compensation plans and the types of share-based awards, see Note 12 of the Notes to the Consolidated Financial Statements included in the 2018 Annual Report.

## 11. BENEFIT PLANS

The Company has funded defined benefit plans in Japan and the United States, 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 5 years; (4) active employees who were age 55 or older and who would meet the 15 years of service requirement within the next 5 years; and (5) current retirees. For certain employees and former employees, additional coverage is provided for all medical expenses for life.

Pension and other postretirement benefit expenses are included in acquisition and operating expenses in the consolidated statement of earnings, which includes other components of net periodic pension cost and postretirement costs (other than service costs) of \$5 million for both the periods ended March 31, 2019 and 2018. Total net periodic cost includes the following components:

	Three Months Ended			
	March 31,		Pension Benefits	
	Japan		U.S.	
(In millions)	2019	2018	2019	2018
<b>Components of net periodic benefit cost:</b>				
Service cost	\$5	\$5	\$6	\$7
Interest cost	1	2	9	9
Expected return on plan assets	(2 )	(2 )	(7 )	(7 )
Amortization of net actuarial loss	1	0	3	4
Net periodic (benefit) cost	\$5	\$5	\$11	\$13

During the three months ended March 31, 2019, Aflac Japan contributed approximately \$9 million (using the weighted-average yen/dollar exchange rate for the three-month period ending March 31, 2019) to the Japanese funded defined benefit plan, and Aflac U.S. contributed \$10 million to the U.S. funded defined benefit plan.

For additional information regarding the Company's Japanese and U.S. benefit plans, see Note 14 of the Notes to the Consolidated Financial Statements in the 2018 Annual Report.

## **12. COMMITMENTS AND CONTINGENT LIABILITIES**

Effective for 2019, the Company entered into an outsourcing agreement with an information technology and data services company to provide application maintenance and development services for its Japanese operation. As of March 31, 2019, the agreement has a remaining term of five years and an aggregate remaining cost of 9.7 billion yen (\$87 million using the March 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 United States 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.

Guaranty fund assessments for the three-month period ended March 31, 2019 were immaterial.

### **13. SUBSEQUENT EVENTS**

On April 12, 2019, the Company announced that ALIJ priced 30.0 billion yen (par value) of perpetual subordinated bonds. These bonds will 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. ALIJ anticipates using the net proceeds of the offering for general corporate purposes.



## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### 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 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 following 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.

- 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:

- difficult conditions in global capital markets and the economy
- exposure to significant interest rate risk
- concentration of business in Japan
- foreign currency fluctuations in the yen/dollar exchange rate
- limited availability of acceptable yen-denominated investments
- U.S. tax audit risk related to conversion of the Japan branch to a subsidiary
- deviations in actual experience from pricing and reserving assumptions
- ability to continue to develop and implement improvements in information technology systems
- competitive environment and ability to anticipate and respond to market trends
- ability to protect the Aflac brand and the Company's reputation
- ability to attract and retain qualified sales associates, brokers, employees, and distribution partners
- interruption in telecommunication, information technology and other operational systems, or a failure to maintain the security, confidentiality or privacy of sensitive data residing on such systems
- failure to comply with restrictions on patient privacy and information security
- extensive regulation and changes in law or regulation by governmental authorities
- tax rates applicable to the Company may change
- defaults and credit downgrades of investments
- decline in creditworthiness of other financial institutions
- significant valuation judgments in determination of amount of impairments taken on the Company's investments
- subsidiaries' ability to pay dividends to the Parent Company
- decreases in the Company's financial strength or debt ratings
- inherent limitations to risk management policies and procedures
- concentration of the Company's investments in any particular single-issuer or sector
- differing judgments applied to investment valuations

ability to effectively manage key executive succession  
catastrophic events including, but not necessarily limited to, epidemics, pandemics, tornadoes, hurricanes,  
earthquakes, tsunamis, war or other military action, terrorism or other acts of violence, and damage  
incidental to such events  
changes in accounting standards  
increased expenses and reduced profitability resulting from changes in assumptions for pension and other  
postretirement benefit plans  
level and outcome of litigation  
allegations or determinations of worker misclassification in the United States

## MD&A OVERVIEW

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to inform the reader about matters affecting the financial condition and results of operations of Aflac Incorporated and its subsidiaries for the three-month period ended March 31, 2019 and 2018, respectively. Results of operations for interim periods are not necessarily indicative of results for the entire year. As a result, the following discussion should be read in conjunction with the consolidated financial statements and notes that are included in the Company's annual report on Form 10-K for the year ended December 31, 2018 (2018 Annual Report). This MD&A is divided into the following sections:

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## THE COMPANY'S BUSINESS

Aflac Incorporated (the Parent Company) and its subsidiaries (collectively, the Company) primarily sell supplemental health and life insurance in the United States and Japan. The Company's insurance business is marketed and administered through American Family Life Assurance Company of Columbus (Aflac) in the United States 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. (For more information about the conversion of Aflac Japan to a legal subsidiary, see the Insurance Operations subsection of this MD&A). 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 United States and Japan service the two markets for the Company's insurance business.

## PERFORMANCE HIGHLIGHTS

Yen-denominated income statement accounts are translated to U.S. dollars using a weighted-average Japanese yen/U.S. dollar foreign exchange rate, while yen-denominated balance sheet accounts are translated to U.S. dollars using a spot Japanese yen/U.S. dollar foreign exchange rate<sup>(1)</sup>. The spot yen/dollar exchange rate at March 31, 2019 was 110.99, relatively unchanged from the the spot yen/dollar exchange rate of 111.00 at December 31, 2018. The weighted-average yen/dollar exchange rate for the three-month period ended March 31, 2019 was 110.24, or 2.0% weaker than the weighted-average yen/dollar exchange rate of 108.05 for the same period in 2018.

Total revenues were \$5.7 billion in the first quarter of 2019, compared with \$5.5 billion in the first quarter of 2018. Net earnings were \$928 million, or \$1.23 per diluted share in the first quarter of 2019, compared with \$717 million, or \$.91 per diluted share, in the first quarter of 2018.

Results in the first three months of 2019 included pretax net realized investment gains of \$71 million, compared with net realized investment losses of \$134 million in the first three months of 2018. Net investment gains in the first three months of 2019 included \$2 million of other-than-temporary impairment losses and changes in loan loss reserves and \$2 million in net losses from derivatives and foreign currency gains or losses. The Company reported net gains on equity securities of \$58 million in the first three

months of 2019.

In the first three months of 2019, the Company repurchased 10.2 million shares of its common stock in the open market for \$490 million under its share repurchase program.

*(1) Yen/U.S. dollar exchange rates are based on the published MUFG Bank, Ltd. telegraphic middle rate (TTM).*

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## **CRITICAL ACCOUNTING ESTIMATES**

The Company prepares its financial statements in accordance with U.S. generally accepted accounting principles (GAAP). These principles are established primarily by the Financial Accounting Standards Board (FASB). In this MD&A, references to U.S. GAAP issued by the FASB are derived from the FASB Accounting Standards Codification<sup>TM</sup>(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, deferred policy acquisition costs (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 of March 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.

There have been no changes in the items that the Company has identified as critical accounting estimates during the three months ended March 31, 2019. For additional information, see the Critical Accounting Estimates section of MD&A included in the 2018 Annual Report.

### **New Accounting Pronouncements**

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.

## **RESULTS OF OPERATIONS**

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. 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.

Aflac defines adjusted earnings (a non-U.S. GAAP financial measure) as the profits derived from operations. The most comparative 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 Aflac's underlying business performance.

The Company defines adjusted earnings per share (basic or diluted) to be 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.

Because a significant portion of the Company's business is conducted in Japan and foreign exchange rates are outside of management's control, the Company believes it is important to understand the impact of translating Japanese

yen into U.S. dollars. 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.

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.

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

	In Millions		Per Diluted Share	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2019	2018	2019	2018
<b>Net earnings</b>	<b>\$928</b>	<b>\$717</b>	<b>\$ 1.23</b>	<b>\$ .91</b>
Items impacting net earnings:				
Realized investment (gains) losses <sup>(2),(3),(4),(5)</sup>	(103 )	98	(.14 )	.13
Other and non-recurring (income) loss	0	29	.00	.04
Income tax (benefit) expense on items excluded from adjusted earnings	23	(24 )	.03	(.03 )
Adjusted earnings	849	821	1.12	1.05
Current period foreign currency impact <sup>(6)</sup>	8	N/A	.01	N/A
Adjusted earnings excluding current period foreign currency impact <sup>(7)</sup>	\$857	\$821	\$ 1.13	\$ 1.05

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

<sup>(2)</sup> Amortized hedge costs of \$62 and \$55 for the three-month periods ended March 31, 2019, and 2018, respectively, 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 \$20 and \$2 for the three-month periods ended March 31, 2019 and 2018, respectively, 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 \$(7) for the three-month periods ended March 31, 2019 and an immaterial amount in 2018, respectively, 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 \$17 and \$17 for the three-month periods ended March 31, 2019 and 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 net investment income.

<sup>(6)</sup> Prior period foreign currency impact reflected as "N/A" to isolate change for current period only.

<sup>(7)</sup> Amounts 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.

#### 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 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 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*

Adjusted earnings includes the impact of amortized hedge costs/income. Amortized hedge costs/income represent costs/income incurred or recognized in using foreign currency forward contracts to hedge certain foreign currency 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.

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 increased in recent periods due to changes in the previously mentioned factors. For additional information regarding foreign currency hedging, refer to Hedging Activities in the Analysis of Financial Condition 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 United States 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 United States. 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 and \$29 million for the three-month periods ended March 31, 2019 and 2018, respectively.

## 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.

## Income Taxes

The Company's combined U.S. and Japanese effective income tax rate on pretax earnings was 25.3% for the three-month period ended March 31, 2019, compared with 27.0% for the same period in 2018. This combined effective tax rate differs from the U.S. statutory rate primarily due to foreign earnings taxed at different rates. For further information, see Critical Accounting Estimates - Income Taxes section of the MD&A in the 2018 Annual Report.

## INSURANCE OPERATIONS

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, and business activities, including reinsurance retrocession activities, not included in Aflac Japan or Aflac U.S. are included in the Corporate and other segment. See the Item 1. Business section of the Company's 2018 Annual Report 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.

The Company evaluates its premium growth and sales efforts using the following performance measures:

Annualized premiums in force is defined as 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.

New annualized premium sales (sometimes referred to as new sales or sales) is an operating measure that is not reflected on the Company's financial statements. New annualized premium sales generally represents annual premiums on policies the Company sold and incremental increases from policy conversions, collected over a 12-month period, assuming the policies remain in force. 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.

Net premiums (sometimes referred to as net premium income or net earned premium) is a financial measure that appears on the Company's Consolidated Statement of Earnings and in 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.



**AFLAC JAPAN SEGMENT****Aflac Japan Pretax Adjusted Earnings**

Aflac defines pretax adjusted earnings, a non-U.S. GAAP financial measure, as adjusted earnings before the application of income taxes. See the Results of Operations section of this MD&A for the Company's definition of adjusted earnings and a reconciliation of adjusted earnings to the most directly comparable U.S. GAAP measure of net 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.

**Aflac Japan Summary of Operating Results**

	Three Months Ended March 31,	
	2019	2018
(In millions)		
Net premium income	<b>\$3,180</b>	\$3,263
Net investment income:		
Yen-denominated investment income	<b>317</b>	331
U.S. dollar-denominated investment income	<b>355</b>	312
Net investment income	<b>672</b>	643
Amortized hedge costs related to certain foreign currency exposure management strategies	<b>62</b>	55
Net investment income, less amortized hedge costs	<b>610</b>	588
Other income (loss)	<b>12</b>	12
Total adjusted revenues	<b>3,802</b>	3,863
Benefits and claims, net	<b>2,199</b>	2,294
Adjusted expenses:		
Amortization of deferred policy acquisition costs	<b>182</b>	168
Insurance commissions	<b>182</b>	190
Insurance and other expenses	<b>405</b>	393
Total adjusted expenses	<b>769</b>	751
Total benefits and adjusted expenses	<b>2,968</b>	3,045
Pretax adjusted earnings	<b>\$834</b>	\$818
Weighted-average yen/dollar exchange rate	<b>110.24</b>	108.05

	In Dollars		In Yen	
	Three Months Ended March 31,		Three Months Ended March 31,	
Percentage change over previous period:	2019	2018	2019	2018
Net premium income	(2.5)%	2.2%	(.8 )%	(2.6)%
Net investment income, less amortized hedge costs	3.7	5.6	5.4	.0
Total adjusted revenues	(1.6)	2.7	.1	(2.2)
Pretax adjusted earnings	2.0	6.4	3.9	.9

In yen terms, Aflac Japan's net premium income decreased for the three-month period ended March 31, 2019 as a result of growth in third sector premium more than offset by the anticipated decrease in first sector premium as savings products reached premium paid-up status. Net investment income, net of amortized hedge costs, increased largely due to higher income from U.S. dollar-denominated floating rate assets. Pretax adjusted earnings in yen increased, driven by higher net investment income and a favorable third sector benefit ratio.

Annualized premiums in force decreased 1.7% to 1.52 trillion yen as of March 31, 2019, compared with 1.54 trillion yen as of March 31, 2018. The decrease in annualized premiums in force in yen was driven primarily by limited-pay policies becoming paid-up during the year. Annualized premiums in force, translated into dollars at respective period-end exchange rates, were \$13.7 billion at March 31, 2019, compared with \$14.5 billion a year ago.

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 comparable period in the prior year. 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.

### **Aflac Japan Percentage Changes Over Previous Period**

(Yen Operating Results)

For the Periods Ended March 31,

	<b>Including Foreign Currency Changes</b>		<b>Excluding Foreign Currency Changes<sup>(1)</sup></b>	
	Three Months		Three Months	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
Net investment income, less amortized hedge costs	<b>5.4</b> %	.0 %	<b>4.2</b> %	2.7 %
Total adjusted revenues	<b>.1</b>	(2.2 )	<b>.0</b>	(1.8 )
Pretax adjusted earnings	<b>3.9</b>	.9	<b>3.1</b>	2.7

<sup>(1)</sup>Amounts excluding foreign currency impact on U.S. dollar-denominated investment income (a non-U.S. GAAP financial measure) were determined using the same yen/dollar exchange rate for the current period as the comparable period in the prior year.

The following table presents a summary of operating ratios in yen terms for Aflac Japan.

	Three Months Ended March 31,	
	<b>2019</b>	<b>2018</b>
<b>Ratios to total adjusted revenues:</b>		
Benefits and claims, net	<b>57.8</b> %	59.4 %
Adjusted expenses:		
Amortization of deferred policy acquisition costs	<b>4.8</b>	4.4
Insurance commissions	<b>4.8</b>	4.9
Insurance and other expenses	<b>10.6</b>	10.2
Total adjusted expenses	<b>20.2</b>	19.5
Pretax adjusted earnings	<b>21.9</b>	21.1
<b>Ratios to total premiums:</b>		
Benefits and claims, net	<b>69.1</b> %	70.3 %
Adjusted expenses:		
Amortization of deferred policy acquisition costs	<b>5.7</b>	5.2

In the three-month period ended March 31, 2019, the benefit ratio decreased, compared with the same respective period in the prior year, primarily due to the continued change in mix of first and third sector business as first sector products become paid-up, as well as continued favorable trends for the Company's core health products in Japan, and higher surrender rates for the cancer products. In the three-month period ended March 31, 2019, the adjusted expense ratio increased due to higher DAC amortization resulting from the increase of surrender for cancer products and higher expenses for advanced technology

implementation. In total, the pretax adjusted profit margin (calculated by dividing adjusted earnings by adjusted revenues) increased in the three-month period ended March 31, 2019, reflecting the decrease in the benefit ratio partially offset by a smaller increase in the expense ratio. For the full year of 2019, the Company anticipates the Aflac Japan pretax adjusted profit margin to remain stable.

### Aflac Japan Sales

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

	In Dollars		In Yen	
	Three Months		Three Months	
(In millions of dollars and billions of yen)	2019	2018	2019	2018
New annualized premium sales	\$171	\$178	18.8	19.2
Increase (decrease) over prior period	(4.0 )%	(8.6 )%		